

HSRC Research Output submission template

Please complete this template and attach it along with the print or electronic copy of the research output concerned.

Submit to **Hanlie Rossinger** (hrossinger@hsrc.ac.za)

It will be added to the research output database for publication on the Internet, Intranet and in the HSRC Annual Report.

Project number:

Title: Employment in the Development Path. Presentation made to the DTI on 13 July 2009

Authors: Altman, M

Suggested keywords:

Select output type from the list below: (delete inappropriate options)

- Monograph
- Chapter in Monograph
- Journal Article
- Newspaper Article
- Review in Journal
- Review in Newspaper
- Research Report- Client
- Research Report- Other
- Conference or Seminar Papers
- Questionnaires
- Training Manuals
- Video
- Database on a CD-ROM (containing only the database)
- Database on a CD-ROM (containing other documents/databases)
- Database on a File Server
- Website
- Report on an HSRC trip
- Education Assessment Instruments
- Psychological Assessment Instruments
- Pamphlet (published)
- Pamphlet (unpublished)

Confidential: No

Website URL: (where appropriate)

Abstract (add a descriptive paragraph of Output):

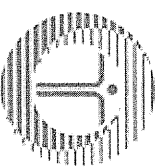
Employment in the Development Path

**Presentation to
The di
July 13, 2009**

**Dr. Miriam Altman
Executive Director
Employment, Growth & Development Initiative**

maltman@hsrc.ac.za

Background



HSRC
Human Sciences
Research Council

Background

- Purpose of “employment scenarios” is to:
 - Build capability to understand how employment is linked to development path
 - Strengthen capability to identify appropriate policy balance to meet long term structural needs in dramatically reducing unemployment
 - Draw together common understanding amongst key stakeholders

No simple answers...

This is a journey to build capability in a poorly understood area

History

- There is a large body of work produced over the past 3 or 4 years, available on [hsrc website](http://hsrc.govt.nz).
- For the purpose of the dti, this covers:
 - Sector studies: mining, agriculture, construction, tourism, recycling, services
 - Network industries – water, ports, rail, energy
 - Methodology development: CGE, SAMs, SPA, LEISA, employment series, etc

Projects with the dti

Phase 1 (dti/DST/HSRC)

- Employment scenarios, plus background notes
- Commentary on labour force participation rates.
- Defining unemployment & employment targets.
- Exchange rates & employment/growth.
- Potential employment in social sector EPWP: what are the constraints?
- Dynamic sectors - insight paper
- Sector study: the contribution of one services sector to assigisa employment, growth and poverty objectives.
- Link between informal and formal economies.
- Labour force projections
- The policy implications of education supply and employability

Phase 2 Outputs

- Employment scenarios revised in the context of the economic slowdown
- Indicators of the growth path**
- a. Employment Indicators**
- *Development Paths and Employment*
 - *Leading Indicators of Employment in South Africa*
- b. Structural Path Analysis (SPA)**
- SPA tool set up
 - *Demo experiment: The Economic Influence of Infrastructure Expenditure*
- c. Global Economic Crisis**
- The impact of the GEC on South Africa from a financial perspective
 - International policy responses to the global economic crisis
 - The sector impact of the GEC
 - 2 papers on the potential impact of the GEC on semi-industrialised economies
- Growth and employment elasticities**
- Case studies, on Argentina, Chile, Brazil and Thailand

