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State fiscal watchdog warns on spend plans

Infrastructure projects do not always create jobs ð commission

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The Finance and Fiscal Commission has cast doubt on the effectiveness of infrastructure spending to create jobs and redress poverty unless it is supplemented by other critical policy interventions.

The government and state-owned companies plan to spend about R845bn on infrastructure over the next three years, which they expect will contribute significantly to meeting the government job-creation target of 5-million jobs in 10 years. This spending is also key to the government's New Growth Path policy and Industrial Policy Action Plan.

The commission, an independent body established by the constitution to make recommendations on fiscal policy and to assess the effect of government policies, urged the adoption of job-creation policies such as giving incentives to companies that create employment, enhancing productivity and promoting the informal sector.

The commission also argued in its 2013-14 submission for the division of revenue, tabled in Parliament on Friday, that the failure of the government, business and trade unions to reach a social compact on job creation needed "urgent redress".

Acting chairman and CEO Bongani Khumalo stressed at a media briefing yesterday that the report was intended to promote innovative initiatives to enhance economic development. The commission noted that "the negligible impact on growth of interventions such as an expansive infrastructure strategy or expanded public expenditures has important implications for fiscal policy".

The commission's researchers examined several studies on the effect of infrastructure spending on projects such as roads, sanitation, electrification and dams on economies in sub-Saharan Africa. They found that while some were beneficial for poverty reduction, others actually caused poverty.

"At the very least, the finding suggests government interventions that emphasise infrastructure alone will make little impression on employment. Therefore, such interventions are not an adequate basis for introducing new economic sectors or raising the capabilities of existing economic sectors," the report read.

"Rather than replacing ageing infrastructure, new infrastructure should be used as a catalyst and long-term solution for economic development and job creation.

"The analysis shows clearly that fiscal policy (infrastructure and current expenditures) alone is not going to solve job-creation problems unless complemented by other interventions.

"New investments are required that allow shifts towards jobs and knowledge-intensive production and provision of government services. In all cases fiscal policy needs to be consistent with long-term fiscal objectives and take into account the limits of direct public-sector employment."

Department of Trade and Industry director-general Nimrod Zalk said the department would not disagree with the commission's assessment that a wide range of interventions was needed to create jobs.

"Public investment will create important opportunities to either create new industries or generate a step change in production and employment in some existing industries. This includes establishment of an industry to supply components into renewable energy generation as well as to build rail rolling stock, both for the South African market and for export," Mr Zalk said yesterday

Investment Solutions chief strategist Chris Hart said yesterday infrastructure spending was "an important component, but not a necessary component" of job creation.

Such spending would not automatically produce spinoffs for economic growth and job creation as commonly assumed. Many examples show ed it had not generated growth, notably in Europe. The critical issue was decent economic leveraging off the spending, Mr Hart said.

"Infrastructure is only one aspect, but the government has pinned its entire strategy on infrastructure and virtually very little else. This one can see by the way they allocate resources," he said.

The commission recommended that companies that excelled in job creation should be rewarded and the Public Investment Corporation should direct its investments into such JSE-listed companies.

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