The SA economy: Unwelcome mystery – but welcome attention to infrastructure

One could not imagine anything less likely to cause a flutter in the market dovecote than a most welcome improvement in the appearance of the note issue and the symbols it presents. But the mysterious media notice on Friday afternoon of a *matter of national importance* to be announced by President Zuma, with the Minister of Finance and Reserve Bank Governor Marcus in attendance on Saturday afternoon well after all markets had closed had the market, our colleagues and no doubt our peers across SA imagining both the good (less government intervention in the market place) and the bad (more interference) that could be in store for us.

My own fear was that some kind of prescribed investments would be imposed on SA financial intermediaries to fund the ambitious infrastructure plans of the government which were emphasised by President Zuma on Thursday: an Infrastructure Bond perhaps.

There is one indispensable and all important area of the economy dominated by the SA government and financially dependent on the tax base and that is in the provision of essential infrastructure. Roads, railroads, sea- and airports as well as power plants and pipelines are all almost solely the business of government agencies of one kind or another.

The opportunity to introduce private ownership and responsibility in part or in full to such functions as well as more competition between government agencies supplying the essential services, has regrettably been eschewed. As we have argued in our columns before – particularly in our analysis of Eskom and its funding – public utilities can and should rely on high levels of debt to fund their low risk operations, especially when they can rely on the absence of competition and highly predictable demands for their services. The alternative to debt funding is higher charges, though these charges in most economies are again highly regulated to protect consumers and the economy from the potential abuse of monopoly powers.

We have argued that the SA government has been very shy to accept the debt burden that would have been associated with the necessary expansion of the SA infrastructure to keep pace with and facilitate and encourage economic growth. The alternative to raising extra debt is to raise charges. This is what the public enterprises have done in SA – charges are set with highly conservative debt management considerations largely in mind, to the point where the charges are much higher than would be required to meet required returns on new capital invested. In other words, capital formation to replace or add to the infrastructure has been funded in unnecessarily large measure with what are essentially higher taxes on customers with no alternative sources of supply. These funding methods will have improved the consolidated public sector balance sheet but they have made the SA economy less competitive. Reluctance to raise debt for these purposes has also inhibited essential capital formation.

The President has emphasised plans to address the lack of railroad and port capacity that has held back the mining sector. What is particularly welcome in his statements was the question raised about the charges made for ports and power. The SA economy, if it is to get much more out of its publicly owned enterprises, will need much more than additional investment in infrastructure. It will need very good project management to hold down the capital expenditure and sound regulation, so that well managed and governed public corporations charge enough - but not more than enough - to cover their (low) costs of capital.

We look to the Budget proposals of 22 February to see how tax revenues and debt to be raised by the SA government are to be allocated. Any shift from funding consumption expenditure (especially the employment benefits of public sector employees) to the funding of capital formation and the encouragement of savings (especially corporate savings) will be welcome. One such welcome step announced in the Budgets of 2011 is about to implemented: the complete relief of the taxes on dividends, previously known as the secondary tax on companies (STC), at least for those savers represented in collective investment schemes. They will no longer pay tax on both their interest and dividend income. The playing field for savers who look after their own wealth has however now become even more steeply tilted against them. ***Brian Kantor***