The path to full employment in SA?

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SA context of extreme structural misalignments

- Highest open unemployment in the world – approx 25% strict rate
- Very low rates of economic participation – just over half of working age population participate in labour market
- Low pay relative to cost of living
- Deep and extensive poverty – even in households with working person (‘working poverty’)
- Minerals economy dynamics
- In 2004, Government committed to halving the rate of unemployment and poverty by 2014, and now to achieving full employment by 2025

2 channels to achieve “shared growth”

1. Lift growth rate *and* Raise labour absorption at any rate of growth, esp through composition of industry
   - This is best way of achieving reliance on wage income
   - Essential for ‘inclusive growth’
2. Distribution of private and social income
   - Wages/profits
   - Fiscal transfers
   - Efficiency of public spending and social delivery
   - Price of wage goods

Key questions

- What is the ultimate employment target – what does halving unemployment and poverty actually mean?
- How would we know if we were meaningfully moving towards this target?
- Where might jobs be created?
- If unemployment were halved, would poverty also be halved?
- What is the system of social protection that ensures working people can live decently?
- What are the choices, costs and trade-offs are associated with different paths?

Identifying sectors where jobs created

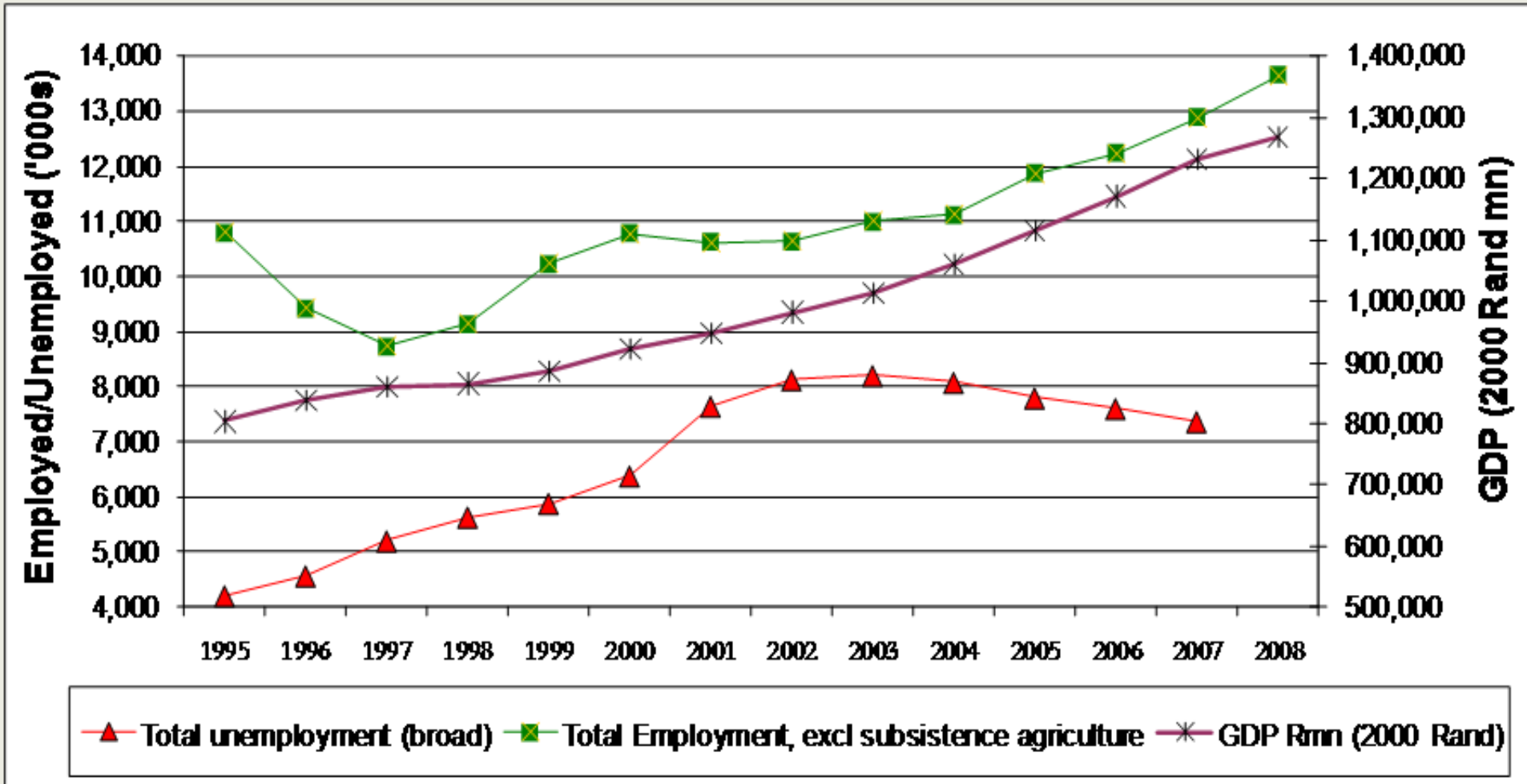
- Agriculture & Mining
- Manufacturing
- Skill intensive services
- Labour intensive services
- Survivalist informal activity
- Public service
- Public works & special employment programmes

