

**Public finance and unemployment: towards an  
integrated framework...**

OR

**The unemployment debate in South Africa: three  
worlds, three discourses?**

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# What is this paper about?

*This paper presents a provisional **meta-analysis** based on a critical survey of the South African academic literature and ‘debate(s)’ on unemployment.*

## Context and objective

- The design and implementation of appropriate and effective public policies (fiscal, public financial and otherwise) to address severe unemployment (and poverty) in South Africa require an integrated understanding of the nature of the problem.
- The paper explores the **outlines** of a conversation towards an ***integrated understanding*** of the macroeconomic, labour market and developmental dimensions of unemployment.

## Why an integrated understanding?

- Academic freedom fine and necessary for individual **academics/researchers** or research institutes (depending on their funding source...)
- Research and analytical specialisation is necessary – efficient division of research effort and capacity
- We also need a diversity of approaches at different institutions and geographical locations – it promotes critical inquiry
- **But policy makers?** Must evaluate, design and implement policy in a real world full of non-abstracted richness, complexity ... and messiness.
- Cannot build policy on only one aspect, approach or research group
- **Particularly true for the Executive (Cabinet) and a departement such as Treasury, where all government programmes come together in one central budget.**

## Key questions:

- While macroeconomists, labour economists and development economists all engage with the same problem, *to what extent is there common ground and consistent findings?* Is there communication and cross pollination?
- Is the analysis of the unemployment problem **constrained (or divided?)** by theoretical, paradigmatic, ideological or institutional factors?
- To what extent **are the different paradigms reconcilable?**
- Should/can 'fiscal' and 'public financial' policy analyses adopt different paradigms – or avoid doing that?
- Or can an integrated approach be developed?

**SO: What is there to understand and integrate?**

## Critical survey of the main SA contributions and approaches in the last 20 years, highlighting representative and seminal papers.

Based on a scan of **main academic journals** (and a few initially unknown to me...):

- *SAJE, SEE, SAJEM, DSA, Social Dynamics, Agenda, Africanus, ...*
- *Industrial and Labor Relations Review, Labour Economics*
- *J of African Economies, J of Contemporary African Studies, J of Modern African Studies, J of Southern African Studies, etc.*
- *World Development, Review of Development Economics, Economics of Transition, Third World Quarterly, etc.*

Plus scan of **working papers** of:

- SA research units and institutes: SALDRU, DPRU, CSSR, SDS, PLAAS, HSRC, TIPS, ERSA, etc.
- Research institutes abroad: CSAE, CID
- IMF, OECD, World Bank, ILO
- Economics departments of SA universities, etc.

Scan of **CVs** of leading academic economists/researchers in the field.  
More than 240 PDF files downloaded, plus paper copies and books.

**Thus: much to understand...**

## Main impressions of the survey and meta-analysis

- Overwhelming mountain of research, especially since better data have become available in the 1990s (and after political transition of 1994).
- Overwhelming (dis)array of data surveys, sources, issues, results and interpretations.
- Great diversity of approaches, models, findings and policy recommendations – often conflicting.
- Many factors that obscure and possibly fragment the discourse
- In some cases: severe intellectual divides between approaches

## Factors that obscure and fragment the discourse

- **Complex relationship between terms** and overlapping phenomena/problems: unemployment, poverty, inequality, (under)development, etc.
- Unemployment at the heart of the deepest and most emotive **ideological divisions** of 21<sup>st</sup> century society
- Danger of **prevention of thought** by labelling and pigeon-holing (facilitated by 'code word' signals used in the discourses)
- Different **subdisciplines** engage with unemployment and poverty in different ways
- Different **epistemological**, methodological, theoretical and technical traditions between (and within) subdisciplines
- **Institutional** location of research at various units & centres
- Location of published research: clear pattern regarding 'acceptable' **journals**
- Different **government departments** have own approaches (and own favourite research units)

## The Big Challenge:

- To sort out how the contributions relate to each other
- Whether they can be grouped in a revealing way, perhaps by extracting related/common points.
- Whether they constitute a coherent picture of where the debate occurs ... and where it stands, what we really know?
- And how policy-makers should deal with the many issues?

**Approach:** To develop a "google-earth" view of the unemployment discourse landscape – and identify mountain ranges, valleys, rifts and faults, rivers and swamps/quagmires, volcanoes, hills ... and molehills.

