Restructuring toward employment-creating growth

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Overview

- The current economic structure and unemployment/inequality
- Viable options
- Why is it so hard?

The structural problem

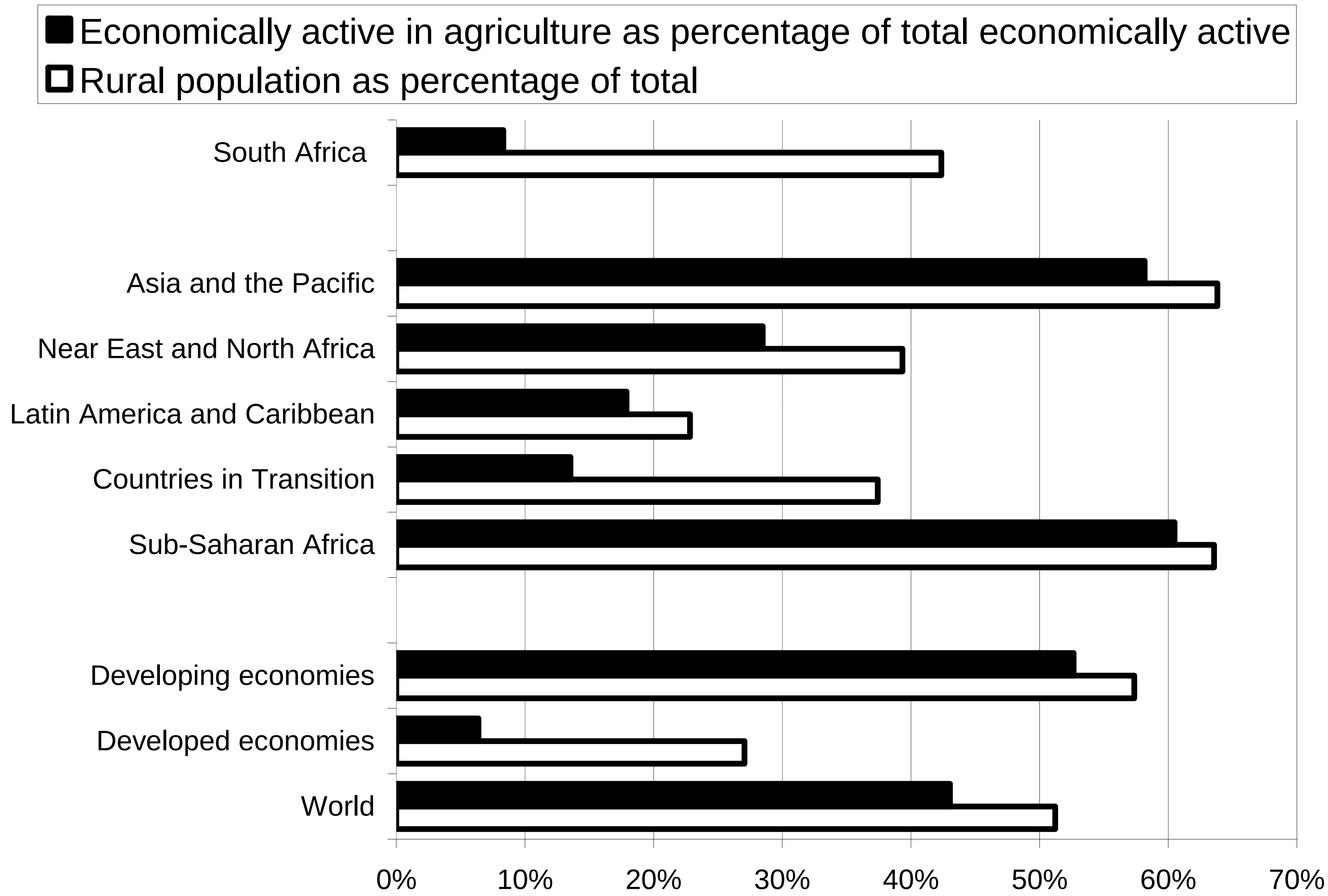
- Mass unemployment and concentration reflect economic structure
- From late 1970s to around 2000, growth predominantly in capital-intensive industries
  - Continued dependence on mining-based exports, with shift from late 1980s from gold to platinum and base metals at cost of employment
  - Growth in smelting, Sasol, auto, big electricity
  - Decline in agriculture and light industry (equipment, food, furniture, clothing/footwear)
- NB capital intensive sectors are inherently inhospitable to small enterprise and supportive of capital intensity