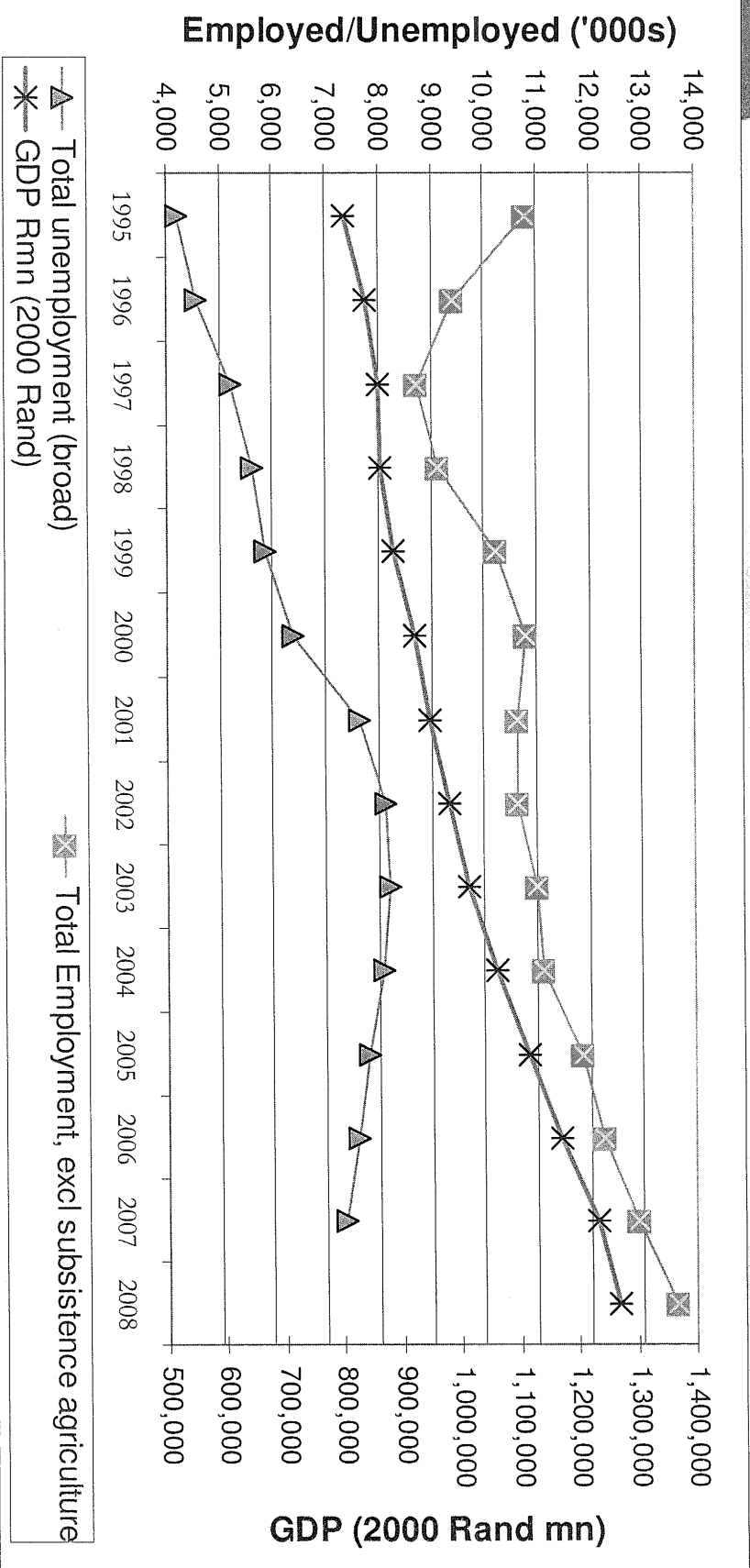
The meaning of “decent work”

Paraphrased from ILO website

- There is a high probability of earning sufficient income, whether through one job or multiple economic opportunities. The economy increasingly generates employment with a bias towards the creation of decent work opportunities and sustainable livelihoods.
- The majority of working people can achieve a sustainable and acceptable standard of living through the combination of earnings from work, private entitlements, and social protection.
- Human rights are respected in the process. This requires freedom for people to express their concerns, organize and participate in the decisions that affect their lives

Employment, unemployment and growth in SA over past decade

- employment growing rapidly in relation to GDP growth
- numbers of unemployed rose until 2002, then falls



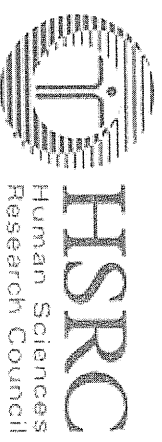
Working poverty

- ❑ 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

Employment & development



Employment & Economic Growth

- Employment can grow with:
 - Economic growth
 - More employment created at any rate of economic growth
- Economic growth sourced from:
 - Capital stock contribution
 - Labour contribution
 - Productivity
- Forms of growth
 - Extensive growth – where expansion in labour is central contributor to growth. The economy is generating more low productivity output.
 - Intensive growth – where expansion in capital or productivity is central contributor to growth. The economy is generating higher value goods & services, or producing them in more efficient ways.

Extensive vs Intensive Growth

- In a high unemployment situation (or labour surplus) it would appear that extensive growth would be desired.
- This would be obvious for:
 - a low income economy, where cost of labour low and potential for global competitiveness based on factor costs possible
 - an economy with a large domestic market that can generate sufficient demand for these products to achieve scale economies

Extensive vs Intensive Growth (2)

- Extensive growth path less obvious for middle income country like SA
 - Factor costs too high to be basis for competition
 - Domestic market relatively small
 - Real wage growth urgent – in the long run, this depends on productivity growth
 - Substantial dependence on fiscal system for social delivery and transfers – requires tax revenue

Extensive vs Intensive (3)

- Jobs in extensive growth come directly from the sector (eg agriculture)
- Jobs in intensive growth mostly come indirectly

