

Jobs, redistribution, and public responsibility

Efforts to create new jobs and to protect existing ones in South Africa have failed to produce results. This lack of success has prompted a new round of questions. What alternative policies, if any, are possible? Should government be in the business of trying to create jobs at all? This article takes a look at these issues.

Public responsibility

In a time when the rate of new job creation lags far behind economic growth in South Africa, it is important to stress that generating employment opportunities remains a public responsibility. Some have argued that government should not be responsible for creating jobs - that the task must be left to the private sector and co-ordinated by the market. However, there are serious problems with assuming that unemployment can be addressed simply by creating a favorable climate - or an 'enabling environment' - for private, market-directed activities. If there is one lesson to be learned from modern economics, it is that markets do not always adjust and that involuntary unemployment can exist in the midst of economic growth. The private sector alone cannot be relied upon to solve the problem of unemployment.

There is another reason why employment should be a target of government's economic policies. Higher levels of employment have social benefits

James Heintz gives a clear economic argument why the South African government should actively participate in efforts to bring down unemployment.

that are not totally captured by the private benefits that a new job offers to the employer and employee. The private benefits of a job are clear: employers receive labour services and employees earn a wage. However, people outside a particular employment arrangement also benefit from lower unemployment. These social benefits include:

- more stable social relations;
- stronger families and communities;
- less crime;
- a broadening of the tax base to fund programmes to meet basic needs.

Increasing the number of people who are engaged in the productive work of a society often means the social benefits of lower unemployment exceed the private rewards.

If the social return to job creation is greater than the private return, then the number of jobs provided by the South African economy will fall below what is best for the country. Why would this be

the case? When left to the private sector alone, the number of jobs that private businesses are willing to supply will set the limit on the level of employment in the economy. Businesses, however, only focus on the private return of hiring more workers, even if the social return is much higher. They will be reluctant to pay the costs of creating additional jobs beyond the level that is most profitable for them, since the benefits of this added employment are primarily public. The conclusion: private business will underinvest in job creating activities. In such a case, the government has a clear role in increasing the level of employment up to the point where society gets the maximum possible benefits.

While government has a role to play in job creation, this does not necessarily mean that the public service should be expanded to the point of full-employment. There are other approaches that might make better use of South Africa's scarce resources, including job-creating macro-economic policies and targeted industrial strategies. The main point is that the South African government should actively participate in efforts to bring down unemployment. The private sector alone simply will not meet the challenge.

The best strategy

What is the best strategy for South Africa to address the serious problem of unemployment? The trick is to expand the productive potential of the South African economy to provide unemployed people with new economic opportunities.

High unemployment is a waste of a country's most valuable economic asset – its human resources. Expanding the productive capacity of the economy can put an end to this waste while improving standards of living. Therefore, increasing investment is a crucial step in solving the

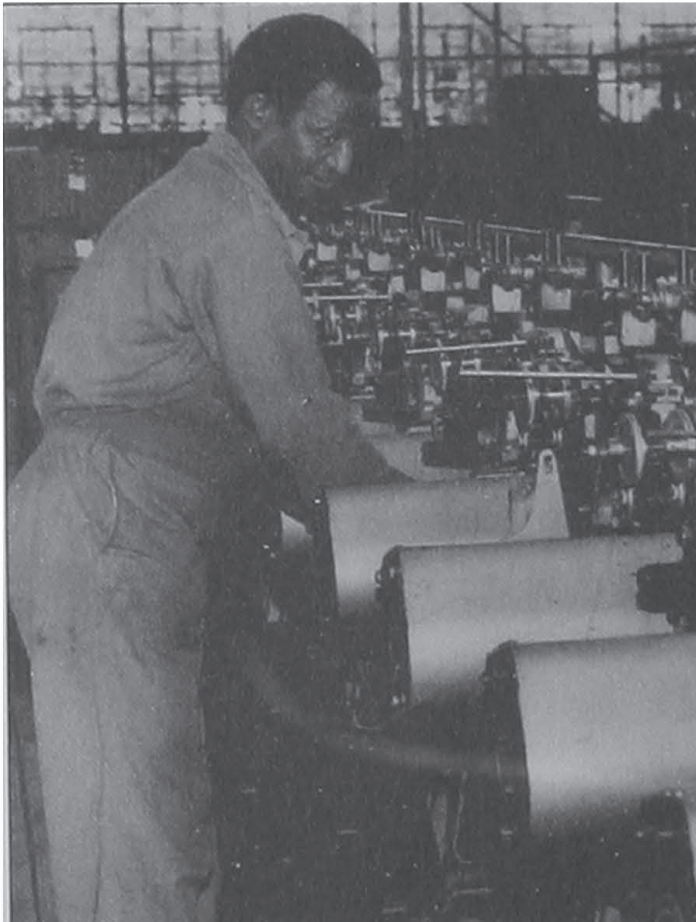
current crisis of joblessness.