Some proportions: what do people do?

- In 2004, the figures were:
  - 15.5 million in labour market, of which 11.6 million work
  - Resource industries = less than 10%
  - Manufacturing = 13%
  - Higher skill services = 13%
  - Lower paid services = 22%
  - ¼ in the informal sector and domestic work
  - Public employment = 15%
  - Public works schemes reach about 400,000 in a year

Employment, unemployment and growth

- first period of positive GDP growth and GDP pc growth
- employment growing rapidly in relation to GDP growth
- numbers of unemployed rose until 2002, then falls
- a million jobs lost in 2009/10



Working poverty

- High rate of working poverty means that halving unemployment will not automatically translate into halving poverty unless:
  - New employment opportunities provide a decent income
  - Cost of living becomes more affordable
  - System of social protection deepens

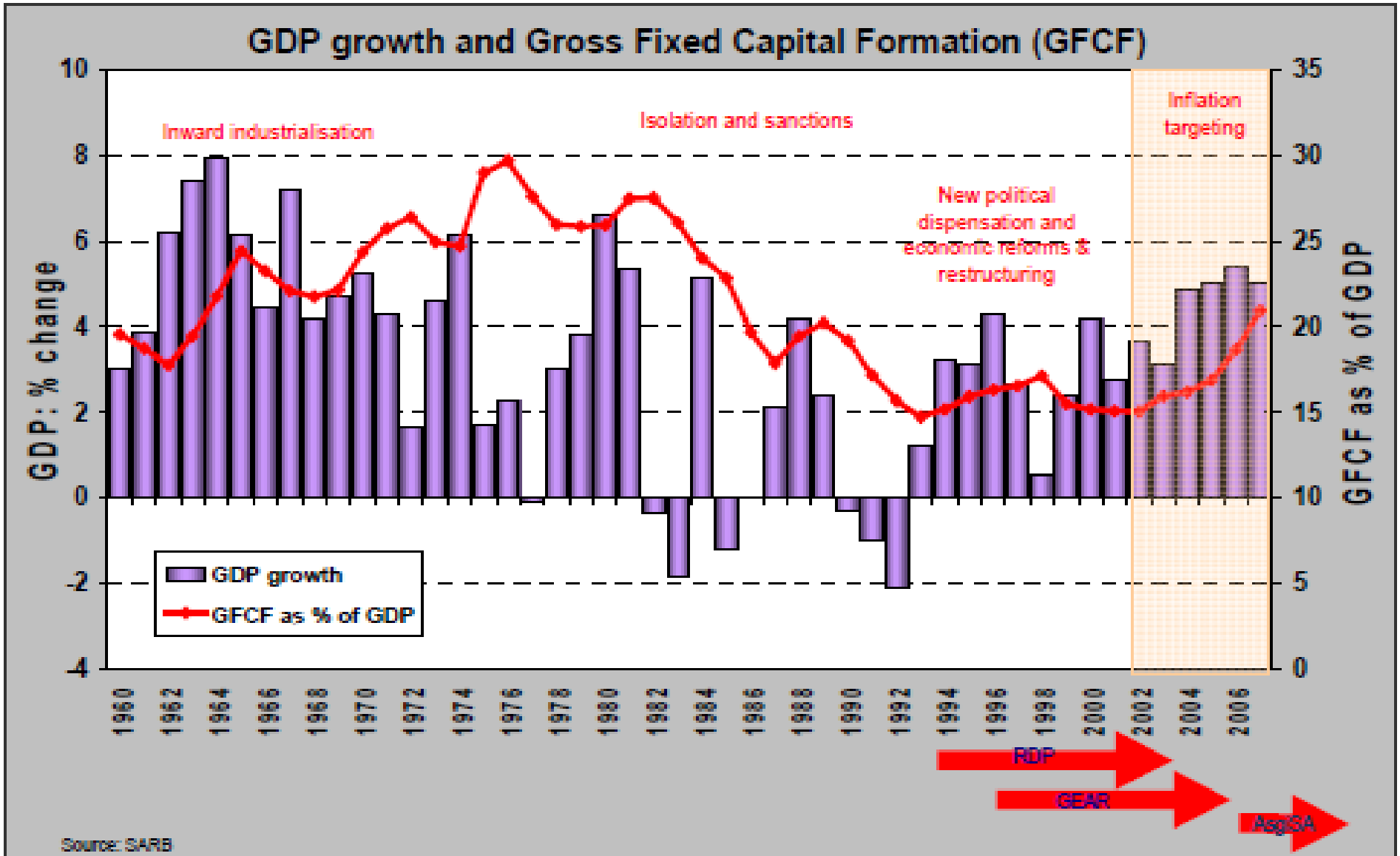
Income per month - All				
	Sept 04	Sept 05	Sept 06	Sept 07
< R1000	47.9%	36.8%	32.9%	21.6%
R1001 - R 2500	17.9%	27.3%	28.6%	24.2%
>R2501	34.0%	35.9%	38.4%	54.3%
Income per month - Formal sector				
	Sept 04	Sept 05	Sept 06	Sept 07
< R1000	20.5%	20.1%	16.4%	10.6%
R1001 - R 2500	31.1%	30.5%	31.1%	23.4%
>R2501	48.3%	49.3%	52.5%	66.0%
Notes: these are nominal amounts				

