



FIVE MILLION JOBS

How to add five million new jobs to the South African economy over the next five years

SUMMARY

A job for every South African: practical proposals

'We find ourselves in difficult economic times. Jobs are being lost in every economy across the world. We will not be spared the negative impact. ... We must forge a partnership... founded on the principles of mutual respect and the unfettered expression of different views. We do not seek conformity; we seek a vibrant, dynamic partnership enriched by democratic debate that values different views.' – President Jacob Zuma, inauguration speech, 9 May 2009.

ABOUT 4,2 MILLION South Africans are out of work. The official unemployment rate is 23,5 per cent. If people who want a job but have given up looking for work are included, the figure rises to 5,3 million people, or an unemployment rate of 28,4 per cent. These are among the worst unemployment figures in the world. As the OECD has put it: 'Unemployment is the most salient problem of post-apartheid South Africa. The lack of employment ... implies a great loss of national income ... and is also an important factor in South Africa's extreme levels of inequality and widespread poverty.'

Jobs provide self-respect, independence, and fulfilment. Productive work is the bedrock of democracy and human development. South Africa needs jobs; it needs them more urgently and in larger numbers than ever before.

Towards the end of 2008, the Centre for Development and Enterprise and Business Leadership South Africa brought together some leading South Africans to think anew about the causes of unemployment as well as new job creation strategies, so that every South African who needs a job will be able to find one.

A job for every South African

Anticipating President Zuma's call for a vigorous debate on this issue, we asked participants to leave their existing certainties and loyalties at the door. This was far from easy, but during several long conversations the group found its way to three shared views. We agreed that:

- Times are tough, but we have tackled bigger challenges, and we are confident that we can do it again. Despite our diverse backgrounds, we share a commitment to decent lives for all.
- We cannot continue with 'more of the same'. Policies that have failed to reduce unemployment during the most sustained economic boom of our lives will certainly not work during the biggest slump any of us have ever known.
- We need to stop talking about what we believe ought to be done. None of us knows for certain whether our pet project or favoured remedy will work, and no amount of theoretical discussion will decide the matter. *We need to start experimenting with a variety of policies and programmes, and see what actually works.*

After listening to the views of invited technical experts, and many hours of discussion with them and among ourselves, our group came up with some challenging suggestions. They are not aimed at eliminating unemployment, everywhere and all at once. Instead, we are suggesting practical ways to create more jobs for young people in particular, and create many more jobs in one particular province in ways that could be replicated elsewhere.

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Some people will be critical of what we are proposing, and we hope to stimulate robust debate. We have tried hard to come up with practical suggestions for addressing one of our biggest national challenges. If you disagree, don't just write us off, or tell us you don't like our 'ideology'. The last thing this group shares is a single ideology. Give us detailed reasons why we are wrong and, make alternative suggestions that are affordable, implementable, don't have major unintended consequences, and can create jobs at scale.

Where we are: global crisis, local recession

We began by taking a hard look at the difficult global and local economic contexts in which we will have to create millions of new jobs. One thing is clear: if we continue with 'business as usual', and 'more of the same,' unemployment will not diminish, and life in South Africa will not improve.

We're entering a less forgiving world ...

The world economy will shrink this year – the first time this has happened since World War Two. In the fourth quarter of 2008, global industrial production fell by more than a fifth. Most major countries' exports fell by a quarter or more. Between July and December 2008 the prices of non-energy commodities – our main exports – fell by more than a third.

The crisis has crippled the two drivers of South Africa's economic growth during the past decade: seemingly unlimited credit on easy terms, and strong commodity prices. It has not yet affected our economic stability. At best, our levels of economic growth and job creation will be significantly lower for the next year or two. At worst, we face several years of a shrinking economy, and major job losses.

During the good years, South Africa depended on the savings of others, not our own. Since 1995 we have borrowed R545 billion from foreign savers. These inflows have enabled us to spend and invest far more than we have actually been producing. The days of easy money are over.

If our current account deficit were to remain at the 2008 level this year, we would need to attract capital inflows of \$16,7 billion – about 10 per cent of all private capital expected to go to the developing world. In 2007 we attracted 2,2 per cent. We will not suddenly attract more than four times our normal share.

We therefore need to make a painful adjustment. The value of the rand and of imports will probably fall, and investment and household spending will decline. This will be difficult, but if we prepare carefully it need not be disastrous.

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There is a more deep-seated problem beneath the immediate crisis. South Africans have never saved enough or exported enough high-value goods to break our reliance on foreign lending. During the long boom from 1999 to 2008, it looked as if this no longer mattered. That was an illusion. It is now clear that our continued dependence on other people's savings was merely disguised by favourable conditions.