Balance partly depends on what you think is most likely to succeed.
Intensive growth harder to achieve and requires structural change
Extensive growth more tangible, but reaches peak earlier

Productivity conundrum

- 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
- Ocampo – reallocation of factors to “dynamic production structures” – central to growth process
 - Innovation & learning
 - Complementarities, linkages & networks

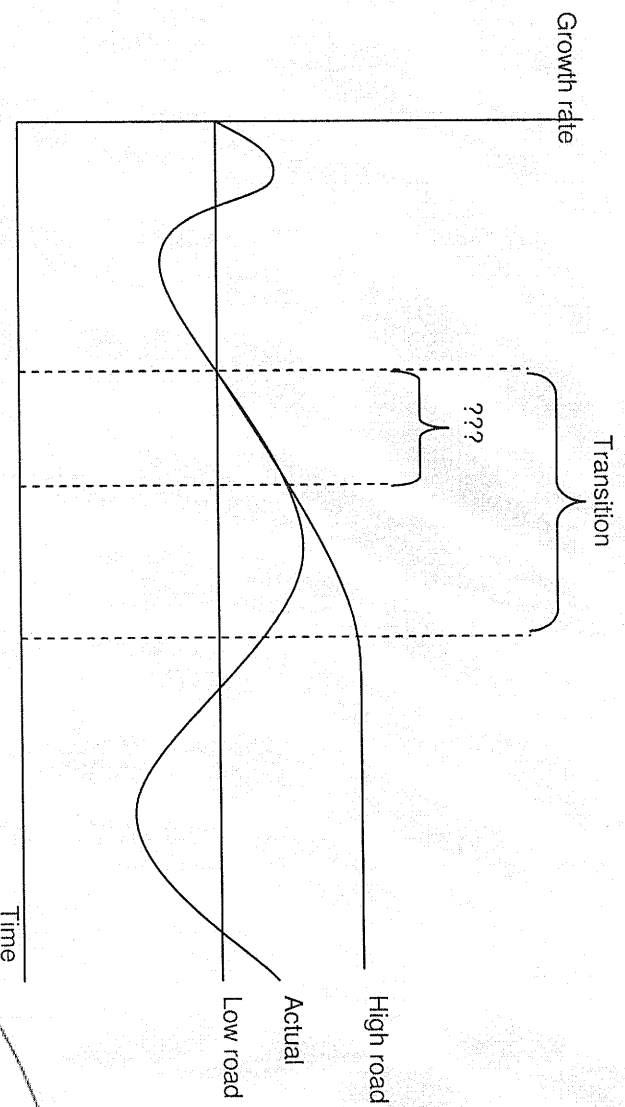
Extensive vs Intensive Growth

- This poses dilemma
 - Unlikely that sectors contributing to intensive growth will generate quantity of jobs needed
 - Some strategy needed that enables expansion of dynamic sectors, but also extensive sectors. How can this be done without contradictory policies?

Is SA on intensive or extensive growth path?

