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A crisis of abundance

Andrew Donaldson

In this opinion piece on South Africa's unemployment crisis, Andrew Donaldson argues that while structural reforms are needed to raise growth and broaden development over the longer term, an employment-oriented economic strategy is the central challenge in present times.

Viewed through an elementary growth accounting lens, South Africa's frontiers of labour-intensive production should be steadily moving out, bringing unemployed human resources into economically useful occupations. We have abundant physical and mental human capabilities searching for work.

However imperfect the adjustment ("tâtonnement") process, economic theory implies that there should be progress towards full employment, and higher output should flow from the mobilisation of otherwise unutilised capacity. And if markets don't generate this result, it is a policy coordination function.

It is not that constructive applications are hard to identify. Houses need to be built, roads repaired, food markets expanded, clothing and furniture supplied, safety and security improved, water sources protected, children cared for.

It is not that we lack the know-how or technological capabilities required: these are activities in which knowledge is readily available and there is clear evidence of under-utilised productive capacity. To put unskilled labour to work, we do not need to overcome technological barriers in artificial intelligence, biosciences or big data processing.

It is not that higher production to meet domestic consumption needs might have unsustainable fiscal or balance of payments effects: in horticulture, timber and related products, light manufacturing, and a wide swathe of commercial and hospitality services there are growth opportunities in tradeable goods and tax revenue will flow from expanded activity.

Of course, there are complementarities in the resource combinations required to expand economic activity: engineering skills accompany artisanal capabilities and physical effort on building sites and floor managers oversee the organisation of work in restaurant kitchens and clothing assembly lines.

But the best available theories of skills development suggest that it is the application of learning by “doing” that is the proximate driver of productivity and skills acquisition.

And the empirical evidence shows that our expansions of managerial and professional employment in recent decades have not so much supported as outstripped and replaced employment of unskilled and semi-skilled labour. Business support and enterprise finance have targeted mergers and empowerment rather than industrial expansion and employment.

Subsidies for training have gone to established rather than new enterprises. Human resource strategies have favoured insiders. Both incomes and employment levels have increased faster in the upper reaches of the distribution than in the bottom half.

All of this runs counter to the most basic application of the scarcity principle to understanding South Africa’s growth and development record.

There might be institutional rigidities in labour markets and enterprise development that inhibit market-based progress towards full employment. When unemployment is high, both statutory protection and organised labour’s instincts will be hostile to policies that might ease job termination procedures or lead to lower wages for those with work. Regulations that set labour standards and protect workers in larger, established firms might be barriers to job creation in smaller and less formal enterprises. If these are binding constraints, they can be addressed in ways that recognise distinct market conditions facing jobseekers and the employed, or small and large businesses.

It is often argued that “structural” imbalances account for South Africa’s persistent unemployment problem. Examples of structural constraints include the mismatch between available skills and the requirements of employers, backlogs in electricity and transport infrastructure, the dispersed urban landscape and high commuting costs, and the dual structure of commercial and subsistence agriculture. But these are barriers to growth along the historic development path: energy-intensive industry and mining, automotive sector value-chains, high-end consumer demand, technology-driven modernisation of services.

The dominant policy discourse on accelerating growth and revitalising the economy focuses on overcoming these structural barriers: improved vocational education and training, infrastructure investment and urban densification, for example.

These are unarguably important elements of a long-run development framework.

But a medium-term strategy for labour-absorbing growth must have a different focus. It must acknowledge structural and regulatory constraints that bind, for now, and identify opportunities for development that are compatible with this operational environment.

What are the implications of this “strategic” perspective? Albert Hirschman’s “unbalanced growth” hypothesis provides some tools for framing the analysis.

- Investment in housing and related infrastructure is not just comparatively unconstrained by either electricity or skills deficits, it also has “backward and forward linkages” that are helpful. It generates demand for basic material supplies, and it leads over time to growth of repair and maintenance activities and home-based industries and trade.
- Colleges and universities might not yet be generating the quality and diversity of vocational skills that are needed, but productivity in many activities advances as well (or better) through “learning by doing” rather than through formal instruction.

- Special economic zones can assist in concentrating industrial learning, promoting labour-intensive exports and fostering spillover efficiencies, but they have to attract investment in labour-intensive firms far more aggressively than we have yet seen.
- Guardrails that protect against informalisation and support wage levels in labour-intensive industries are needed, including basic social security standards and a broad-based subsidy for regulation-compliant low-wage employment.
- Public employment programmes play a vital economic role not just as income support and introductions to workplace disciplines, they also add value in addressing a wide range of environmental, social and local needs.

Structural reforms of several kinds are important elements of South Africa's approach to strengthening growth and development, but the medium-term strategic focus must surely be the policies, programmes and initiatives that mobilise abundant labour resources despite persistent structural barriers.

About the author

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