



DEVELOPMENT

The politics of infrastructure

Infrastructure projects have the ability to shape the economic future of a country. The role of government is to identify those projects that would ensure broad-based economic development. But is this happening?

What type of infrastructure would be best for South Africa's future? The answer, of course, depends on your point of view. If you live and work in Gauteng, your answer might well be to expand the Gautrain network. Or if you reside in Cape Town, you might prefer investments in desalination plants.

Your occupation may also be relevant. If you're a miner, you are unlikely to support the expansion of renewable energies. A trained software engineer? Well, you're likely to support large investments in telecommunications infrastructure.

An important – but often underappreciated – role of government is to choose the type of infrastructure that is destined to shape the country's future development path. This choice is never neutral though: for every decision there are winners and losers. Choose to build a new coal-fired power plant? That will benefit coal mine owners and workers, while the users of electricity, were the costs of alternative sources to fall rapidly, will pay. Choose to build a high-speed train network across the country (a hyperloop, perhaps!), then users of this network, likely to be high- or middle-income South Africans, will benefit, while long-distance bus services, taxi operators and rental cars will pay. The government's job, in theory at least, is to choose the projects that will maximise the benefits and minimise the costs.

But things are never that simple. A research paper that will soon appear in the *European Review of Economic History*, written by Alfonso Herranz-Loncan and me, investigate the infrastructure in the Cape Colony built during the second half of the 19th century. Before the discovery of diamonds in 1867, the few railways that existed (in and around Cape Town) were privately owned and largely unprofitable. But the discovery of diamonds and the rush to the mines meant the demand for fast, affordable inland transport increased exponentially. The Cape government had to react.

They did. They bought the few existing lines, and then began the process of connecting Cape Town to Kimberley, finally achieved in 1885. **The connection to the booming diamond region brought huge economic benefits: we estimate that the railway may account for 22% to 25% of the increase in income per capita in the Cape during the diamond mining period (1873-1905).** This is a massive share for a single investment and a clear indicator of the transformative power of railways during the first era of globalisation.

But these benefits were not equally shared by everyone. Surprisingly, the government itself earned a meagre 3.7% average return on its capital. Had a private firm built the railways, far fewer branch lines

would probably have been built. As Stellenbosch PhD student Abel Gwaindepi now shows, the government incurred huge debt to build this infrastructure, and although it did benefit through customs duties and other tariffs, the main beneficiaries were the owners of the diamond fields. The railway link between Cape Town

and Kimberley could now transport the machinery and foodstuffs required to feed the growing Kimberley population. Western Cape wheat farmers, who supplied the mines with food, were another group of beneficiaries. It is not entirely coincidental that it was also these two groups – mine owners and Western Cape farmers – who had formed a political alliance in the Cape parliament.

Of course, it was not only mine owners and Cape farmers who benefitted. As detailed reports of passengers show, Cape Colony residents from all walks of life used the railways. But, ultimately, it was taxpayers who had to foot the debt that was incurred, and often these taxpayers were spread across the entire colony (far from the direct benefits of the railways) – and after unification in 1910, the rest of the country. And the location of the railways meant that those with less political influence – like Basotho farmers, who were of course producing wheat much closer to the diamond fields – lost out. Here is one missionary report from 1886, the year after the railway line was completed: "Basutoland, we must admit, is a poor country... Last year's abundant harvest has found no outlet for, since the building of the railway, colonial, and foreign wheat have competed disastrously with the local produce."

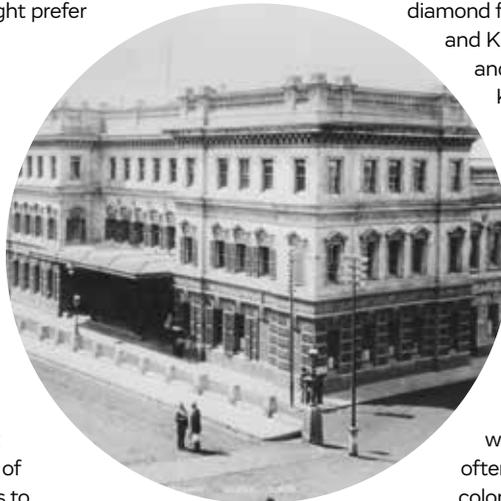
The 19th-century Cape railways contributed significantly to economic growth, but it inadvertently also had distributional consequences: some benefitted more than others, and some even suffered as a result of its construction.

The lessons for today? Politics shape the type of infrastructure that's built. And infrastructure shapes the direction of economic development. So the key question is this: Are we building the type of infrastructure that will put South Africa on a path of broad-based economic development, or is the choice of infrastructure determined by the self-interest of those with decision-making power, much like Cecil John Rhodes and his cronies during the late 19th century?

Put differently, when we choose a new power-generating facility or national air carrier or telecommunications licence, do we consider the benefits for society as a whole or the benefits for a specific interest group? ■

editorial@finweek.co.za

Johan Fourie is associate professor in economics at Stellenbosch University.



The railway station in Adderley Street, Cape Town, around 1910. The railway between Cape Town and Kimberley, completed in 1885, resulted in major economic benefits for some roleplayers.

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