We implemented a first step to establish this link

Disentangling the development path from the business cycle



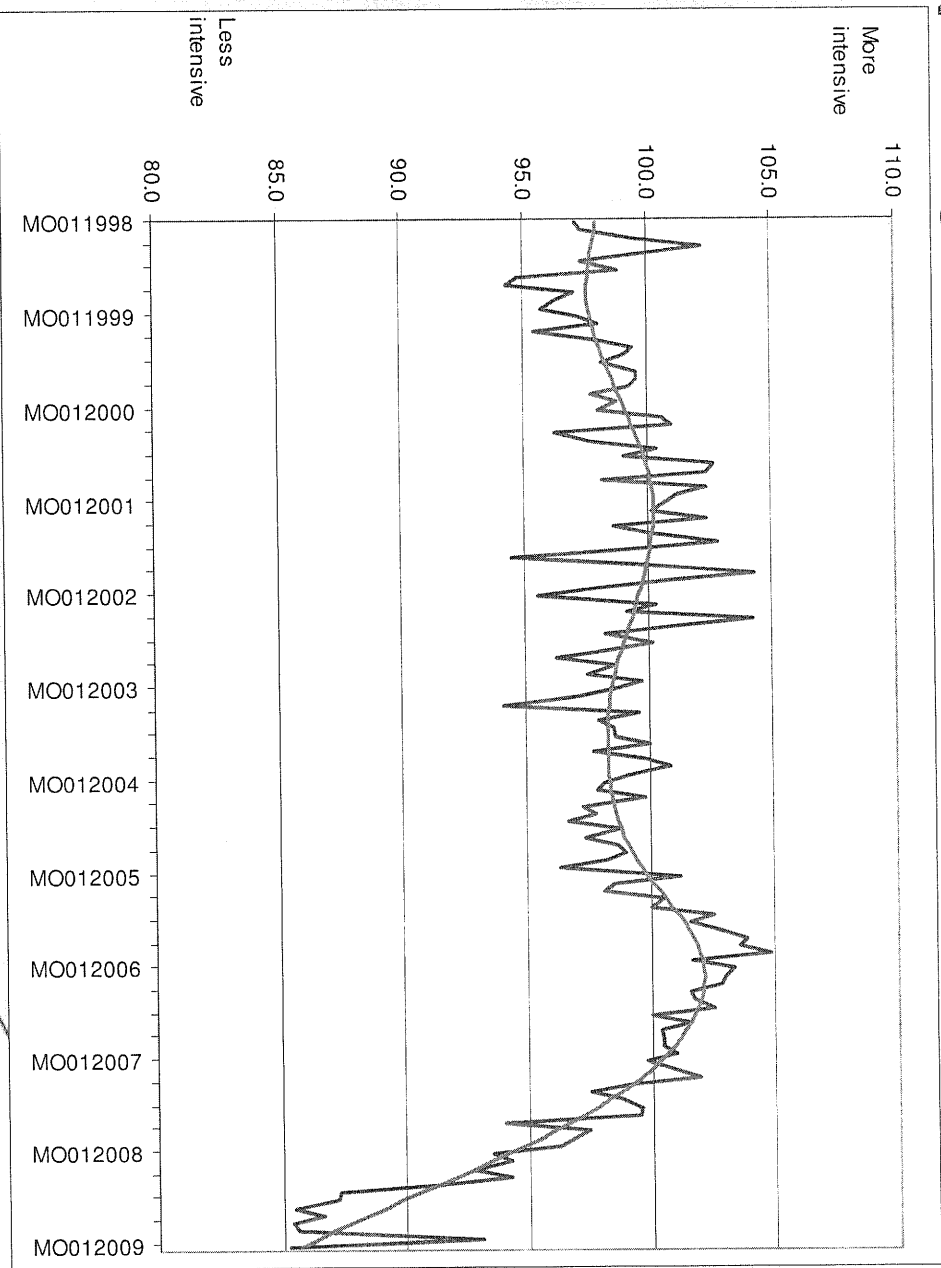
Alternative Combinations for Indicators of Development Paths

Is economy structurally moving toward more dynamic or sluggish sectors?

		Connectedness		
		Full sectoral multiplier	Forward linkages	
Dynamism	Domestically oriented measures	Past productivity growth using log-linear trend	I	II
		Past productivity growth using Hodrick Prescott Filter	III	IV
	Globally oriented measures	Productivity Gap using Exchange rate	V	VI
		Productivity Gap Using PPP	VII	VIII

This is first step – then need to link to employment outcome

Monthly development path indicator: productivity gap using exchange rate in manufacturing



This combines the full sectoral multipliers with the gap between South African and US productivity using the rand-\$ exchange rate. The output of the top ten manufacturing sectors according to this index is then estimated as a share of total manufacturing output for each month. Finally, this series is converted into an index, with the average share for 2000 as a base.

Source: davies and van seventer 2009

Sectors, employment & growth: sources of intensive growth = ?

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: possible job creation potential

- Absolute upper limit on manuf empl growth = 1.5% pa. = 250,000 jobs or 5% of jobs target to 2014
- Global experience shows that 1% to 2% pa would be more realistic in a *very positive* scenario.

Manufacturing: special qualities?

- Manufacturing ascribed with certain special qualities that are growth promoting:
 - Technology & learning
 - Rising terms of trade
 - Spread effects
 - Pay higher wages
- Evidence that while manuf may not lead employment growth, a diminishing manuf sector can be a sign of broader economic malaise.....
 - With few exceptions, seems to be important in most country's growth stories

Are there other sectors with these same qualities?

Other sectors?

- If manufacturing likely to generate max 250,000 jobs
 - Where else might jobs be sourced in 'dynamic' growth promoting activities?
- Higher paid dynamic services incl finance, transport, health, etc.
- These are activities typically not thought of as traded
- Could they grow by 6% pa on a consistent basis, thereby creating 1.5 mn jobs??
 - To what extent dependent on growth of other sectors?
 - To what extent independent growth dynamic that can lead other sectors?
 - To what extent do these sectors have same employment properties as manufacturing? (eg high skill/low empl growth)?

