It's investment and confidence, stupid 12 December 2019

With negative economic growth in the third quarter, load shedding, mines not sending workers underground, and storms demolishing whole settlements while others cry out for rain, we are ending the year on a low note.

Getting poorer

2019 will be the fifth year of declining per capita incomes. According to economists' consensus, 2020 could well be the sixth. (Population growth is 1,61%, so growth lower than that means declining incomes. Current consensus for economic growth next year is 1,30%.)

Although the decline in per capita income is relatively small (an estimated -3% at the end of 2019 and probably -4% by the end of 2020 if economists' forecasts are correct) the duration of six years is not. No democracy can sustain a prolonged period of declining incomes. It leads to outcomes like Trump and Brexit. A system can only take so much.

Apart from the impact on our democracy, the economic pain is also considerable. That ostensibly small number of -3% translates into job losses for some, reduced income for others (less overtime, commission and bonuses), and less-than-inflation increases for yet another group. Small businesses fail by the score. Everybody pays less tax. Less income for the fiscus raises the fear that government may not be able to honour its commitments, increasing the threat of ratings downgrades. And so, the downward spiral propels itself.

How do we get out of this spiral?

According to the classic economic model the answer is either fiscal stimulus (cut taxes, increase spending, and run a bigger budget deficit) or monetary stimulus (lower interest rates). In the US, for example, the implementation of a significant tax cut boosted the economy. In the UK, political parties are promising big increases in spending. That path is not open to South Africa. We have run high budget deficits since the global financial crisis and our debt is now out of hand, which is precisely what is prompting the pressure from ratings agencies. In fact, the minister of finance is looking for expenditure savings and taxes of R50 billion a year for three years to get South Africa back onto a sustainable debt path. The president has also repeatedly stated that 'we will not spend our way to prosperity'. So, for the foreseeable future, we are in for fiscal contraction, not fiscal expansion.

With inflation now below the Reserve Bank's mid-point target of 4,5%, the Bank will probably lower interest rates somewhat in the new year, but certainly not enough to cause an economic upswing. Local long-term interest rates are in any case set by the capital market, not the Reserve Bank. South Africa is a capital-scarce country that depends on foreign inflows. That brings restraints.

Consumers are under pressure, so not much stimulus is going to come from there. Exports are ticking over but with growth globally slowing, that is also an unlikely area to pin one's hopes on.

All that is left for South Africa is the route of investment growth. What is more, it will have to be private sector investment, as the government is in such an austerity phase that it cannot contribute much. In fact, part of that R50 billion the minister is looking for will come from cuts in investment budgets.

State of play

It is useful to look at what is going on with investment.

In 2018, gross investment in South Africa amounted to 18% of GDP, or R886 billion. However, a lot of that was replacement spending and upgrading of existing infrastructure. The more conservative approach is to work with the net investment number, i.e. after all depreciation is deducted. That is a good approximation of new capital stock added to the economy.

In 2018, net investment came to just over 4% of GDP, or R198 billion. R198 billion for the year is equal to R22,6 million per hour, twenty-four-seven. A country investing that much new money every hour, although only 4% of GDP, is not about to fall over. At the same time, it is trite to say that South Africa needs much more than 4% net or 18% gross investment to tackle the challenges of poverty, unemployment and inequality. The consensus is that we should run gross investment at around 25% of GDP to generate sufficient growth and jobs/livelihoods.

Political priority

That gross investment of R886 billion in one year can be measured against the pledges made so far at the two investment summits– about R300 billion last year and R360 billion this year. More was invested in one year than was pledged over two years.

The real significance of the investment summits lies not so much in the amounts pledged, but in the politics and public perception. It is about elevating investment as an important priority in a body politic where it is often seen as 'just benefitting white monopoly capital'. As a dear (black) friend said to me at the first summit last year, 'JP, I am unsure… I think this is just for you and your tribe'.

The more successful the summit is perceived to be, the more the body politic is swayed towards the importance of investment. At this year's summit, for example, one government department pushed strongly for the R12 billion emerging-farmer investment that Roelf Meyer announced. When government departments start pushing for investment projects and committing themselves to these, momentum builds up. It also builds traction for simple but crucial administrative tasks like registering a business, processing a visa, issuing water rights and the like.

Two months after he took office President Ramaphosa announced his investment drive with a target of R1,2 trillion over five years. He appointed investment envoys and launched the annual investment summits. It is clear what he regards as the priority. His approach is equally clear – he set it out at this year's investment summit: 'The man who moves a mountain begins by carrying away small stones.'

Where will investment be?

The new frontiers of investment will clearly be energy: solar, wind and gas. The current Eskom load shedding will undoubtedly increase pressure enormously for more independent power producer licences to be issued in these three areas.

South Africa's successful renewable energy programme has attracted investment of R210 billion and created more than 40 000 jobs to date. That was for 6 000 MW procured, of which 4 000 MW has been connected to the grid. The newly approved Integrated Resource Plan (IRP) envisages new capacity of 29 488 MW – about five times more! It is therefore not unrealistic to talk about several hundred billion rand for that new capacity. R100 billion is enough to increase investment by 2% of GDP. Energy can truly be a game changer, pushing investment from 18% to over 20% of GDP per year.

Why Minister Mantashe is dragging his feet in issuing those extra licences is unclear – the policy direction has been set, he must just implement. The Eskom crisis may just be what is needed to galvanise action.

The other area of considerable new investment will be telecommunications. After nine years of delay, cabinet approved the policy in October and handed it over to ICASA for implementation. ICASA published its plans for implementation in November. The public has until 31 January 2020 to comment. Thereafter more bandwidth can be allocated. Considerable investment will flow into this sector.

It's confidence, stupid

Adapting Bill Clinton's famous adage with which he won the 1992 US presidential election, 'It's the economy, stupid', we can say about South Africa, 'It's confidence, stupid'. The SAA and PRASA decisions have helped in this respect. So will concrete action on Eskom and more licences for new power producers. These are all very low-hanging fruit.

Surveys reveal quite clearly that confidence will be boosted enormously by prosecutions around state capture and clawing back some stolen money. That can offset expected ratings downgrades and sure-to-be-repeated load shedding. We are not victims; we are in charge of our own destiny – just get on with the job.

So what?

- If South Africa wants to avoid 2020 being the sixth year of declining per capita incomes, serious action will be needed on the investment front.
- The state cannot make much of a contribution as it is in a bind of R50 billion a year for the next three years to stabilise South Africa's debt.

- An easy investment frontier is energy: solar, wind and gas. The IRP has already been approved; it must just be executed. There is enough scope in energy alone to move the dial on investment in South Africa and generate the economic growth and jobs/livelihoods the country needs. Add some telecommunication investment and more will follow.

I wish you a happy and blessed festive season.