This reliance on foreign rather than domestic savings creates certain constraints. The vital capital inflows are into rand-denominated bonds and equities. Continued foreign investment in our bonds requires low and stable inflation as well as fiscal deficits. Continued foreign investment in equities requires economic policies that create space for private commercial success.

Therefore, in these difficult times, care must be taken to maintain perceptions of the long-term stability of our monetary and other economic policies. If foreign investors start to worry about major shifts in these policies, we will run out of cash.

This is not just a concern for business. Continued capital inflows are as vital for the left as for the right or the centre. Take a left-leaning programme of expanding government expenditure to assist the poor, invest in infrastructure, and increase economic activity through state spending. That strategy would only be affordable and effective if foreign inflows matched the expansion of debt. With no inflows, increased government spending neuters itself by creating inflation and inhibiting investment and consumption elsewhere in the economy.

Right now, we need steady leadership from the economic ministries and the Reserve Bank. Like Mexico, we should consider talking to the International Monetary Fund before it comes to talk to us. We may need to take out insurance in the form of a large and unconditional borrowing facility with the IMF.

The global economy will not be in brace position forever. At some point, trade and financial flows will normalise. When that happens, the world will not look as it did a year ago. It will be a world with less money for investment, higher interest rates, and more inflation – in other words, a less forgiving world.

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... and we weren't doing so well even in the good old days

The South African economy performed well by its own unexciting standards from 2001 to 2008, and particularly well from 2004–2008, when unemployment fell by nearly 5 percentage points. This was a significant improvement, but our unemployment rate was still very high at the start of 2009. More than a quarter of the labour force is unemployed. If discouraged work-seekers are included, the unemployment rate is 28,4 per cent.

The truth is that our economic performance during the boom was far from impressive by emerging market standards. In the decade after 1994, South Africa's GDP per capita grew by only 1,2 per cent a year, compared to 3,7 per cent in South Asia and 6,2 per cent in East Asia. Our non-mineral exports actually shrank.

Some of the reasons for this were beyond our immediate control – exchange rate instability; skilled labour shortages; and our highly specialised and rigid industrial capacities. But badly co-ordinated economic policies were also

an important part of the story. This lack of co-ordination was the result of a political compromise which saw organised labour's agenda implemented on labour market regulation, and business's agenda implemented on inflation and interest rates, while the government itself pursued a programme of trade liberalisation. Looked at in isolation, each of these policies has positive features. But implemented together, they meant that our industries kept on shedding unskilled labour while the economy grew.

So even if the positive trends of the past decade could continue – which is not possible because of the global economic crisis – by 2015 more than half of working age adults would still be out of work. In fact, as the downturn takes hold, unemployment was already starting to rise again from its 2008 lows.

The government's Expanded Public Works Programme has created a relatively small number of temporary jobs. A larger second phase has just begun. Although some criticisms of the first phase have now been addressed, the current programme is unlikely to make a sustained long term impact on the scale of unemployment.

The welfare system will not be able to address the needs of the unemployed. There are 5,4 million individual taxpayers, and 13,4 million people drawing social grants. The latter figure is expected to rise to 15 million by 2011-12. We already have the most generous redistributive welfare system in the global South. We cannot afford to expand it any further in the current economic climate, and in the absence of major growth in productive capacity. Even if we could grow the welfare net, we would, for every taxpayer, have three social grant beneficiaries and one able-bodied unemployed adult wanting to work. This is simply unsustainable.

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What to do: focus on young people and on creating real jobs in specific places

The situation is grim, and the challenges are daunting. There is a strong temptation to try to do everything at once. There is an equally strong temptation to keep talking instead of resolutely tackling our jobs crisis. We have tried to avoid these temptations.

Start with young people

Young people are – or are believed to be – less productive than more experienced workers. Employers are therefore less likely to take a chance on hiring them. As a result, unskilled and inexperienced young people face the greatest

difficulties in finding jobs. In 2007, 2,7 million people aged between 15 and 30 years old were unemployed. Seventy-two per cent of this group of young people had never worked before.

Unemployment at an early age often scars people for life. Young people who are forced to remain jobless for long periods are deprived of on-the-job learning, leaving them with a skills deficit which many will never be able to remedy. On the other hand, young people are the quickest learners. Skills acquired in youth are ingrained in ways that later training battles to replicate. If we can't find everyone a job – and the truth is that we can't – we should focus on the young.