Country case studies

- Chile and intensive growth
- Indonesia and extensive growth
- Venezuela – resource curse
- Mexico – export growth, but growth not export led
- Argentina and labour market regulation
- Brazil – job absorption in the context of economic stagnation.
- Thailand forced intensive growth

Lessons from country cases (2)

- How do countries bounce back from crises?
- How do elasticities vary over growth process and why?
- Sources of employment & growth
- Defining what dynamism means (not synonymous with manufacturing) – see mexico

We would like to give attention to country case studies in next session



Human Sciences
Research Council

Possible employment paths for SA in context of the downturn

Employment targets to halve unemployment

- Aim to halve unemployment & poverty between 2004 – 2014
 - This means unemployment falls from 28% in 2004 to 14% in 2014
 - Employment should be sustainable so that can achieve full employment by 2024
- 5 million net new jobs needed 2004-2014 to halve strict unemployment = avg 500,000 pa
- A further 4.3 million jobs needed by 2024 to quarter unemployment
- Also seek to halve poverty by 2014/quarter by 2024

Initial scenarios

- 3 scenarios produced prior to slowdown at 3%, 4.5% and 6% avg pa GDP growth
 - Scenario 1 predominantly minerals path, with employment from non-tradables and higher wage inequality
 - Scenario 3 predominantly dynamic sectors lead growth, with higher % employment from tradables.

Either way, expect most jobs to come from low productivity services. Question is: in what proportion? Ideally the greatest possible % of jobs from dynamic sectors

Global economic crisis

- The global economic crisis will pose even greater challenges to 2014 objectives
- Unlike some other countries, SA begins with large pre-existing challenges. Aim is not simply to bounce back, but rather to move to inclusive growth path
- SA is much less affected by the GEC than many other countries.

What might be expected?

- Employment was very volatile in 2008/9
- 200,000 jobs gained in Q2 2008, and lost in Q1 2009.
- No improvement in employed and unemployed over last year.
- Employment impact will depend on:
 - Number of jobs and type of capacity lost
 - Pace of recovery – L, U, V, W
 - Pace of implementation of immediate interventions
 - Ability to implement structural reforms for long term inclusive growth path

The most serious impacts...

- Existing workers who lose their jobs are badly affected. The majority of households have only one worker.
 - If 250,000 net employment lost, this could affect at least 1 million people in the short run.
 - Working & middle classes – houses, pensions, debt
- Young school leavers, especially between the ages of 18 and 24, will be worst affected. Currently, there is less than a 50/50 chance of finding employment and is likely to deteriorate dramatically over the coming years. This poses a very serious social and economic challenge.
 - This situation leaves the majority of young people long-term unemployed and alienated.
- Potential loss of capacity in dynamic industries
- Difficult to raising funds through tax or debt to meet major commitments in social and economic infrastructure or social spending



Revised growth scenarios

	Scenario 1	Scenario 2	Scenario 3
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%