- A real jig-saw puzzle... fitting together 40-50 research topics and areas
- Proposition: that three core clusters (or perhaps four?) can be distinguished in the unemployment debate.

# Figure 1

## Three clusters ... three discourses?

Poverty,  
inequality and  
development

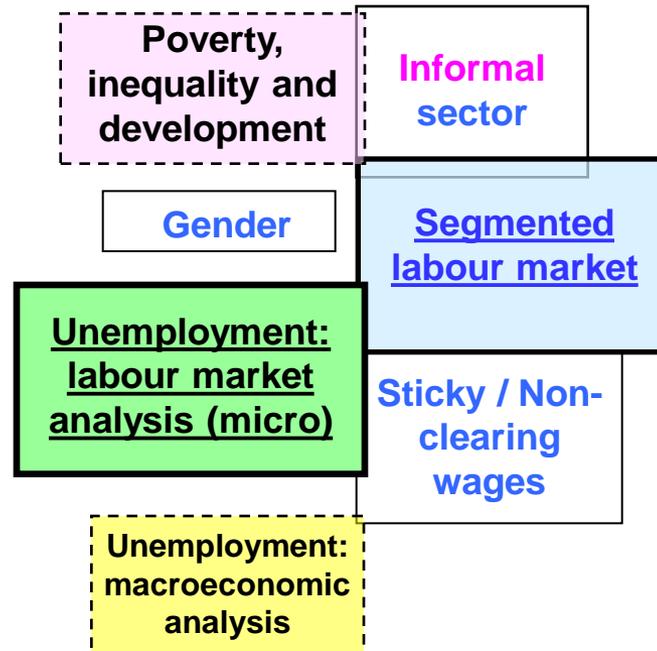
Unemployment:  
labour market  
analysis (micro)

Unemployment:  
macro  
analysis

- First we consider a **labour market discourse** on unemployment in South Africa
- Identify key contributions and aspects of this discourse
- Characterise the discourse
- Determine its relation to adjacent or related areas of analysis

# Figure 2

## The labour market discourse cluster: from the labour market to the informal sector



# The labour market discourse cluster: from the labour market to the informal sector

## Following the debate:

1. **Standing et al** (ILO) – 1996: Caution about definitions and data
2. **Kingdon & Knight** (CSAE, Oxford) –1999 to 2008
3. **Hofmeyr** (SDS, UKZN) – 2000: Changing segmentation patterns
4. **Heintz and Posel** (SDS, UKZN) – 2008: Informal sector segmentation  
Also see **Casale and Posel** on **position of women** in labour markets and unemployment; also migration, household dynamics, earnings, data and measurement issues, etc.
5. **Bhorat & Leibbrandt** (DPRU/SALDRU, UCT) 2001: Vulnerability
6. **Leibbrandt, Bhorat and Woolard** (DPRU/SALDRU, UCT) – 2001

## Kingdon & Knight (CSAE)

- Several seminal papers since 1999 – dominant presence, tackling various controversies, producing key findings.
- Example: *The nature of the beast* (2000, published 2004)
- PSLSD data ushered in a new era of reliable and comprehensive household-level data (in a line of research pioneered by SALDRU since the 1970s) – alongside various OHS and LFS surveys, with varying methodologies and credibilities.
- Their **econometrics** set a new technical standard (although not the first...)
- Earnings functions; logit and probit models across characteristics of the unemployed.

- Context: **Segmented labour markets**
- Comes from a longer tradition of dual markets or insider-outsider models (dating back to Piore 1973)
- Layard et al model (1991)
- Primary sector and secondary sector
- Primary sector: Labour market not clearing, i.e. there is **rationing** due to a too high wage being set by actors with discretionary power.
- Causes, e.g.
  - Efficiency wages
  - Wage setting by unions
- Thus also a context of **sticky, non-clearing wages**

