



Input into School of Economics and Finance Centenary Panel 5 Sept 2022

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Question:

Staying on the topic of work and employment:

- From Mandela's State of the Nation Address in 1994 to recent comments by the Presidential Economic Advisory Council, the view of many policy-makers has been that the most effective way to reduce poverty and inequality in South Africa is to create work opportunities for our people. Yet, post-1994 South Africa has not been successful in reducing the rate of unemployment. In your ongoing work as an academic economist and as a policy advisor, what interventions do you think would be most effective for increasing employment in South Africa and overcoming the country's unemployment problem?

Since the dawning of democracy in South Africa in 1994, the data shows a positive relationship between economic growth and employment growth. Generally, if the economy grows then jobs are created, if the economy experiences negative growth then the number of people in employment falls.

But, another important fact about the South African economy is that even as the number of people in employment rises, the unemployment rate usually also rises at the same time. How is this possible?

It is due to the fact that the number of people entering the labour market each year, far exceeds the number of new jobs that are created. So, the net number of jobs might increase by say 200 000 in a particular year, but the size of the labour market may increase by say 500 000 people in that year. The labour market expands as many young people enter the labour market each year, or fewer older people leave the labour market or some discouraged long-term unemployed people try again to re-enter the labour market to find work.

As a result, the South African data usually shows employment numbers and unemployment rising at the same time.

Obviously, during periods of crisis, such as, during the recent Covid pandemic the number of people in employment fell sharply and unemployment also rose sharply. But, even in times of economic growth, there have been many years in which South Africa has generally not been able to create enough jobs to keep up with the growth in the labour market. South Africa has a problem not so much of 'jobless growth', as we have a problem of 'not enough growth', and 'not enough jobs'.

The reasons for South Africa's high unemployment problem (and related high levels of income inequality) are many. Some are historical, some are current, some are local, and some are global.

History is key factor in damaging our growth potential. Colonialism and apartheid distorted the process of capital and infrastructure formation. Capital has been highly concentrated and owned by a few, during the apartheid era, black ownership of capital and property was highly regulated and mostly outlawed. Capital was focused on mining and related sectors and the diversification of our industrial base has been limited. Land dispossession of the black population, as well as racist policies which limited fair access to public infrastructure and services have led to serious

inequalities in our education and health services and have damaged our human potential and our growth potential.

But we cannot only blame our history, many government programmes tend to reinforce and entrench the existing structure of the economy – for example vested interests have delayed and at times derailed our transition to low carbon energy and have trapped us in a prolonged period of electricity shortages and loadshedding. Hopefully recently announced reforms in the electricity sector have finally broken the deadlock in this area. In the past decade or so, the crisis of corruption and state capture has weakened the capacity of the state to lead a process of inclusive growth and transformation.

To overcome the constraints of our history and our present, and to begin to create enough jobs to reduce unemployment, we need to make tough and clear-eyed decision which will unequivocally prioritise an acceleration of capital formation and infrastructure investment – such as investment in electricity, roads, rail, ports and social infrastructure.

This will mean that in our national budget we will need to prioritise infrastructure spending over consumption and welfare spending. We will need to create the kind of policy certainty regarding our energy transition and other programmes that stimulates higher levels of private sector investment. We will need to attract foreign capital as our domestic savings are not sufficient to fund the capital and infrastructure that is required for employment creation.

If we understand economics, we understand economic causation and how one thing leads to another. To solve unemployment, we need capital formation. To have capital formation we need to prioritise the mobilisation of public and private funds for such capital formation. This is the only way out of our unemployment crisis – and it can be done. Other countries have done it – in the early 1960's South Korea's GDP per capita was lower than that of Ghana, now it is more than 10 time greater.

To achieve, a leap towards sustained job creation we need to keep a close eye on investment levels. Since Covid, investment in South Africa has declined to an historically low level of 13% of GDP in 2001, it needs to be almost double that at 25% of GDP, if we are to begin to create enough jobs and have enough growth to begin to overcome our unemployment crisis. The doubling of fixed investment levels by private firms, by state owned companies and by government is our most important goal if we wish to defeat unemployment.

Question:

- At the recent ANC policy conference, the chairperson of the Economic Transformation Committee, Mmamoloko Kubayi, reported that delegates had deliberated over calling the unemployment situation a “national crisis”. Why are ANC delegates thinking along these lines and what do you consider might be some of the concrete advantages of treating South African unemployment as a “national crisis”?

Many of our people are suffering - they have no hope of finding work, hunger and poverty are persistently on the rise for the first time since 1994. There can be no doubt that unemployment in South Africa is, in fact, a “nation crisis”, whether we declare it as such, or not.

The latest unemployment figures show the official unemployment rate at over 33%, if you include those who are unemployed, but have become discouraged and are not actively seeking work, the unemployment rate rises to around 44%. Behind these overall figures, we must remember that South Africa’s labour market is highly segmented and that the unemployment rate is higher for black South Africans, for women and for young people.

The intention would be that by calling unemployment a “national crisis”, we would be better able to mobilise an ‘all of society’ approach in response to the problem. We saw how in response to the Covid pandemic things had to be done differently, out of necessity – resources were temporarily mobilised to support wage payments and firms, as well as to assist individuals most at risk, the central bank intervened in the bond market to ensure liquidity when there were warning signs that demand for South African bonds might be drying up, and firms were given support by being allowed to defer tax payments to a later date.

Even though the unemployment crisis is distinct, and will be harder to deal with than the Covid crisis – it is the same spirit of united and concerted action that is required. We should come together and do things differently to begin to create more jobs.

For example, through social dialogue we have announced major reforms of the electricity sector which when implemented will help us to overcome the binding constraint of load shedding. We need similar concerted action to better protect and secure our economic infrastructure. Tax leakages must be stopped, corruption and wastage must be brought under control, and pro-growth economic planning must be

undertaken so that fiscal space can be created to invest in basic infrastructure and improve service delivery.

As part of our crisis response, we will also have to develop specific interventions to include those for whom no place can be found in the formal sector, as formal employment simply cannot grow fast enough to include them. Targeted interventions will be required, like large-scale public employment programmes, and labour-intensive work on infrastructure building, repairs and maintenance. Similarly, programmes are needed to give young people access to technical skills and work experience, such as, by working as education assistants in our schools.

In summary, economic growth is totally necessary, but it will not be sufficient to overcome our unemployment crisis. To create more jobs in South Africa we need more investment, more infrastructure and better service delivery, but given the scale of the problem, for some time, we will also need well managed, targeted public employment programmes at a scale which are large enough to have an impact, but which are also fiscally affordable.