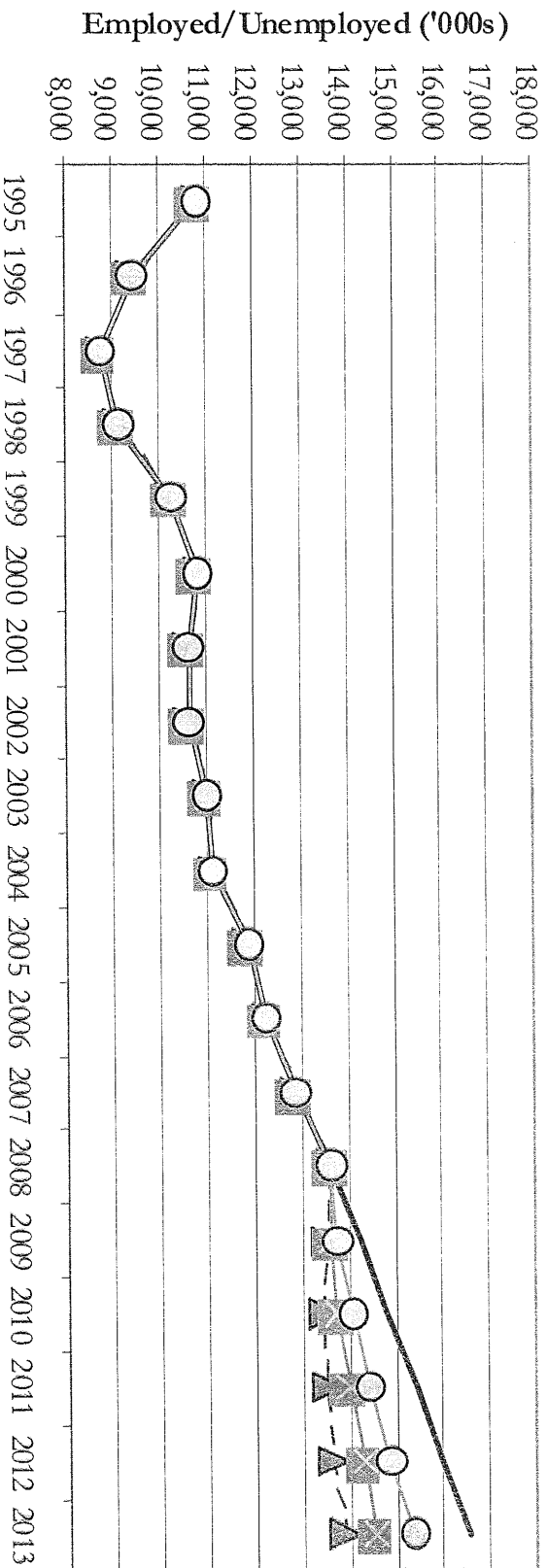
Economic structure to 2024

Sectors	2004		2024		
	Current	Scenario 1	Scenario 2	Scenario 3	
			<p>Slow recovery and return of primary commodity path as now: Resource-linked exports & high domestic orientation in employment</p> <p>Bounce back and move to manufactures & services trade path: more employment from traded sectors</p>		
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%	100.0%	

Elasticities in the scenarios

Scenarios - 2014						
Non agricultural private formal sector			Informal sector			
real GDP growth	employment elasticity	employment growth - 2004-14	employment elasticity	employment growth - 2004-14	GDP growth 2004-14	
Scenario 1: Swept away	2.5%	0.70	1.19	0.70	1.19	1.28
Scenario 2: Slow recovery	3.3%	0.70	1.26	0.63	1.23	1.38
Scenario 3: Bounce back	4.5%	0.70	1.36	0.55	1.28	1.55
Scenarios 2024						
Non agricultural private formal sector			Informal sector			
real GDP growth 2015 - 2024	employment elasticity	employment growth, 2004 - 24	Employment elasticity	employment growth - 2004-24	GDP growth - 2004 - 24	
Scenario 1: Growth slows	3.0%	0.72	1.24	0.55	1.18	1.72
Scenario 2: Successful primary commodity	4.5%	0.68	1.35	0.50	1.25	2.15
Scenario 3: Successful manufacturing & services exporter.	6.0%	0.64	1.46	0.35	1.23	2.78

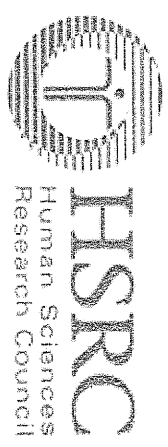
Some employment scenarios to 2014, without special empl interventions



— Target employment
 - - - - - Employment, exd sub sis agric (mid scenario)
 - - - - - Employment, exd sub sis agric (low scenario)
 - - - - - Employment, exd sub sis agric (high scenario)

Avg GDP growth 2004 - 2014 in:

- low scenario = 2.5% - shortfall = 2.58 m jobs
- middle scenario = 3.3% - shortfall = 1.97 m jobs
- high scenario = 4.5% - shortfall = 1.18 m jobs



