BUSINESS

Cheaper money the key to solving jobs crisis

Robert Pollin: COMMENT

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The government is committed to halving the number of unemployed people by 2014. Aggressively attacking mass unemployment in South Africa is a moral imperative, especially since creating decent jobs is the most effective means of fighting poverty. But is the government's goal realistic?

Three colleagues and I have just published a book, An Employment-Targeted Economic Program for South Africa, which says the answer is "yes". Our research, commissioned by the International Poverty Centre of the United Nations Development Programme, lays out a detailed, workable programme for realising this goal. But it will not be easy.

We show that, if the South African economy proceeds more or less as it did in the country's first decade of democracy, the official unemployment rate will not fall at all by 2014. It will increase substantially.

Why? The first factor that stunted job creation between 1994 to 2004 was inadequate economic growth. Businesses were not expanding fast enough. The second factor was that the business expansion that did occur concentrated increasingly on using machines to produce things instead of hiring more workers. Fewer jobs were being created for every rand of new business activity.

To cut unemployment in half by 2014, businesses must first grow at a significantly faster rate. In addition, that growth must be focused more on hiring people and less on buying new machines.

The place to begin is getting more money into people's hands. This means making credit much more accessible and affordable for all types of South Africans, including small, medium and large businesses, agricultural smallholders, and cooperatives. In part, this can be achieved simply through the Reserve Bank pushing down lending rates, lowering the prime lending rate, for example, from its current level of around 11% to something closer to 7%.

The government is currently committed to maintaining inflation within a 3% to a 6% range. The primary tool for meeting this inflation target is to maintain high interest rates.

But keeping interest rates high means stifling the growth of new businesses and jobs. Moreover, the effects on inflation of pushing the prime lending rate

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down to around 7% should be relatively modest. This is especially true if the government also pursues complementary methods of controlling inflation, including preventing exorbitant price mark-ups by monopolistic firms such as Mittal Steel.

We also propose a large-scale credit subsidy programme, available to businesses that are capable of generating a large number of jobs for every rand they spend. These positive job effects do not have to be direct. For example, agricultural processing plants producing ethanol from maize would not themselves hire lots of workers relative to their scale of operations. But they would still generate lots of employment for South African farmers by purchasing their mealies.

One route is for the government to offer loan guarantees to banks that finance job creation by businesses. For example, a small maize farmer would have to borrow at around 13% on the open market. But a bank supported by a government guarantee could lend to this farmer at 8% and still earn a profit. This arrangement would be good for both farmers and banks. It would create a much wider pool of potential borrowers for banks without increasing their exposure to defaults.

Could taxpayers afford such a measure? Consider the following example: suppose the government guarantees about R40-billion per year in bank loans, equal to about a quarter of all private investment in South Africa. The guarantees cover 75% of the total amount of these loans, so that the banks' risk is only 25% of the amount of each loan. Then 15% of these loans end in default.

The cost to the government of paying out on the defaulted loans in this situation would be R4,5-billion. This is a lot of money, but it is still only 1,2% of government spending for the 2005/06 fiscal year. This credit programme is therefore a relatively cheap way of generating large numbers of jobs, developing people's work skills and attacking poverty, while also creating new opportunities for businesses of all sizes, including banks.

Much more detail is needed to make this or any other job-promoting initiative successful. But they are absolutely needed if the government is going to succeed in keeping its commitment to the people of South Africa.

Robert Pollin is a director of the Political Economy Research Institute at the University of Massachusetts-Amherst in the United States

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