

Industrial and economic development

Macro-economic policy is often seen as the main tool to address unemployment. While the right macro-economic policies can create the environment for job creation, they are not the only answer. They need to go hand-in-hand with the development of other core policy areas of job creation.

Macro-economic policies must be predictable, achievable, and generally acceptable to the public. Macro-economic credibility must extend beyond building investor confidence, and also have the support of labour.

Macro-economic policies must encourage employment growth. The objective must be a balanced set of policies which create a conducive environment for job creating strategies. Key areas of macro-economic policy which would encourage job creation include:

❑ ***Maintaining and expanding demand for locally produced goods and services***

Increased demand boosts production and generates new jobs. Demand can be stimulated by lowering interest rates, redistributive fiscal policies and developing effective export strategies.

❑ ***Boosting the productive capacity of the economy***

Higher levels of investment will help to ensure that any increase in demand can be met through domestic production and not greater levels of imported goods.

❑ ***A supportive fiscal policy***

While high levels of deficit spending may well prove to be unsustainable, rigid deficit targets could prevent the establishment of public works programmes, slow the creation of new infrastructure and lead to a reduction in public sector employment.

Conflict

A less conservative macro-economic policy could be met with substantial opposition from some parts of government and interests within the business community. Key areas of potential conflict are:

❑ ***Lower interest rates will increase consumer and investment spending, which is financed through borrowing. This is likely to lead to higher levels of inflation in the short-term.***

Inflation is not necessarily bad if it can be contained at a steady, predictable rate, so that appropriate responses to price increases can be developed. Nonetheless, lowering the inflation rate is the principle argument for keeping interest rates high.

❑ ***Apartheid debt has saddled South Africa with very high debt-servicing costs. Interest on the debt currently accounts for over 20% of all public spending. The need to reduce these costs has led to the development of policies which aim to reduce government deficits by***

cutting expenditure (this is known as 'fiscal discipline'). Such an approach fails, however, to consider proposals to lower interest rates, change tax policy and restructure the national debt and pension fund commitments to make the burden more sustainable.

- ❑ Lowering interest rates without attracting more investment from overseas can lead to a fall in the value of the rand and a reduction in the level of foreign reserves as investors withdraw short-term capital from South Africa in search of a higher return elsewhere. This could make it very expensive to import. While such concerns must be acknowledged, the value of the rand has stabilised and foreign reserves have increased substantially over the past year.
- ❑ Some policy analysts would argue that increasing government expenditure through borrowing will push up interest rates and therefore reduce private spending. Such an argument ignores, however, the positive impact public expenditure on infrastructure and education can have on the level of investment in the economy.

Credibility

One aspect of macro-economic policy which needs careful attention is the credibility of the policies adopted. If workers, business (public or private), government planners and investors do not believe that government will be able to deliver on its macro-economic policy goals, greater uncertainty is introduced into the economy. This could compromise economic performance and job creation.

Investment

Investment policy – both public and private – must play a pivotal role in any job creation strategy. Investment not only

expands economic activity, it also builds additional capacity. As capacity expands, so do job opportunities.

Investment does not, however, always create jobs. It can result in machines taking the place of workers. If additional productive capacity is not used due to lack of demand, jobs will not be forthcoming. Financial and speculative investment will also not create jobs. There is a clear role for an active state, which encourages and directs investment to ensure job creation. This is particularly important, given South Africa's recent investment history.

Since the early 1980s, there has been a dramatic drop in investment. Capital flight (where companies take the profits from their activities in this country and invest them in other countries) has been a critical problem. Policies should be put in place to limit this practice.

The following policies would boost productive investment:

- ❑ **Expand infrastructure and public investment**
Research in developing countries has shown that public investment in services like transport and communications leads to increases in private investment. Investment in people (education and training programmes) also leads to greater overall investment.
- ❑ **Lower interest rates**
Investors themselves borrow money to put into new enterprises. High interest rates therefore discourage investment. They also encourage investors to look to short-term financial returns instead of long-term productive investments.
- ❑ **Create a stable economic environment**
Political and economic instability raises the level of risk and uncertainty in an economy. Creating a stable economic and social environment does not, however, mean pursuing highly



Public investment in infrastructure leads to increases in private investment

restrictive macro-economic policies or a repressive labour regime. Such policies can actually fuel instability.

□ Supply-side incentives

Investment policy must be linked to a well-defined industrial policy (see p 27). Companies which invest in job-creating activities can be given incentives. Firms which destroy jobs could pay higher taxes. Different interest rates could be applied.