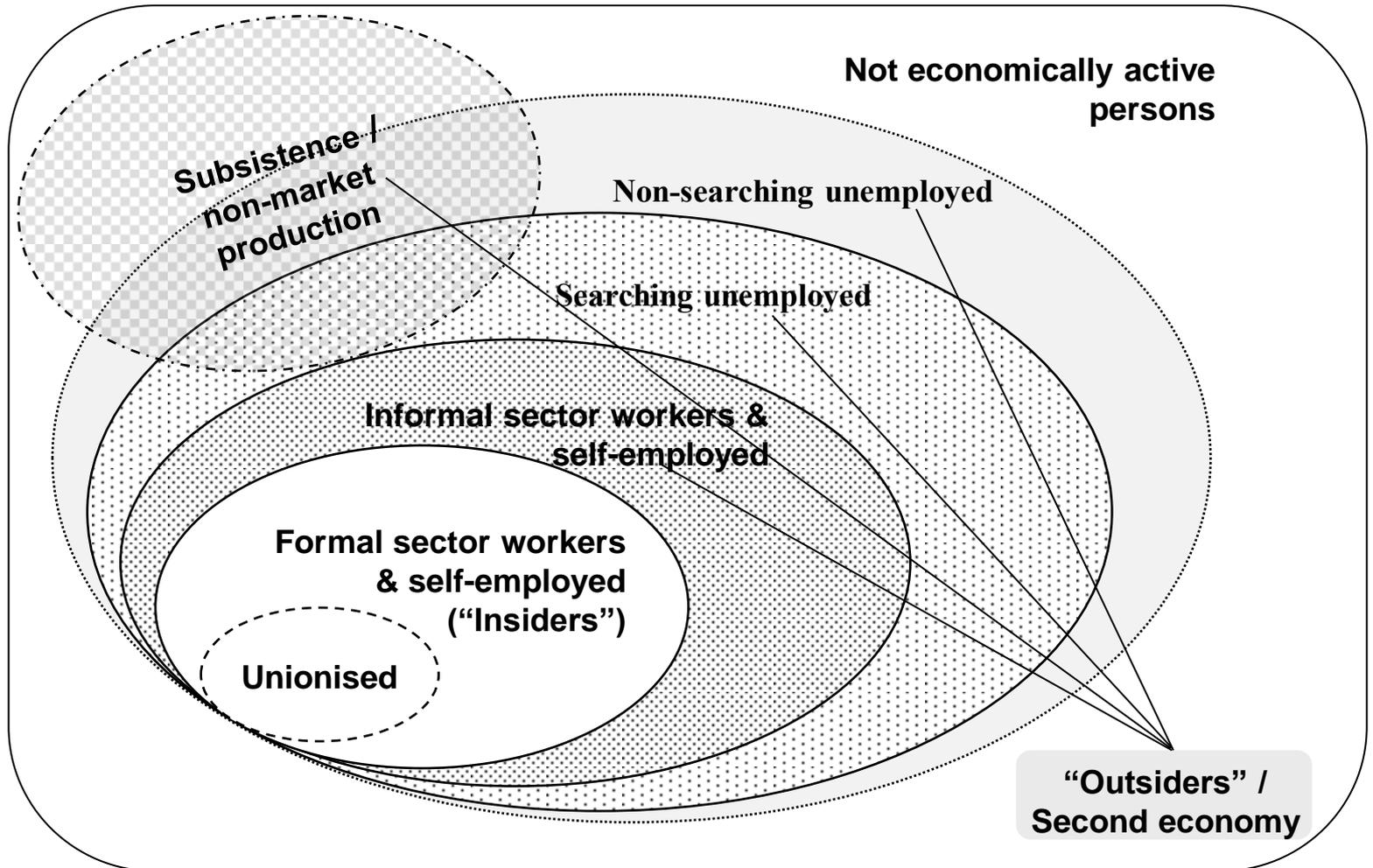
- **Secondary sector taken as competitive and market-clearing.**
- **Can thus be both involuntarily and voluntarily unemployed**
  - Willing to work in the rationed primary sector at going wage there
  - Not willing to work in the secondary sector at its going wage.
  - Such willingness only nominally voluntary, since barriers to entry can severely limited the set of options available.
- **In the SA context the primary and secondary sector are interpreted as the **formal** and **informal** sectors.**

# Main conclusions

## 1. On the definition of unemployment [See figure 3]

- Category of discouraged worker – the non-searching unemployed – can and must be explicitly identified and recognised in data and analysis.
- Non-searching unemployed are
  - more deprived than searching unemployed, greater incentive to work
  - not happier than the searching unemployed, and
  - face greater discouragement about the prospects to find jobs and higher costs of job search than the searching unemployed.
- For these persons the lack of job-search is not a preference or 'taste'