Approx ≤ $1/day →

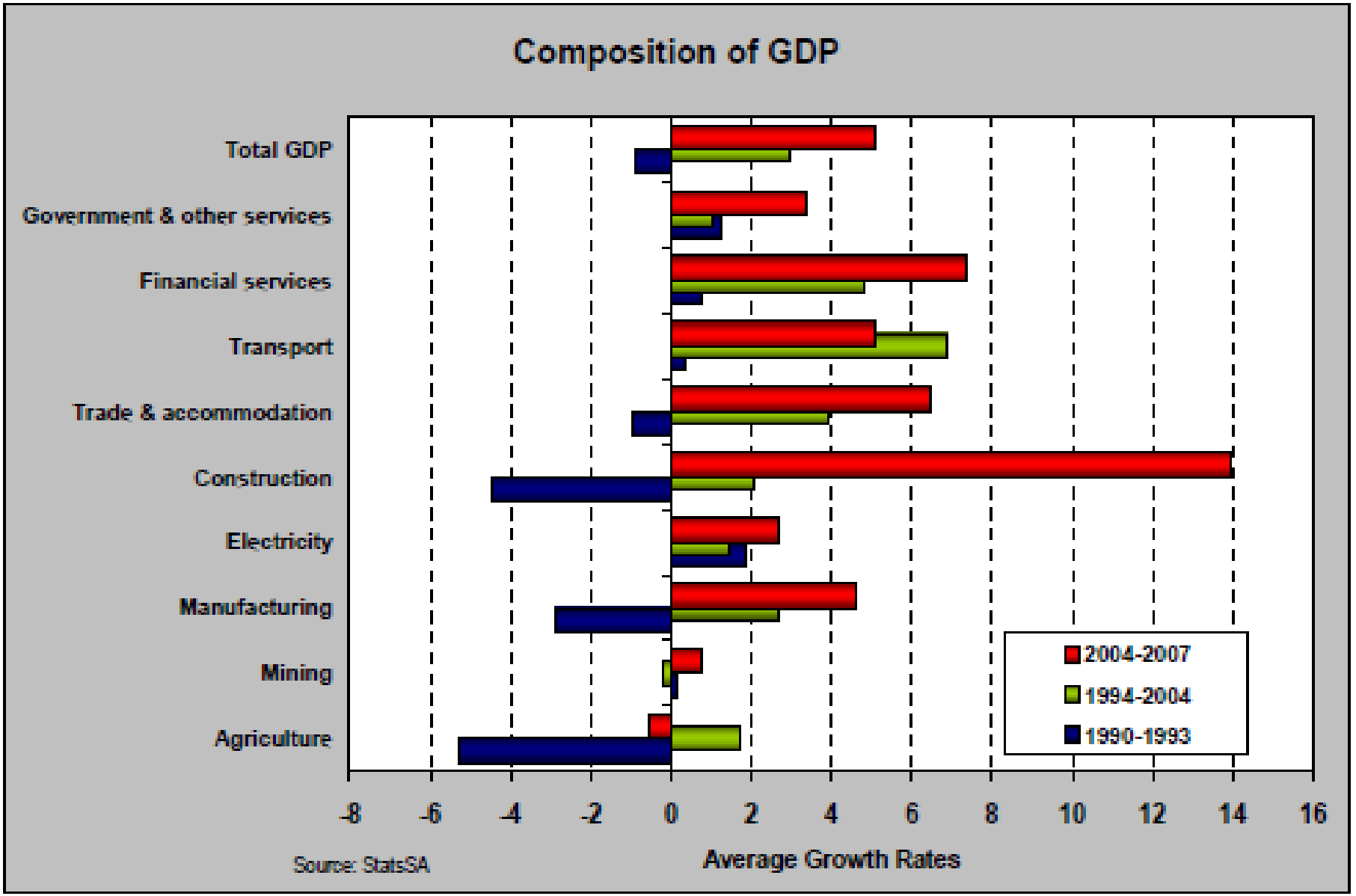
Approx ≤ $2/day →

Source of employment and output

GDP, capital formation & industrial phases



Sector Composition of GDP



Sources of Employment Creation

% change in employment by sector, 1997 - 2005

	Total 1997-2005	Avg annual growth (%)	Sector employment in 2005 ('000s)
Manufacturing	6.2%	0.8%	1,467
Construction	75.1%	9.4%	618
Finance	86.4%	10.8%	1,238
Trade	58.1%	7.3%	1,848
Community services	21.0%	2.6%	2,033
Total formal sector employment	26.2%	3.3%	8,812

IFS	107.0%	13.4%	1,954
Domestic workers	9.6%	1.2%	1,088

Private formal services main source of new employment
Gov't did not play major role as new employer until 2006