The best way to tackle unemployment at scale would be to change the factors which are preventing labour markets from functioning efficiently. However, given the entrenched opposition to this approach, we have developed – as a second-best approach – some specific ideas for tackling the problem of youth unemployment. These ideas have been chosen for their potential to stimulate debate in a policy area that is sorely in need of new ideas and fresh approaches. It will become easier to make a case for broader changes once it becomes obvious that deregulation and business-friendly policies within the special zones and among exempted young people do lead to real improvements in the lives of young and poor South Africans.

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On the basis of a careful survey of domestic and international experience, we have developed the following four proposals:

1. Give a combination of tax breaks and year-long exemptions from laws on hiring and firing to employers hiring first-time employees between the ages of 18 and 24.

A wide range of international experience has shown that these policies can be successful in reducing youth unemployment, especially when vocational training is also available, and when both employer bodies and unions are involved in the design and implementation of the programmes. In South Africa, it has been shown that once a young person has found their first job, they are very likely to stay in employment. Therefore, policies like these stand a good chance of having permanently positive effects. They should be piloted in core business districts such as those in Gauteng.

2. Create Special Economic Zones (SEZs).

International experience shows that SEZs are particularly effective in creating employment for young people and young women in particular. Because unemployment is highest for young people – and highest of all for young women – SEZs are a very attractive option. Businesses that locate in these zones should be exempted from costs including company taxes, tariffs, and all but the most basic labour and health and safety laws. Government should undertake to provide these zones with effective services and infrastructure, and to monitor how many young people find jobs in each. Different patterns of incentives and exemptions should be tried in different SEZs – for instance, one zone could emphasise excellent infrastructure; another could provide subsidised housing and transport for workers; a third might offer a particularly generous tax holiday. We should experiment to see what works best.

3. Pilot a vocational education programme linked to apprenticeships in some of South Africa's rapidly growing medium-sized towns, such as Nelspruit and Witbank.

South Africa has the unusual double problem of mass unemployment and a shortage of skilled workers. One major reason for this is a mismatch between what the schools are producing and what employers require. Our education system provides much less vocational education than most other countries. South African student participation in technical and vocational education and training is half that attained by countries with a similar per capita income.

South Africa has the unusual double problem of mass unemployment and a shortage of skilled workers

We need to start creating a much larger and more effective vocational education stream in high schools. We should begin by piloting vocational education in the relatively manageable context of some of South Africa's fast growing medium-sized towns, where we can gain experience in linking local companies with the schools that should be providing their workforce.

Companies in those towns should become directly involved in deciding the curriculum within vocational education streams. They would therefore be able to link on-the-job training opportunities, after-school apprenticeships and ultimately, permanent jobs, to particular school programmes.

4. Create large and very simple employment schemes in the poorest provinces, such as Limpopo and the Eastern Cape.

These schemes should guarantee dignified and useful employment (building roads, providing basic social services) for every person who applies to them. Wages should be set at a level that would guarantee subsistence; ensure that only the poorest and most in need of a job would apply; and keep the fiscal demands of the scheme to acceptable levels. These schemes should be regarded as temporary initiatives while we remove the regulatory barriers and address the educational and infrastructural constraints that make it difficult for private companies to create jobs for everyone who wants to work.

The only way to discover exactly how the kinds of policies we have advocated here would work in specific South African situations is by trying them out. Given the current reality that we face both short and long-term employment crises, complacency and sticking with what hasn't worked in the past should no longer be an option for anyone concerned with South Africa's welfare. While sectional interests may oppose these proposals, it is clear that there is a far greater national interest in addressing youth unemployment. All interests can and should commit themselves at least to experimenting with the ideas suggested here.

Creating millions of new jobs while being battered by a global recession is not something that should be based on theories

Start specific provincial and local initiatives

Creating millions of new jobs while being battered by a deep global recession is not something that should be based on theories. The stakes are too high. We need to look for realistic opportunities to create jobs in specific places. We should be thinking town by town, city by city, and province by province.

To illustrate the power of this kind of approach, we asked an expert on KwaZulu-Natal to think about how to create a large number of new jobs in that province. KwaZulu-Natal contains about one fifth of South Africa's people, so the aim was to suggest initiatives that could create about one million jobs. The expert looked hard at the proven strengths and resources of his province, and came up with a menu of exciting ideas, each with an estimate of how many jobs it could create.

In the rural areas ...

- 1. Extend the already successful labour-intensive rural road construction and maintenance programmes in KwaZulu-Natal** (Zibambele and Vukuzakhe) to include similar programmes in selected smaller towns with good economic potential. These programmes would build new schools, clinics, dams, lower-cost housing, and enterprise zones, using labour-intensive techniques. This programme should be tried in at least ten major towns in the province (about 10 000 jobs in each)
- 2. Expand the South African Sugar Association's Inkezo Land Company model** for the incubation and support of successful black farmers into other agricultural sectors (around 10 000 jobs).
- 3. Re-energize established sugar and forestry businesses in the province by settling all remaining land claims within one year** (about 100 000 jobs).