Increasing investment in a country with such profound inequalities as South Africa is no easy task. Unmet basic needs remain a central legacy of apartheid. At the same time, investment decisions are concentrated in the hands of those who own the productive capital of the country. Since both income and productive wealth are unequally distributed, efforts to meet basic needs through high taxation, for example, could prompt firms to invest less. Or increases in wages to improve standards of living might lower profitability and, as a result, businesses would choose less investment. Increasingly, strategies of redistribution are seen to be at odds with job creation.

'Labour market flexibility' is one example of the conflict between redistribution and job creation. Labour market flexibility refers to the relaxation of regulations and controls over core working conditions, including rules governing hiring and retrenching workers. Countries with less regulated labour markets, such as the United States or Britain, have in recent years achieved lower levels of unemployment than countries with more regulation of jobs and working conditions. However, countries with flexible labour markets also demonstrate higher levels of inequality. Greater equality comes at the expense of fewer jobs. In other words, high levels of employment alone are not always enough to address problems of dramatic inequalities.

Employment and inequality

Are there ways of increasing employment without increasing inequalities? This is an important question for South Africa, with one of the most unequal distributions of income in the world. Another way of thinking about the issue is: are there ways



High employment has social benefits.

of boosting investment without abandoning redistribution as a policy priority?

It is necessary to understand the factors that influence investment in order to find effective alternatives. One factor has already been mentioned - profitability. But there are other factors that can contribute to more investment. For example, almost all studies of investment behaviour show that investment responds to more rapid economic growth. Pursuing macro-economic policies that expand economic activity, through lower interest rates and directed government spending, will therefore encourage investment. In particular, public expenditures on infrastructure and education can stimulate investment without having a negative impact on the extent of inequality in South Africa.

Focusing on asset-based redistributions can also relieve the tension between the

need for higher investment and the priority of achieving greater equality. If investors react to income-based redistribution programmes by withholding investment, redistribution of assets is a potential solution. A combination of worker ownership, co-operative business enterprises, employee share-ownership programmes, and the redistribution of natural assets (such as land) could comprise an alternative strategy. Collective bargaining or other negotiating processes, supported by government incentives, could provide the means through which asset redistribution could be made a reality.

New approach needed

The current macro-economic policies adopted by government have not succeeded in creating jobs and lowering unemployment. Rates of investment have not improved enough with the adoption of the GEAR strategy to address these serious social problems

While interest rates have been falling recently and economic growth is picking up, the social returns of higher employment are not materialising. A different approach to the question of job creation should be on the table.

In summary, this brief article has made two arguments. First, job creation clearly is a public responsibility. Government should be proactive in ensuring high levels of employment in order to fully capture the social benefits of reducing unemployment. Second, pursuing both higher levels of employment and effective redistribution is possible in South Africa.

The challenge is to come up with creative strategies for improving the economy's productive capacity through more investment without falling into the trap of perpetuating the existing inequalities. ★