

SOCIAL COHESION

NEVA MAKGETLA: Unregulated fees for state services perpetuate poverty

It is time to set up open oversight of user fees for all state services to prevent economic damage and promote social cohesion

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An Eskom worker checks power lines. Picture: MARIANNE SCHWANKHART

Eskom's tariffs more than doubled in real terms from 2008 to 2014. In response, energy-intensive refineries downsized and other businesses and households used less electricity where they could. By 2017, demand for electricity was 9% lower and the electricity intensity of GDP had fallen 25%.

Eskom's response? It is suing the National Energy Regulator of SA (Nersa) to raise tariffs by about 20%. The electricity utility, it seems, is run by Dadaists.

Meanwhile, the South African National Roads Agency (Sanral) funded enormous new investments in Gauteng without asking how much more people would pay to end traffic jams and potholes. Its initial exorbitant tariffs fuelled a payment strike and despite much-reduced tolls, many drivers still don't pay. Sanral's revenues from Gauteng are hence less than half of expectations, leaving it with a financing gap.

These examples affect the economy, adding to production costs and leaving major state entities in severe financial difficulty. But they also demonstrate problems with making "user pays" an unregulated, absolute principle.

Virtually all administered prices rose faster than inflation from the 1990s. Urban administered prices excluding liquid fuels rose 27% above inflation from 2008. Education and water prices each climbed a third in constant rand terms.

It wasn't supposed to be this way. The principle of user pays aimed to ensure economically rational pricing, end subsidies for rich communities and push a substantial share of funding for government services off budget. But in practice it largely removed the pricing of government services from public oversight and control.

Most public entities have no effective guidelines for establishing or restraining fees, even though many are at least local monopolies.

Nersa has tried to hold down Eskom tariffs to encourage efficiency. But it can't require Eskom to reduce fixed costs or investments as demand drops. Eskom threatens the grid can fail unless its demands are met.

Sanral has a monopoly on main roads and there is no regulator for its tolls.

Schools in poor communities that apartheid left underresourced and often dysfunctional are not allowed to charge fees. But centres of educational quality, still almost exclusively in historically non-African communities, may charge whatever fees their boards approve.

There is no effort to track or regulate school fees. Statistics SA's 2017 General Household Survey found that in urban areas 7% of households paid more than R8,000 a year in fees for state schools, almost twice the median monthly household income. This system excludes almost all low-income households from the best schools, perpetuating inequalities. In the 15% of schools in the richest communities, virtually all pupils passed matric and received university exemptions. In the poorest 25% of communities just 62% passed and less than 20% received an exemption.

To build social cohesion and trust requires reasonably equitable access to critical services. Because SA has among the world's worst income inequalities, fees necessarily have an inequitable effect.

If SA is serious about pursuing social cohesion, government policies have to promote solidarity, not just rely on exhortations. The opaque system of inadequately regulated administered prices is the worst of two worlds, with prices set autonomously by effective monopolies that count on government bailouts if they get it wrong and no rules to ensure fair outcomes. It is past time to set up open oversight of user fees for all state services to prevent economic damage and promote social cohesion.

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