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The unemployment debate is too fragmented to address the problem

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The debate on unemployment is fragmented into at least three sub-discourses, i.e. those of macroeconomists, labour economists and poverty analysts. This results in inconclusive analyses and narrow, flawed proposals to address the problem. This fragmentation feeds into the policy field. Sustainable and consistent remedies for unemployment and poverty will require an integrated analysis that covers the formal sector, the informal economy and survivalist activities – and especially linkages and barriers between these segments.

Introduction

The South African debate on unemployment is fragmented, resulting in inconclusive analyses and often narrow, constrained proposals to address the problem.

A critical survey^{*} of academic research done on South African unemployment in the last 10-15 years reveals that the work, though impressive, is split into at least three sub-discourses, i.e. those of macroeconomists, labour economists and poverty analysts.

Often these sub-debates seem to inhabit separate worlds. By and large, each group only focuses on its own theoretical model and empirical research, and rarely uses results from another group (or sub-discourse). In consequence, disparate and even conflicting findings abound. A coherent

and consistent picture of the unemployment problem – and possible solutions to it – has not been produced. Many analytical gaps remain.

This fragmentation feeds into the policy field, which often is not well-informed about the research findings from all the groups. Different interest groups and agencies tend to consult, or rely on, favoured research results or customary experts. Ideological differences also play a role. These conditions often result in inconsistent and narrowly-informed policy proposals from different parties – e.g. business, labour unions, NGOs and even different government departments.

Yet important lessons can be learned if one is willing to integrate understanding from all three sub-debates.

Major findings from labour economists

A major issue is the extent to which analysts incorporate the realities of the South African labour market, and of South Africa as a developing country with widespread poverty, into their analyses of employment and unemployment.

From labour economists come repeated findings that the South African labour market is characterised by segmentation and dualism, e.g. between urban and rural areas; between the formal sector and the informal economy; and within the informal economy. Various factors create structural barriers for unemployed people to move between these segments or enter formal labour markets. These include long distances from labour markets, the high costs of searching for a job, limited information on job opportunities, poor education, limited relevant work experience, and racial prejudice.

Lessons from development and poverty analysts

Development and poverty analysts highlight the existence of the worlds of subsistence and survivalist activities (both urban and rural) alongside the formal and informal sectors. Very different dynamics operate in these worlds, mostly due to various forms of exclusion, marginalisation and powerlessness. Barriers include adverse geographical location and thus high transport costs, family dynamics amidst poverty, adverse positioning in community hierarchies and local power relations, a lack of social networks to pass on information about jobs and to support job search in cities logistically, and a general lack of formal labour market information and modern economy know-how. These make searching for jobs expensive and high-risk for those with no assets and little cash. Access to formal labour markets becomes very difficult.

Psychological and motivational problems due to prolonged periods of joblessness and poverty also have a significant impact on job search effort and success. Researchers report that unemployed people often experience boredom, depression, low self-esteem, feeling useless and without energy, being lonely, without friends or romantic partners.

In this way the condition of poverty itself debilitates and discourages job search and access to labour markets. This means that, whereas unemployment causes much poverty, poverty in turn contributes to high and sustained unemployment. This may explain why high unemployment in South Africa is so persistent.

The macroeconomic approach and growth

Thus a range of factors structurally inhibit the search for jobs and entry into labour markets from a condition of poverty and from one labour market segment to another. These factors prevent a free flow of labour into formal sector labour markets in particular. Consequently, the reach and smooth functioning of labour markets are severely constrained.

Most macroeconomic models and many labour market analysts tend to ignore these barriers to labour market functioning. They stress concerns like labour legislation and do not recognise the structural constraints on labour markets.

Idealised models of formal labour markets, anecdotal evidence, 'popular wisdom' and ideological preferences often seem to drive the public debate on the operation of labour markets and the causes of unemployment.

Much of the public debate on economic growth, labour regulations and skills constraints is not well informed by the research findings from the labour and poverty discourses – and ignores the world outside the formal sector, where most poor people live and try to earn an income.

An excessive focus on the formal sector is a key weakness of the public debate and much analysis – while 30% of the employed are in the informal sector and 60% of job creation reportedly occurs in the informal sector. Most discussions proceed as if the problems and interests of those in the formal sector are all that matter – as if all solutions to unemployment are to be found there.

It is regularly simply assumed that the problem of unemployment, coupled with those of poverty and inequality, can be resolved by higher growth of the formal sector. Resultant increases in the demand for labour would lead to significant growth in the absorption of labour. However, the rate at which employment is created by formal sector growth (or by GDP growth) is much too low. The demand for labour is lethargic. Long-run estimates of the employment coefficient – of approximately 0.5 – show that employment normally grows at approximately half the rate of GDP. This implies and reflects a gradually declining employment intensity in (for example) agriculture, mining and manufacturing, mostly due to mechanisation and the adoption of labour-saving production methods. In addition, industrial policies that encourage large capital-intensive projects have contributed to this tendency.

When one considers the problem of labour supply, it appears that there are not enough adequately and suitably skilled workers readily available to fill all available vacancies in a growth scenario, especially with regard to the more highly skilled jobs. The other factors and barriers mentioned above also constrain the availability of lower-skilled workers and exclude many from being able to search for a job successfully. A strategy focusing on employment through growth – attempting to fine-tune and boost the ‘engine of growth’ to absorb more labour – is fundamentally constrained as long as large sections of the working-age population are structurally excluded from accessing employment opportunities in the formal sector.

Employment growth in the informal economy?

Other measures are necessary to facilitate access to employment and to develop sustainable income-earning opportunities, especially outside the formal sector. This would require policies that explicitly support the development of a vibrant informal sector (including self-employment). Such policies must identify the particular barriers faced by potential entrepreneurs in the informal sector (as opposed to formal-sector SMMEs) and implement appropriate steps. Increasing the labour absorption in the informal sector would then become a policy objective. In this way the informal economy would become a place for generating economic participation and, indeed, for generating economic growth – rather than the stepchild dragged along by the formal economy.

These aspects get little attention in the public debate on unemployment, which is dominated by formal sector interest groups, i.e. organised business and organised labour, whose only objective is to boost the formal sector (important as it is). This serves to perpetuate our unsatisfactory unemployment situation.

It is unlikely that the unemployment rate will be significantly reduced by formal sector economic growth alone. The same applies to other ‘silver bullets’ often proposed, e.g. deregulating formal labour markets or increasing skills levels – or reducing interest rates or weakening the rand.

These, at best, can affect mainly the formal sector and thus can only have a limited impact on unemployment.

At the same it should be noted that poverty-directed initiatives that focus exclusively on poverty relief and not on facilitating and providing an incentive for economically productive activities and income generation via self-employment or wage employment are unlikely to provide sustainable ways out of poverty either. Even the survivalist segment of the economy can become an environment for participative economic growth – or at least for the successful transition to employment or self-employment in the informal (or formal) sector.

Conclusion

Sustainable and consistent remedies for unemployment and poverty will require an integrated analysis that covers the formal sector, the informal economy and survivalist and subsistence activities – and especially the various linkages and transitions between these segments. Policy measures based on such an analysis are much more likely to have a significant impact.

References

* Fourie, FCvN (2011). *The South African unemployment debate: three worlds, three discourses?* Working Paper 63 (June), SALDRU, University of Cape Town. www.saldru.uct.ac.za