Since 2000

- Booming commodity prices based on structural change in the world economy
  - Encourage capital inflows, lower interest rates and high rand
  - Result = huge current account deficit and consumer boom with stagnation in manufacturing
- Rapid employment growth but almost exclusively in retail, construction and lower-level services (especially security) – all highly cyclical
- Industrial policy has focused on relatively high-tech enterprises (“lead” sectors in IPAP constitute under 8% of formal employment and 2,5% of informal employment)
- Industrial subsidies have focused on auto
- No shared vision for how mining, agriculture and public/private services should contribute to shared growth

The minerals value chain and the economy

Agricultural employment and rural residence



The conventional response

- Industrial policy paradigm arose mostly in countries where
  - Growth had been based on agriculture, not mining, with relatively equitable access to land and education – and great mobility for individuals
  - Based on massive expansion in exports of manufactures, creating employment on a large scale
    - supported by long-run depression of the currency
    - Facilitated by anti-communism and decentralisation of U.S. production
- Doesn't sound a whole lot like SA

The challenge

- If high commodity prices make it impossible to depreciate, two strategies are possible:
  - Identify viable labour-intensive industries that can grow despite the high rand – e.g. agriculture and forestry, some services, light manufacturing for domestic and regional use
  - Offset the high rand by ensuring extremely efficient infrastructural and administrative systems plus rising skill levels, at least for the core economy (need to address the post-colonial deficit)
- In any case, prioritising employment means we need a vision on how ALL the main economic sectors can contribute to sustainable employment creation, even if (as with mining) it's largely indirectly

Viable employment-creating industries

- Agriculture and forestry as crucial for employment, stabilising food prices and exports
  - Need a better link to land reform – which means re-allocating responsibility
  - Also an understanding of the choices between collective/community ownership of estates and smallholding
  - Critical = what markets?
    - Livelihoods strategies aim mostly at household and community food security – both peri urban and deep rural
    - Concerns about niche production - more scope for industrial production by smallholders, because of lower transaction costs (egs forestry, sugar)
- Private services, especially security, hairdressing, tourism, culture, BPO/IT, finance, maybe health
  - Need to allocate responsibility more clearly and ensure adequate capacity in government
  - Identify core constraints and improve statistical basis
- Public services, including income from the region (health and education, in particular)
- Light industry producing basic goods for SA and the region

Other needs

- Sectors that cannot create employment in the short run can still be critical for sustainable shared growth
  - Mining as central source of external resources
    - Need to foresight infrastructure needs
    - Need to define clearly how it supports overall transformation – current policies are problematic
  - Knowledge-based industries (pharmaceuticals, capital goods, etc.)
- Economic infrastructure – addressing the post-colonial challenge
- High-level education and skills development
  - Tertiary education is underfunded and poorly integrated with society
  - SETAs need clearer mandate in context of defined sectoral trajectory

Obstacles to restructuring

- Path dependence in the economy
- Path dependence in the state

New activities need:

- To identify viable markets
- Market associations and financial support for micro producers
- Access to capital (NOT just loans) and often land and water
- Skills
- Infrastructure
- Government systems (e.g. standards, qualifications, etc.)

Government systems

- Government departments not structured to bring about a coherent redirection of the economy
- Reflected in narrow focus of IPAP plus unclear departmental mandates (dti emphasises high-tech exports; DME - beneficiation and BEE; agriculture - BEE and smallholders; tourism – just the international market)
- Line managers have been asked to develop sector strategies without expertise, a standard methodology or mechanisms to consult
  - Unfocused research and dependence on consultants – who almost always focus on exports or growth, not employment; ignore institutional problems; and are often innumerate
  - Lack of inputs from key stakeholders, other spheres and SOEs
  - Often end up without practical next steps or allocation of responsibility
- National departments cannot ensure the alignment of other national departments, the budget, spheres or SOEs around their strategies
  - DPE in particular has stressed high rates of return at the cost of serving mining and new markets, and totally untransparent about financing new investment and therefore the cost to the economy
  - Result is over-emphasis on what they can control – competition policy, subsidies, export marketing
  - Successful countries tended rather to use infrastructure, tariff protection and regulation

What is our long-term structural vision? What should a sector strategy look like? How should we consult with capital?