In the cities ...

- 4. Use the Development Facilitation Act to establish new industrial development zones.** The zones should be export-oriented, and the locations chosen for economic reasons. They should be located along the N3 between Howick and Durban at Hilton, Pietermaritzburg/Msunduzi, Lynfield Park, Camperdown, Cato Ridge, Inchanga and Shongweni; between Empangeni and Richards Bay harbour; and around the new KwaZulu-Natal airport at La Mercy (about 250 000 jobs)
- 5. Establish three new world class 'must-see' tourist attractions.** These would be a game reserve and marine resort with hotels/resorts at the 'Bluff Headlands' in Durban; a major new beach resort within less than an hour of La Mercy airport; and a major resort in the southern Drakensberg (about 250 000 jobs).
- 6. Establish intensive skills training programmes similar to Richards Bay's Richtek initiative in Durban, Pietermaritzburg, and Newcastle.** Richtek is a very successful skills programme that obtains clear inputs from leading local firms about what skills they need, and contracts independent service providers (often highly experienced former employees of the same firms) to provide practical training (about 250 000 jobs).

It's time to have a much more practical conversation about how to address our greatest national challenge

All these ideas for the province could be implemented today by using existing resources, extending well-established partnerships between the private sector and government, and using the provincial government's existing powers.

South Africa's challenge

Every year, hundreds of thousands of young South Africans enter the labour market. If current trends continue, most of them will not find work.

We believe our proposals for addressing the national unemployment crisis are based on an accurate analysis of South Africa's economic challenges; are affordable and feasible; and could dramatically reduce unemployment.

If readers of this document are opposed to our practical suggestions, and have valid reasons for not even trying them out, the onus is on them to present alternative proposals that are affordable, realistic, have no unintended consequences, and have the potential to create real jobs for the millions of South Africans who need them.

It's time to have a much more practical conversation about how to address our greatest national challenge.

ABOUT THIS INITIATIVE

This overview of the five million jobs initiative was released to the media on 27 May 2009 by:

James Motlatsi, deputy chair of AngloGold Ashanti, and former president of the National Union of Mineworkers;

Jayendra Naidoo, director of the J&J Group, and former negotiations co-ordinator of the Congress of South African Trade Unions (COSATU);

Ann Bernstein, executive director, Centre for Development and Enterprise; and

Michael Spicer, chief executive officer, Business Leadership South Africa.

The overview is based on inputs by participants in the discussions. They were:

Ann Bernstein, John Copelyn, Simon Dagut, Laurie Dippenaar, Dennis Dykes, Enoch Godongwana, Bobby Godsell, Pravin Gordhan, Brian Kantor, Jack Koolen, Leslie Maasdorp, Neva Makgetla, Jeff McCarthy, Mandla Mchunu, Stephan Malherbe, James Motlatsi, Jayendra Naidoo, Nicoli Natrass, Kate Philip, Stefan Schirmer, Michael Spicer, Rodger Stewart, and Servaas van der Berg.

These participants do not necessarily endorse this document.

Four working papers were written to stimulate discussion and guide the initiative. They are:

- 1: Stefan Malherbe, *South Africa and the global economic crisis*.
- 2: Nicoli Natrass, *South Africa's employment crisis: prognosis and possibilities*.
- 3: CDE research team, *Opening the door; practical ways to reduce youth unemployment*.
- 4: Jeff McCarthy, *Realistic strategies for a million jobs: the case of KwaZulu-Natal*.

These reports are available at <http://www.cde.org.za>.

The views expressed in these working papers are not necessarily shared by any of the other participants.



CENTRE FOR DEVELOPMENT AND ENTERPRISE

Informing South African Policy

The Centre for Development and Enterprise
Transmedit Place, 5 Eton Road, Parktown
Johannesburg, South Africa
P O Box 1936, Johannesburg 2000
Tel 27 11 482 5140
Fax 27 11 482 5089
info@cde.org.za
www.cde.org.za



**BUSINESS
LEADERSHIP**
SOUTH AFRICA

Business Leadership South Africa
St Margaret's, 3 Rockridge Road, Parktown
Johannesburg, South Africa
P O Box 7006, Johannesburg 2000
Tel 27 11 356 4650
Fax 27 11 726 4705
info@businessleadership.org.za
www.businessleadership.org.za

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