Some comments

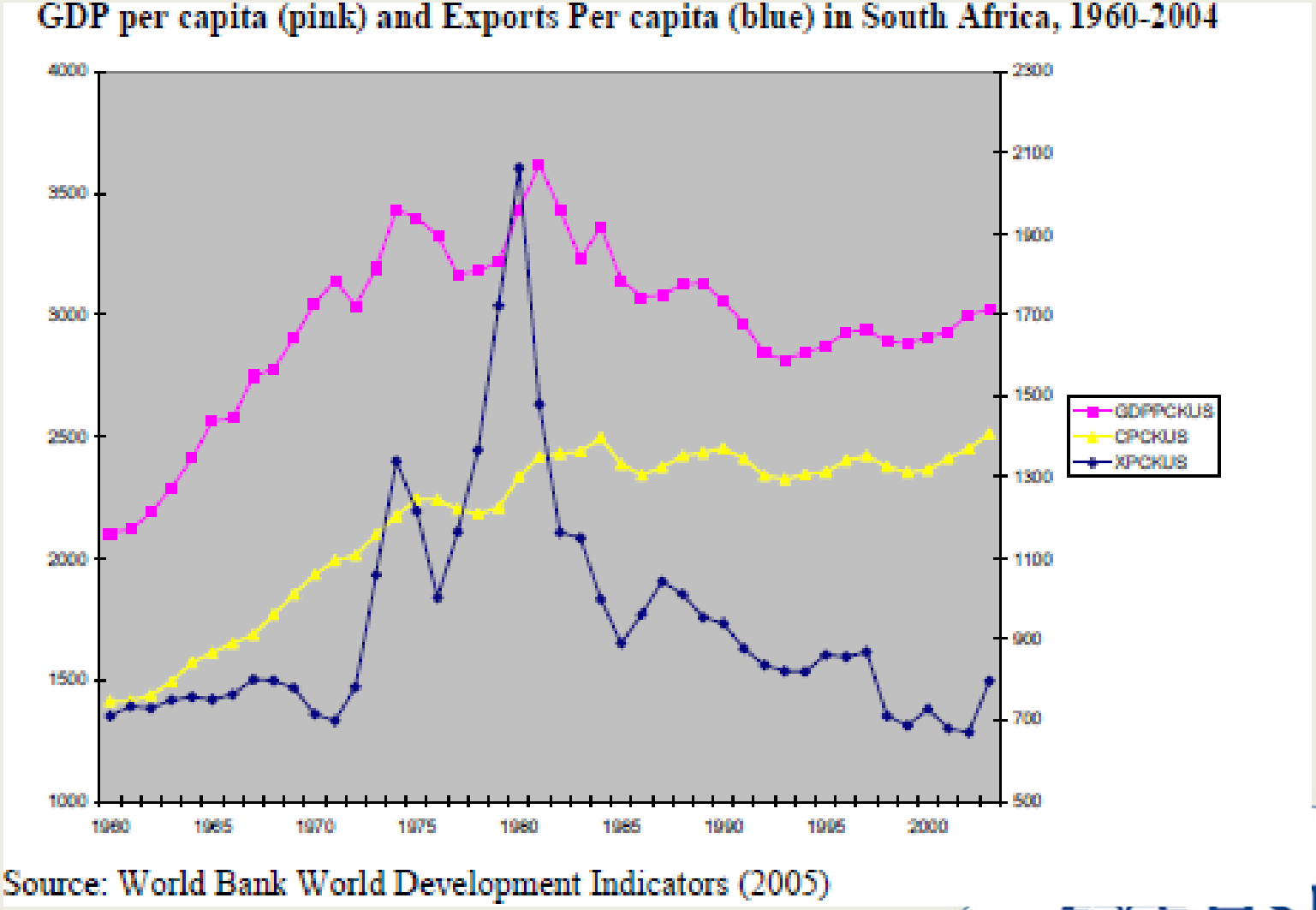
- Minerals economy with bias to capital intensive production and exports (cost of energy, exchange rates, etc)
- Falling exports per capita since mid-1980s
- Most employment in domestic oriented services – “post-apartheid dividend”
  - Expanded middle urban class, liberalisation of markets, etc
- Expansion in services trade
- Expansion in manufactures mainly found in energy intensive metals and minerals
- Industrial promotion focus on autos and smelters. Use of “export to import” duty credit certificates

Export shares

	Growth				Shares			
	1991-1995	1996-2000	2001-2005	1991-2005	1991-1995	1996-2000	2001-2005	1991-2005
Total	7.0%	3.8%	2.1%	4.3%	100.0%	100.0%	100.0%	100.0%
Primary	0.9%	0.4%	-0.6%	0.2%	46.3%	36.3%	31.4%	37.7%
Manufacturing	13.6%	5.8%	2.5%	6.6%	42.4%	49.9%	51.9%	48.1%
Resource based	11.3%	3.6%	2.9%	5.3%	25.1%	27.2%	27.3%	26.5%
Low tech	11.0%	1.0%	-2.9%	1.4%	9.6%	9.6%	7.1%	8.6%
Med tech	26.1%	17.1%	4.3%	15.7%	6.1%	10.8%	16.4%	11.4%
Hi tech	25.1%	5.0%	0.1%	1.7%	1.5%	2.1%	1.0%	1.5%
Services+	9.7%	5.5%	6.1%	8.3%	11.3%	13.8%	16.7%	14.2%

Source: Willcox & Van Seventer (2007), Quantec (South African Standardised Industry Database) and own calculations

GDP pc and exports



Hausmann & Klinger

Some possible employment outcomes

3 employment scenarios

- Employment should expand by 10 million between 2004 and 2024 to achieve 6.5% unemployment rate
- Critical differentiators between 3 scenarios
  - Different rates and types of economic growth
    - Extent that globally integrated dynamic industries expand
    - Lower growth path relies on minerals exports, and jobs created in low paid services
  - Policies that underpin these different rates & types of growth, such as investments in network infrastructure or public works
  - Faster growth earns more tax revenue, and has less need for state-based job creation & poverty interventions
  - Slower growth requires substantial intervention in job creation, and poverty alleviation as average wages are lower. But there is less tax revenue available.