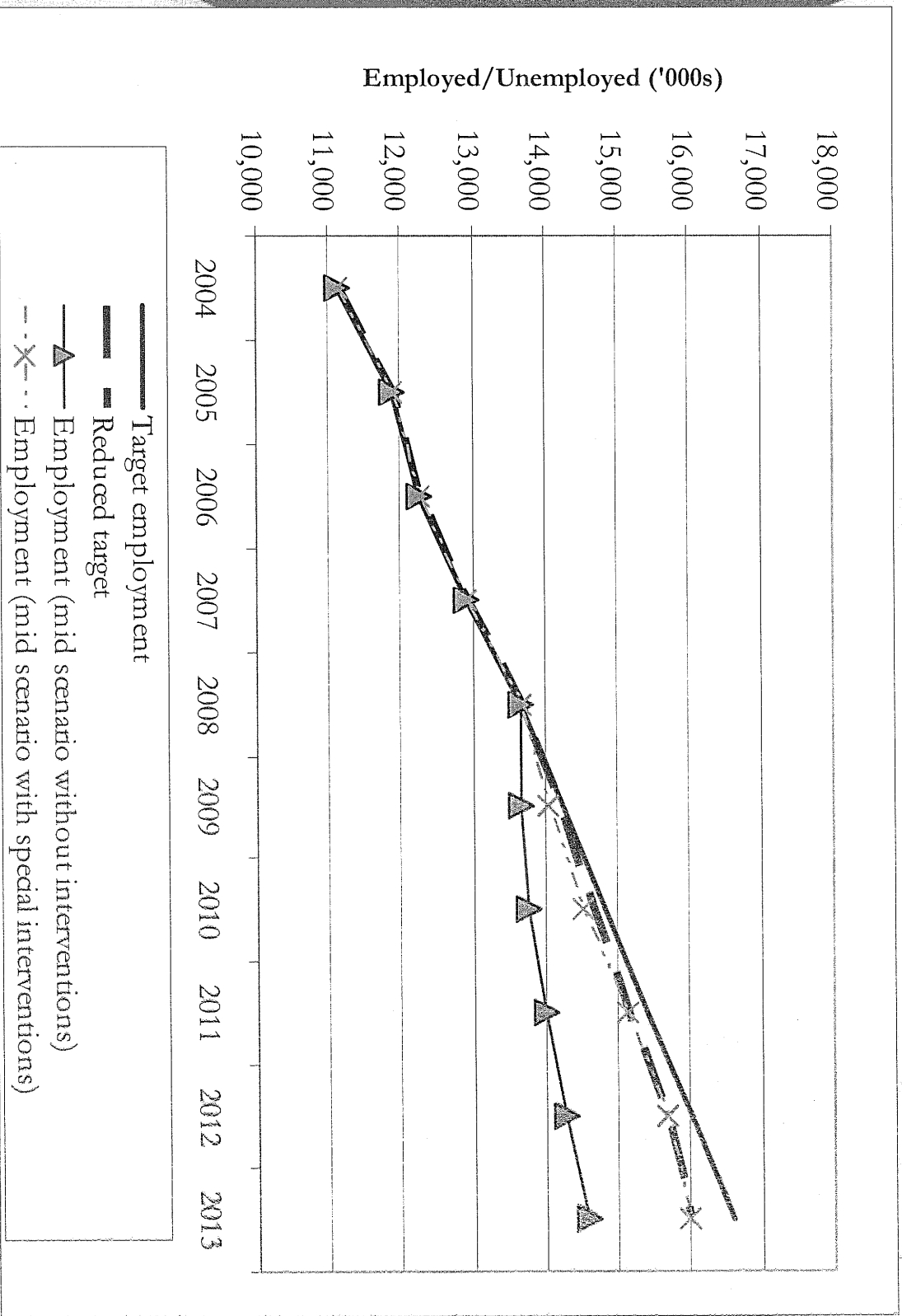
Proposals for immediate interventions above & beyond existing commitments

Options		2009	2010	2011	2012	2013
Reducing pressure on the labour market ('000s)						
Govt	Expanding FET opportunities, esp for 17 – 24 year olds	80	176	291	330	600
Jobs available, additional to ones that would have otherwise existed ('000s)						
Govt						
	semi-skill public sector	25	50	50	50	50
	transitional jobs	25	50	75	75	75
	State & NPO employment incentive	30	75	138	193	270
	EPWP	185	370	555	663	512
	subtotal	265	545	818	981	907
Market	slowing avoidable retrenchment	25	40	40	40	40
	special funds for distressed firm re-alignment (IDC, etc)	5	15	15	15	15
	small scale agric prod'n	50	125	200	275	350
	local procurement	15	25	35	45	55
	30 day payment	15	20	25	30	35
	subtotal	110	225	315	405	495
	Total additional due to special interventions	375	770	1,133	1,386	1,402

Notes:

Public sector opportunities are not additive, while market based ones are. FET and skills opportunities pull people out of the labour market. To be conservative in the scenario building, the figures above are 60% of the DoE targets put forward in the 2008 National Plan for FET Colleges in SA.

Mid-range employment scenario with suggested interventions



Indicative public budgets at different growth rates

GDP growth rate	2006/7		2013/4 (1)			
		2.5%	3.3%	3.3% with special interventions	4.5%	
Non-interest spending (R bn)	R 473.8	R 587.7	R 628.8	R 628.8	R 695.0	
<i>less</i> Personnel expend (Rbn)	R 172.3	R 230.6	R 241.6	R 241.6	R 260.4	
Non-personnel expenditure	R 301.5	R 357.1	R 387.1	R 387.1	R 434.6	
<i>less</i> EPWP (2)	R 2.7	R 59.4	R 45.3	R 15.2	R 27.2	
Remaining amount available for other public spending	R 298.8	R 297.7	R 341.8	R 371.9	R 407.4	
Number of EPWP jobs (mn)		3.0	2.3	0.782	1.4	

2013/4 amounts are in 2006 Rand
Expenditure on EPWP in 2006/7 is author's estimate. It includes only labour and admin costs, and not cost of infrastructure

Other major expenditure items:

- social grants
- social infrastructure backlog
- economic infrastructure (eg eskom)

Policy questions

Essential to create as many jobs as possible
in 'dynamic' sectors

How might this be done?

Where are we?