□ Give women access to financial resources

A large proportion of women work in the informal sector and are self-employed in micro-enterprises. They are often denied access to even small loans. Programmes should be developed to ensure that women have access to financial resources to improve their current situation.

□ Implement expansionary economic policies

Economic growth increases productive investment. Restrictive macro-economic policies choke off economic

activity and strangle investment.

□ Establish capital controls

Measures such as exchange controls, taxes on speculative investment and short-term capital gains taxes can be used to discourage unproductive, speculative investment and to limit damaging capital outflows. Currently, South Africa is using high interest rates to protect the value of the rand and to control capital flows. This will discourage investment.

□ Prescribed assets and control over pension and provident funds

Investment decisions in a capitalist economy are made by the owners of capital, who seek out the highest private rate of return. These investments do not always yield substantial social benefits. Prescribed assets can help channel investment funds into job-creating opportunities. Worker control over pension and provident fund investment could do the same thing.

□ Parastatals as key investors

Over the past year, South Africa has

achieved a reasonable increase in gross domestic investment. Much of this increase came not from private, but from the public corporations. Clearly, the parastatals can play an important role in building our economy.

Industrial policy

Industrial policy refers to any set of policies which directs, shapes or influences the type of productive economic development which takes place in an economy. Industrial policy is not limited to what types of industries and economic activities there should be, but also the links between these different areas, the level of competition or concentration, the types of technology and management needed and imports and exports. The structure of South African industry can have a dramatic effect on employment levels.

Under apartheid, there was a high level of capital intensive development. For every million rand of capital invested in the economy, fewer and fewer jobs were

created. This was the direct result of an industrial policy which favoured preferential subsidies and financing arrangements for capital. The emphasis on exporting raw materials instead of developing domestic manufacturing capacity meant that South Africa had to develop the domestic demand so crucial to an expanding economy.

It is not enough to remove these distortions and allow the market to take over. Market forces will replicate and entrench these patterns of development.

What South Africa needs is a well-defined set of industrial policies which will create jobs. These could include:

- ☐ **Maximising the impact of those sectors which are job creating**
This involves more than just identifying those sectors which create jobs. The down-and-up stream linkages (companies which supply components to the sector or distribute the product manufactured) must also be supported.
- ☐ **Developing the capacity to produce intermediate and capital goods**
When a country has to import goods and services, balance of payment problems occur. Financial resources drain out of the country. While South Africa has all but abandoned the policy of import substitution, it still has to import key inputs into production processes.
- ☐ **Government procurement**
Government can use employment creation and good labour standards as criteria when it awards public sector contracts.
- ☐ **Employment subsidies**
These can be used to lower the cost of hiring labour, while maintaining real wages and benefits. Care must be taken, however, not to provide windfall gains for business.
- ☐ **Reform development financial institutions**

SMMEs

SMMEs are often portrayed as the primary engine for employment creation in modern economies. Government and business maintain that policies such as downward variation of standards and wage moderation are necessary to develop this sector.

There are many problems with these arguments. While SMMEs can create jobs, these enterprises are more prone to failure, leading to a loss of jobs. While SMME development cannot be ignored as part of a job creation strategy, it should be approached realistically, not as a miracle solution to unemployment. If the emphasis is on more and better jobs, then downward variation in standards, benefits and wages cannot be accepted as a condition for SMME development.



Under apartheid the emphasis was on exporting raw materials.

Institutions such as the Industrial Development Corporation (IDC) and the Development Bank of South Africa (DBSA) could play a more significant role in job creation. Instead of funding 'mega-projects', which could have a limited impact on employment, they should aim to maximise the creation of reasonably well-paying jobs.

- **Develop credit and finance reform**
Under apartheid, there was a very skewed access to financing. Some industries have developed a close relationship with financial institutions and had preferential access to credit. Others faced more expensive financing, and had limited relationships with financial institutions. Reform of the system must take place, with a view to building relationships which promote job creation.

"Labour productivity

Economists define labour productivity as the amount of output produced per

worker or per hour worked.

Labour productivity occupies a central position in many current debates in South Africa. Many argue that South African labour productivity is low by international standards, and that we will never become internationally competitive unless productivity increases.

The fact is that increased productivity can lead to fewer jobs. If labour productivity increases at a faster rate than economic production, there will be less employment.

Some economists argue that productivity increases will lead to increases in demand. Exports will grow if the country's competitive position improves. While this could happen under certain circumstances, there is no guarantee.

Wages

If real wages increase at a rate below the increase in productivity, there will be a redistribution of the share of the total national income away from wages towards

profits. Jobs will be created only if the increased profits are put into investment.