Average GDP growth in 3 scenarios – to 2014 & 2024

	Scenario 1	Scenario 2	Scenario 3
Pre-downturn scenarios 2004 – 2014 Avg GDP growth	Growth slows 3.0%	Successful primary commodity exporter 4.5%	Successful manufacturing & services exporter 6.0%
2004 - 2014 Avg GDP growth	**Growth derailed** **2.5%**	**Slow recovery** **3.3%**	**Bounce back** **4.5%**
2015 - 2024 Avg GDP growth	 **3.0%**	**Return to primary commodity path as now: Resource-linked exports & high domestic orientation in employment** **4.5%**	**Move to manufactures & services trade path: more employment from traded sectors** **6.0%**

Sector employment

	Employment in 2004	Employment in 2024		
		Scenario 1: slow down	Scenario 2: high domestic orientation	Scenario 3: More employment from traded sectors "MF&S"
Agriculture	650,000	588,437	650,000	650,000
Mining	425,000	384,652	555,718	625,183
Manufacturing	1,500,000	1,561,092	1,894,709	2,339,505
Leader & high paid services (eg finance, transport)	1,563,000	2,211,165	2,687,597	3,358,966
Follower services (eg retail, personal services)	1,915,000	3,773,789	4,195,031	4,360,208
Construction & utilities	620,000	788,944	787,131	952,776
Informal sector & domestic work & subsistence agric; less EPWP	2,815,000	3,943,632	4,182,902	4,422,860
Public sector, private social services & parastatals	1,800,000	2,571,066	2,836,953	3,221,310
EPWP-type jobs - construction	220,000	370,000	370,000	-
EPWP-type jobs - community care	120,000	4,754,324	2,787,059	1,016,293
Total	11,628,000	20,947,100	20,947,100	20,947,100
Unemployment rate	25.6%	6.5%	6.5%	6.5%
Unemployment rate, without additional public service & EPWP	27.8%	29.4%	20.6%	11.0%

Distribution of sector employment

	2004	2024		
	Current	Scenario 1	Scenario 2	Scenario 3
Assumptions		Economy slows down	Primary commodity path as now: Resource-linked exports & high domestic orientation in employment	Manufactures & services trade path: more employment from traded sectors
GDP growth		3.0%	4.5%	6.0%
Mining & agriculture	9.2%	4.6%	5.8%	6.1%
Manufacturing	12.9%	7.5%	9.0%	11.2%
'Dynamic services'	13.4%	10.6%	12.8%	16.0%
Follower services & construction	21.8%	21.8%	23.8%	25.0%
Public sector & private social services	15.5%	12.3%	13.5%	15.4%
IFS & EPWP	27.1%	43.3%	35.0%	26.4%
Total	100.0%	100.0%		100.0%
			77.2%	
% SERVICES/FS	69.6%	78.7%	13.9%	76.6%
% MANUF/FS	17.7%	13.1%	5.8%	15.2%

Wage distribution under 3 scenarios

	2004 (1)	2024		
Remuneration per month		Scenario 1 slow down	Scenario 2: domestic orientation (2)	Scenario 3: dynamic products in trade orientation (2)
<R1000	47.9%	59.9%	54.2%	47.9%
R1000 – R2500	17.9%	13.8%	15.6%	17.4%
>R2500	34.0%	26.6%	30.4%	34.8%

In 2004 Rand

Where might private sector jobs come from?

