A pro-employment macroeconomic policy framework in Africa

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Introduction

This input argues that in order to achieve decent and inclusive employment growth a pro-employment macroeconomic framework is needed. It explores what this looks like in the African, and South African context, drawing on work undertaken for the International Labour Organization (ILO) and African Union (AU) by the Institute for Economic Justice (IEJ).

Context

Creating decent and inclusive employment opportunities in developing economies is commonly (mis)conceived as only being a challenge of increasing economic growth and fixed capital investment. However, despite African countries seeing relatively strong economic growth after 2002, the improvement in employment dynamics was less robust, and has worsened over the last decade. This has meant growth was unable to keep up with the expansion of the labour force, and high levels of informality and poor working conditions persisted. The type of work most prevalent involves low levels of labour productivity and a lack of structural transformation – that is, low levels of diversification and high levels of commodity dependence. This means that domestic manufacturing is weak and the trade balance precariously dependent on commodity exports.

The policy context is one in which macroeconomic policy has focused, almost exclusively, on achieving “macroeconomic stability,” generally understood as low inflation, low debt, moderate tax levels, liberalised markets, and stable spending. This has resulted in pro-cyclical fiscal policy and restrained monetary policy; the latter due to either fixed exchange rates in much of Africa or nominal variable targeting, in particular inflation targeting. The heavy lifting of employment creation, and ensuring decent employment, has therefore been left to sectoral and labour policies, where those exist. This has resulted in not only an undervaluing of the potential role of macroeconomic policies, but a potential disconnect between macroeconomic and sectoral and labour policies.

Employment objectives

We argue that macroeconomic, sectoral and labour policies should work together to achieve four employment objectives:

- **‘balanced’ employment growth** occurs through resolving macroeconomic imbalances, such as excessive imports or inflation.
- **‘sustainable’ employment growth** occurs through targeting sectors that are able to sustain employment in the long-run (structural transformation).
- **‘inclusive’ employment growth** occurs through targeting sectors that benefit marginalised groups.

- **'decent' employment growth** occurs through labour market regulations that simultaneously ensure human capital development and labour conditions that meet the ILO's Decent Work Agenda (ILO 2015).

Our argument

Our argument is that achieving these employment growth objectives requires us to reassess our macroeconomic policy framework, to rethink both macroeconomic policies themselves, and the combination of macroeconomic, labour, and sectoral policies. In this context, a pro-employment macroeconomic policy framework requires a three-pronged, and interrelated, approach:

1. directly spur employment where possible;
2. resolve macroeconomic imbalances that retard employment; and
3. advance employment-rich structural transformation

These should be undertaken while supporting complimentary sectoral and labour market policies. A pro-employment macroeconomic policy framework must aim to achieve both 'internal balance' – 'full employment' – and 'external balance' – a sustainable balance of payments. The latter is important in the African context – policies to raise employment through increasing demand should avoid making the balance of payments chronically worse. Therefore, increasing demand in the economy should go hand in hand with attempts to stimulate more domestic production – that is, increasingly supply capacity – rather than sucking in more imports.

Put simply, we should use macroeconomic policy to 1) increase demand in the economy, 2) without unduly increasing imports, and 3) expand domestic supply in the economy. These measures should be mutually reinforcing and maximise the positive relationship between economic growth and employment (so called 'Okun's Law').

Policies to raise aggregate demand and aggregate supply

Aggregate demand increases the level of employment through changing the *level* and *composition* of expenditures. Supporting aggregate demand to increase employment sustains the expansion of markets for consumption and investment goods, thereby allowing firms to grow through achieving (static and dynamic) economies of scale. This leads to sustained productivity growth within firms and the economy (the most proximate determinant of long-term economic growth).

There is a larger policy toolkit for increasing aggregate demand that commonly portrayed. This includes expenditure-raising policies, which increase or change the composition of government spending, and expenditure-switching policies, which shift demand from imported products to domestically produced ones. Expenditure-raising policies include: levels of government spending; revenue mobilisation; composition of government spending (consumption vs. investment); spending which impacts the distribution of income; and income policies, such as tax breaks or government transfers. Expenditure-switching policies include: exchange rate management; multiple and dual exchange rates; import and export taxes and quotas to discourage imports and encourage exports, either targeted (focusing on particular products or sectors) or general; and capital controls and interest rate mechanisms to attract or repel capital flows (thereby impacting pressures on the exchange rate).

Aggregate supply measures target employment growth through increasing the availability and quality of production and the factors used to engage in production. For example, by spending on health or education human capabilities can be raised, similarly, spending on physical infrastructure can increase productivity. This increases employment through economic expansion.

If done correctly, these demand and supply side policies positively reinforce each other. Complimentary sectoral and labour policies can also increase aggregate demand and aggregate supply in the economy.

An illustration – government expenditure

Government expenditure is one of a number of macroeconomic policy tools that we explore through this framework, illustrating how it can be leveraged to achieve balanced, sustainable, inclusive, and decent employment growth. Investment expenditure is unique in that it is able to raise demand for domestic inputs, absorb and enhance labour's productive capabilities, target expansion of supply capacity, and lay the basis for sectoral diversification. At the same time other forms of expenditure are also important. Targeting inclusive social sectors is essential. Investment in health-care sectors has been shown to have as good, if not better, employment multipliers then investing in construction plus is more inclusive. In the long-run social sectors build human capabilities and will ensure the expansion of supply capacity. Consumption expenditure, through public sector employment also stimulates aggregate demand, is more secure employment, and often includes a high number of women workers, and through social security transfers has the potential to stimulate aggregate demand and support human capital development. Expenditure choices should also consider their distributional impact, with it now widely accepted that inequality is bad for growth and human capital development.

It is critical that such policy measures advance, not undermine, sectoral and labour policies. For example, infrastructural investment should not reinforce existing imbalances and a lack of diversification, such as investing in rail that only serves coal mining. Similarly, pay levels in the public sector should not be below national minimum wages and public sector employment should be tilted towards including more vulnerable groups. Austerity cuts to health and education will similarly retard human capital development.

Conclusion

It is counterproductive and illogical to silo to macroeconomic policy as targeting "macroeconomic stability" alone. We must view macroeconomic policy in terms of its *transformative* potential. A pro-employment macroeconomic policy framework can therefore spur balanced employment growth; sustainable employment growth; and inclusive employment growth. Macroeconomic policies should support sectoral and labour-market policy objectives and the tools deployed. A pro-employment macroeconomic policy framework provides a coherent lens across policy dimensions and decisions.