Hours of work

Labour is currently demanding a reduction in hours of work. If productivity is to rise, a decrease in hours of work will have to be offset by an increase in labour intensity.

If our goal is job creation, we need to rethink the way we approach productivity.

This is not to argue that productivity gains are not a worthwhile objective. Such gains are necessary to improve a country's standard of living. But a productivity policy must be part of an economic strategy which ensures that gains from productivity are distributed in a way as to reduce poverty and increase employment.

Too often, labour productivity focuses only on cost reduction and the labour of production workers. Other issues, including capital productivity, the productivity of management, worker control, workplace restructuring, the macro-economic environment and quality improvements, must form an integral part of South Africa's approach to productivity improvement.

Trade

International trade patterns and trade policies have a direct effect on jobs in export industries and in sectors which face strong foreign competition.

South Africa needs to earn sufficient foreign exchange to finance critical imports. Our foreign reserves have always been extremely low. While the situation has improved recently, balance of payments problems continue to place constraints on the development of macro-economic policies which will promote job creation.

Reforms in trade policy can have a

negative impact on employment, particularly women's employment. The rapid pace of trade liberalism (reducing tariffs) has devastated the clothing and textile sectors, which employ large numbers of women. In many countries, export-oriented growth strategies have meant job creation for women, but these jobs are often lower-paid, less secure and provide minimal training opportunities.

To form part of a job creation strategy, trade policy should:

☐ ***Be linked to employment creating developments***

An active trade policy can influence where resources are put in the economy. Measures such as subsidies, marketing assistance, credit preference and differential taxation can determine what is produced for export and what needs to be imported.

☐ ***Pursue both import substitution and export promotion***

Import substitution involves building the capacity to produce goods which used to be imported inside South Africa. This will obviously boost employment creation. Promoting the export of goods and services whose production is labour intensive will further boost job creation. Balance of payments problems and foreign exchange pressures will be eased. A word of caution: a narrow focus on exports reduces the pressure to build up domestic demand, to establish a more equal income distribution and to increase real wages to improve purchasing power. In South Africa, export-oriented sectors tend to be more capital intensive, limiting their ability to create jobs. Export promotion does not have to mean excessive trade liberalisation. Many countries have adopted successful

export expansion policies, but kept in place significant levels of domestic protection.

☐ ***Address the problem of illegal imports***

Government should increase the resources allocated to regulating the flow of goods into South Africa.

☐ ***Stop unfairly subsidised exports to South Africa***

South Africa has been very slow in implementing anti-dumping policies. Rules of origin for SADC countries (which involve those countries proving that the goods they are importing to South Africa were manufactured in their country, and not elsewhere) is an important part of this strategy.

☐ ***Implement a social clause***

This would discourage countries from competing on the basis of labour repression, exploitation and dangerous working conditions.

Technology

The development of technology has not been socially and politically neutral. Historically, it has been associated with profit maximisation. In the context of globalisation, technology is presented as the answer to modernisation.

In apartheid South Africa, the development of science and technology happened in a very incoherent way. State intervention was limited to strategic projects – armaments, nuclear capability and energy.

In terms of industry development, it was only in 1993 that the government extended the Support Programme for Industrial Innovation to all branches of industry. At the same time, South Africa has a limited pool of scientists and engineers and a non-integrated science and technology system. At the micro-level, South Africa depended on imported

technology, suffered from very low levels of expenditure on research and development (R&D) and a lack of proper regulations.

Technology and technological innovation do not have to displace labour or inhibit job creation. Technology policy must, however, be directed away from dependence on first world technology. It should aim to:

- ☐ build self-reliance and complimentary links with southern Africa and other developing countries;
- ☐ develop technology infrastructure and institutional capacity to ensure optimal utilisation;
- ☐ develop participatory policy formation and innovation driven by social forces rather than the market.

To ensure job creation and maintenance, unions have to engage with technology at the level of policy development. This includes:

- ☐ Asserting worker and community control over the National System of Innovation envisaged in the White Paper on Science and Technology, through participation and links with universities, local R&D centres, NGOs and the shopfloor.
- ☐ The role of the state has to include facilitation of worker and popular control over science and technology development, and also direct intervention to develop sectors like micro-electronics and increased finance for R&D. Procurement policy should be used to influence innovation in labour intensive technology.
- ☐ Optimal utilisation and development of technology has to happen through increased numeracy and literacy skills, as part of an integrated education and training policy thrust that links scientific, mathematical and computer skills education. ★