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EDITORIAL: Infrastructure not a silver bullet

The jobs will come when holders of private capital have the confidence to invest on a large scale. Modern, quality infrastructure is but one of the factors needed to restore that confidence.

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SO MUCH is now riding on state infrastructure spending as the solution to everything from SA's chronic unemployment problem to ending endemic poverty and easing the skills shortage that it is going to come as a shock to many in the government that there is no silver bullet for unemployment.

The main pillars of economic policy, the New Growth Path and the Industrial Policy Action Plan, are anchored in a significant ramping up of capital expenditure by the state, with a host of good things expected to flow from that. Now the Finance and Fiscal Commission has pointed out what really should have been evident to policy makers all along: that while infrastructure spending is a necessary component for sustainable economic growth, it is not a panacea. Nor is it a foregone conclusion that throwing money at infrastructure projects will create jobs on the expected scale.

The state and parastatal companies plan to spend about R845bn on infrastructure over the next three years. That is a significant turnaround from the investment "strike" that characterised the first decade of African National Congress governance and is welcome. Ageing, badly maintained infrastructure has become a drag on the economy in road and rail transport in particular, but in several others too. Many of these chickens — especially those that fall under municipalities and concern the provision of basic services such as potable water, electricity and sewerage — have yet to come home to roost because they are largely invisible until they break down. Then their neglect becomes only too obvious, as the residents of many small towns on the platteland are discovering to their dismay.

Politicians are by nature inclined to think in the short and medium term because they do not expect to be around for long. There is therefore very little political incentive to support capital expenditure programmes that will see public money in effect being buried underground for 20 years or more, rather than popular initiatives that will see more immediate political returns. There is a lot of catching up to do and that R845bn is a long overdue start.

There are certainly benefits to funds being released on this scale, especially when the global economy is stuttering and private-sector investors are holding onto cash. Entire economic sectors — construction and engineering firms, steel product suppliers, cement producers, distributors of heavy machinery — could be kept alive over the next few years of global economic recovery by the state's countercyclical infrastructure spending.

However, that is where the benefits will end if other supportive policies are not in place. Certainly, the hoped-for creation of 5-million jobs over 10 years will remain a pipe dream if labour market rigidity is not addressed, red tape continues to erect obstacles to entrepreneurship, corruption and ineptitude see billions of rand wasted in unproductive spending, and educational institutions keep churning out graduates who are ill-prepared to contribute to a modern economy.

Black-empowered engineering and construction firm Sanyati Holdings' share was suspended on the JSE last week after it experienced a liquidity crunch brought about by the government's failure to pay its bills on time. This is the sort of bureaucratic breakdown that will prevent the government from hitting its job targets; companies that are forced into liquidation do not create jobs, they add to the unemployment figures.

Managed creatively, the infrastructure spending programme can grow the economy, expand SA's technical skills base and create sustainable employment. But the multiplier effect can kick in only if the private sector is brought in as more than just a passive recipient of state largesse when it has ticked all the right boxes. The jobs will come when holders of private capital have the confidence

to invest on a large scale. Modern, quality infrastructure is but one of the factors needed to restore that confidence.

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