SA as typical minerals exporter

- Exchange rate moves with commodity prices, working against secular growth in non-traditional exports
- Enabled apartheid exclusion for many years
- High inequality, and markets oriented to wealthy
- Infrastructure oriented to commodities
- Poorly designed cities viz services
- Minerals economy policy psychology
- Very few minerals exporters have broken out – requires intense commitment to investment in human capital, infrastructure, promotion of capabilities and entry

Productivity conundrum in context of high unemployment

- Traded sectors offer best private sector hope for raising *real wages* in long term
- Non-traded sectors offer easiest route to *job creation*
- 'all things being equal', middle income & high income countries tend to increasingly compete on basis of productivity – esp w/entry of China
- Generally, competitiveness in labour absorbing traded sectors will be undermined if real wages rise faster than productivity.
- Traded sectors have most scope for productivity improvements
- If productivity can be raised, real wages could sensibly follow
- But if productivity is raised, employment created per rand output falls
- Then need very high output growth to offset this effect
- This is central explanation for 'de-industrialisation'

Most jobs will be found in services

- Turning point (GDP pc) falling where manufacturing becomes smaller share of employment (Rowthorn)
  - Turning point is lower in minerals exporters (Palma)
- Our review of sources of employment in high growth economies shows services contribute 60% to 70% of new jobs

Manuf as % of employment falling everywhere

Region	1960	1970	1980	1990	1998
Sub-Saharan Africa	4.4	4.8	6.2	5.5	5.5
Latin America	15.4	16.3	16.5	16.8	14.2
Southern Cone and Brazil	17.4	17.2	16.2	**16.6**	**11.8**
West Asia and North Africa	7.9	10.7	12.9	15.1	15.3
South Asia	8.7	9.2	10.7	13.0	13.9
East Asia (w/o China and Japan)	10.0	10.4	15.8	16.6	14.9
NICs	10.5	12.9	18.5	**21.0**	**16.1**
China	10.9	11.5	10.3	13.5	12.3
Third World	10.2	10.8	11.5	13.6	12.5
First World	26.5	**26.8**	**24.1**	**20.1**	**17.3**

Source: Palma, 2006

Manufacturing: special qualities?

- Manufacturing ascribed with certain special qualities that are growth promoting:
  - Technology & learning
  - Rising terms of trade
  - Spread effects
  - Pay higher wages

Which sectors have, or could have, the same qualities?

How to align job creation to expansion of dynamic industries?

- Need rising share of sectors that have:
  - Productivity gap that is being closed
  - Current or potential linkages
- Services sectors
  - Accounting for rising share of global trade – what drives demand?
  - We found that manufacturing and services equally dependent on each other

Different levers of industrial policy if promoting new industries?

- **Movement of people,** both in and out: implications for home affairs and trade arrangements
  - Trade arrangements & placement of people in services trade (eg construction contracts).
- **Domestic outsourcing** of services generates markets domestically that can be used to move into exports
- **Global outsourcing** of services
- Changing **regulatory environment,** particularly in relation to utilities & in relation to reducing mark-ups and transaction costs (eg finance).
- **Urbanisation and a growing middle class** has generated expanded demand for personal, community and social services.
- **High skill immigration** can generate new source of demand.
- **Stimulation of backward linkages**, such as construction capital equipment from foreign construction contracts.
- **Network infrastructure** for commercial and public services becomes even more essential in stimulating activity and supporting linkages

Dilemmas to be faced…

- Weak competition and high mark-ups in many of these industries
- Entrenched interests in state owned enterprises pose barrier to effective regulation and innovation
- Need for higher wages in low productivity activities if poverty to be reduced through employment
  - Workers tend to have weaker bargaining power & will rely increasingly on state backing (eg min wages and standards, etc).
  - Could draw down on growth if mass expansion leads to rising prices and displacement of propulsive activity
- Industrial policy needs greater inter-governmental cooperation
- Traditional industries have strongest relationship with government. Industries that are typically expanding have weakest relationship with government
- There is greater overlap between commercial and social interests. Services trade and investment opens opportunities, but can also threaten sovereignty and service delivery.
- Gains from trade would need to be realised

Some broader comments on standard elements of industrial policy

- Competitive infrastructure
- Competitive currency
- Incentives to reduce prices & costs, or raise profitability
- R&D
- SMME promotion – esp procurement
- Sector specific programmes
- Market access arrangements
- Human resource development

Competitive infrastructure

- Most obvious element of industrial support package
- Closing price & quality gap in commercial transport & telecoms in SA in 2003 (see Davies & v Seventer)
  - GDP would have been 3.9% higher
  - Employment would have been 5.5% higher (440,000 jobs – would have reduced UE to about 20%)
    - Assumes perfect response by private sector, no capacity constraints etc.
    - Underestimates possible spin-offs, new activities that might arise, etc