- Scenario 1 is essentially SA path
 - +ve that high rate of employment growth relative to GDP (better than if low employment and low growth)
 - But explained by sluggish investment and productivity growth (see davies & v Seventer)
- Scenario 3 has:
 - higher investment in dynamic sectors enabling productivity growth
 - Productivity growth from labour inducing sources
 - Economy-wide productivity improving interventions – network industries, reduced red tape, improved public sector efficiency, etc
- Active stimulation of non-tradables in a way that does not obstruct tradables

Policy elements

- Competitive infrastructure
- Competitive currency
- Reduced red tape/Easier regulatory compliance
- SMME promotion
- Sector specific programmes
- Market access arrangements/Foreign presence
- Human resource development
- R&D



Competitive infrastructure

- Most obvious element of industrial support package
- Closing price & quality gap in commercial transport & telecoms in SA in 2003 (see Davies & v Severter)
 - 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

Eg chile: main explanation for wide variety of export products stimulated

- Value & stability of real exchange rate
 - Fundamental price incentive
- Overvalued 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.
- Or else they implemented world class infrastructure, had large domestic markets and convincing FDI promotion
- 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
- Use of DCCs in SA – clothing & MIDP

SME 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

Sector specific programmes?

- Balanced vs unbalanced growth?
 - How much resources devoted to one sector?
 - What are measures of 'return'?
- Strongest policies currently:
 - MIDP (esp DCCCs; no new jobs)
 - Tourism (R300m in marketing & support services; max potential 280,000 new jobs?)
- Different approach to services promotion:
 - Market access is gained through:
 - Regulation (eg health insurance)
 - Infrastructure & project finance (Nepad)
 - Home affairs regulation on movement of people

Immediate interventions – active stimulation



HSRC
Human Sciences
Research Council

Immediate interventions needed?

- Temporary or permanent interventions?
- Should sector support target consumers or firms?
- Should businesses or people be rescued?
- Supporting struggling firms or improving bus environment
- “V”, “U”, “W” or “L” shaped recovery?

Suggested focus of immediate commitments: reducing avoidable job losses

- Reduce potential retrenchments – eg through short time: ccma, social plan, workplace challenge type support, UIF income support
- IDC support for distressed firms, on basis that market plan devised
- Raise prominence of *local* procurement in BEE rating
- 30 day payments by large corps, govt, parastatals to suppliers, esp smes
- Small scale agric production (see below)

	2009	2010	2011	2012	2013
slowing avoidable retrenchment	25	40	40	40	40
special funds for distressed firm re-alignment (IDC, etc)	5	15	15	15	15
local procurement	15	25	35	45	55
30 day payment	15	20	25	30	35
small scale agric prod'n	50	125	200	275	350
subtotal	110	225	315	405	495

Suggested focus of immediate commitments: Household food security & small scale agriculture

- ❑ Approx 2.5 million households involved in some household food production
 - ❑ They are no longer considered to be 'employed'
 - ❑ 3/4 in former homeland areas in Limpopo, EC & KZN
 - ❑ 1/4 in 3 municipalities
 - ❑ this is clear identification of potential opportunity to support food security and livelihoods.
- ❑ Aim to improve agricultural yields in 50,000 (rising to 350,000) low income households to enable household food security and surplus production
 - ❑ access to land, extension, seeds, water

Suggested focus of immediate commitments: youth school leavers

- Unlikely market will generate many jobs for school leavers. Biggest challenge are those under age 24.
- Aim to generate up to 130,000 (2009) – 725,000(2014) opportunities for young people, not incl EPWP
 - Generate 80,000 (rising to 600,000) skills opportunities through rapid expansion of FET and other full time training opportunities.
 - Employment/internship incentive for FET students?
 - Urgently implement job specs in the public service that enable entry for lower skill workers (eg auxiliary social workers, clerks for birth registration, etc). Aim to generate 25,000 (rising to 50,000) new opportunities.
 - Introduce youth transitional jobs scheme, giving young people 12 month first work experience. Aim to generate 25,000 (rising to 75,000) opportunities annually
 - Targeted EPWP (see below)

Suggested focus of immediate commitments: public employment schemes

- Currently EPWP creates jobs for the equivalent of 4% of the unemployed
- Targets for EPWP and other indirect public employment programmes (especially in social sector), need to be expanded by an *additional* 850,000 opportunities by 2014.
- This can be done on the following basis:
 - rapid scaling up of labour intensive infrastructure, ECD and HCBC, and environmental projects
 - Rapid roll-out of EPWP employment incentive
 - Rapid roll-out of community works programme

	2009	2010	2011	2012	2013
State & NPO employment incentive	30	75	138	193	270
EPWP	185	370	555	663	512

Lets NPOs, communities and municipalities determine priorities and access funds directly