Competitive currency

- Value & stability of real exchange rate
  - Fundamental price incentive
- Overvalued currency benefits non-traded sectors & imports
- Most high growth economies did *devalue* their currency, as part of broader policy package. They all targeted their currency in some way.
- But depreciation does not guarantee high growth
  - Depends on local institutional context & ability to implement complementary policies

Investment incentives

- Policy much more constrained than for previous high growth nations
  - WTO subsidies code….
    - & loss of special market access supports such as MFA
  - ok if “generalised” support, R&D and HRD
  - No limit yet on services

SMME promotion

- Small firms are more labour absorbing than large ones.
- Countries that stimulated SME sector tended to have better employment outcomes (eg Indonesia vs Chile)
- But SMEs generally pay 10% to 30% less than larger firms
- In concentrated economies, procurement has been critical driver of growth in SMEs
  - Eg finland, japan, korea, brazil

Challenges going forward

- Electricity price increases and shortages
- Public investments oriented to energy generation and petroleum refineries (eg approx ½ of infra budget)
- Global downturn means less demand for non-traditional exports, and rising demand for minerals
- Political economy challenges viz state owned enterprises and network industry competitiveness
- Institutional context for HRD
- Implications for social protection and labour policy in context of rising wage inequality and prospect of low wages

Public employment opportunities

Direct employment creation by government

- Two approaches:
  1. Direct employment through public sector
  2. Indirect employment by procuring services with intention of creating employment
- From budget perspective, this will increasingly be a toggle between the two, especially with expansion of social sector community based services
- Dramatic differences in cost and job quality

Public employment

- Public sector is small relative to many other countries
  - 9% of labour force
  - 10% of non-agric workforce; 19% of formal employment
  - Contracted in 1990s, but now expanding
- Potential role:
  - Service delivery
  - General contribution to employment:
    - the public service is important in every scenario creating between 400,000 and 6-6000,000 jobs
  - Improved employment distribution geographically
  - Pay equity; higher pay for low skill levels
  - First employment experiences for school leavers and graduates
- Dilemmas:
  - How big should the public sector be, and why?
  - Are there sufficient checks & balances to ensure that patronage & poor delivery are contained? (eg Venezuela)
  - What is the appropriate balance between public service spending on rising salaries versus new hires? What is the appropriate skills intensity?
  - Earlier plan was to see spending on public sector growing at same rate as GDP; OSD and current negotiations will substantially increase allocation to existing personnel and slow hiring.

Public works & Special employment programmes

- HSRC employment scenarios show that if economy grows by 4.5% pa, about 1.5 million public works jobs needed per annum (at cost of R 25bn) vs. about 300,000 currently
  - If GDP grows by 2.5% pa, will need 2.9 m PW jobs by 2014 at cost of R 59bn
  - New PW has adopted target of 1.5m by 2014
- Most opportunities will be in community based social services like home care and early child development
- Public employment or public works?
  - Esp important issue in municipal and community services
- Should wages be set below market related (eg below R 1000 pm) or should they be set for service delivery?
- Serious costs, institutional blockages, intergovt'l tussles, capacity constraints
- Innovations recently introduced to achieve greater reach, enabling communities to design and drive the programmes

Small scale agriculture

- About 2 million households (mostly young women in former bantustans) involved in secondary subsistence agriculture
- Almost no support currently – eg info, seeds, water, equipment
- New policy to say that 10% should be reached to achieve marketable surplus

Closing remarks

- SA could continue in “minerals path”, with larger % of jobs created in domestic oriented sectors – tend to be low paid, precarious
- Or could stimulate higher % of dynamic industries with slow progression over time.
  - Seeing services as non-tradables hinders opportunity development
  - Emphasis on downstream opportunities, hinders realisation of more accessible upstream opportunities
  - Emphasis on sectors, hinders realisation of critical benefits in urban design, trade relations, movement of people and other cross-cutters
- In context of extremely high unemployment, will need to specially stimulate very large numbers of ‘low productivity activities’ that do not interact with traded environment