**Figure 3: Labour market distinctions**



- **Main discouragement factors:**
  - Low likelihood of finding a job – high local unemployment & long duration of unemployment
  - Poverty – access to water, food, shelter, transport
  - Limited access to transport facilities
  - High cost of searching
- **Non-searchers effectively an integral part of labour markets** – employers must and do take them into account in wage setting: their presence depresses wages
- Therefore **broad definition of unemployment appropriate.**
  - **ILO country review (Standing et al 1996) opposed the inclusion of discouraged workers in the definition of unemployment due to measurement and conceptual difficulties**

## 2. On voluntary vs involuntary unemployment

### Most unemployment is involuntary, not voluntary

Unemployed are:

- Substantially poorer, living in worse conditions
- Can gain substantially from informal (self- or wage employment), given predicted earnings functions
- Are less happy than the informally employed or self-employed.

Long periods of unemployment in conditions of poverty suggest

- it is not a voluntarily chosen job search strategy,
  - that job search is inhibited by the condition of poverty, and
  - that they face substantial barriers to enter informal sector labour markets, whether as a worker or in self-employment.
- 
- Survey results: only 25% of the unemployed have quit voluntarily

### 3. On segmentation

- The formal-informal earnings ratio is approx 3.5 to 1.
- After controlling for different personal characteristics, it is 1.75 to 1.
- Indicates substantive segmentation.

### 4. Other notable evidence:

- 62% of the broadly unemployed have never held a job before.
- For two-thirds of these, the duration of unemployment has been more than 12 months
  - **Such numbers (or their meaning) have been questioned by ILO country review (Standing et al 1996)**
- Rural unemployment rates are higher than urban rates

**Note:** *The Kingdon & Knight interpretation of segmentation in formal-informal sector terms indicates the closeness of this discourse to the study of the informal sector.*

## Hofmeyr (UKZN)

- Context: **Segmented labour markets**
- Highlights (growing) role of unions in wage setting
- After decades of legislated segmentation (job reservation, racial job markets, labour preference areas, restrictions on rural-urban movement and between urban areas ...)
- *De facto* liberalisation and union power have resulted in a new form of segmentation (in addition to formal-informal division)
- Econometric estimation of sectoral earningsfunctions
- Finding: **Substantive segmentation** between unionised and non-unionised workers
- This means workers in these different segments cannot compete with each other (irrespective of skills).

## Heintz & Posel (SDS, UKZN)

- **Issue: Segmentation WITHIN the informal sector**
- Explicit focus on the informal sector from a labour market viewpoint
- Informal sector not conceptualized as homogeneous category. Informal markets are themselves segmented.
- Earnings functions for 6 sub-sectors (e.g. agr wage & self; non-agr wage & self; public wage employment ... not very interesting...)
- Find persistent earnings differentials after controlling for worker characteristics.

- **Supports hypothesis of entry and mobility barriers and existence of subsectors within the informal sector**
- Also confirms K&K segmentation between formal and informal sectors (earnings differential).
- Also argues for broader definition of informal, i.e. to include 'employment in unprotected jobs' in formal sector enterprises. Thus not a purely enterprise-based definition.
- This is more or less pure labour market analysis, although enriched by the explicit informal sector focus.
  - **Other informal sector studies:** Muller & Posel (2004); Devey, Skinner & Valodia (various); Devey & Valodia (2009); Essop & Yu (2008), Von Broembsen (2008).

## **Bhorat & Leibbrandt (2001) (DPRU / SALDRU)**

### **Issue: Vulnerability, participation and low earnings**

- Focus on the most vulnerable and marginalised (black males and females)
- Shift of emphasis towards a poverty and development oriented analysis
- “Probability of participation” & “probability of employment” equations.
- This defines unemployment as a state that occurs despite a decision to participate in the labour market, there clearly is involuntary.

- **Specific factors hinder participation:** it is lower in more **rural** areas, for **females** (esp with more children and fewer adult women around), if without secondary **education**, and if more male adults in the household.
- Discouraged workers are those that are statistically closer (in their characteristics) to non-participants than to the searching unemployed.
- Thus the searchers are those that have (in their characteristics) a higher probability of getting a job than the non-searchers.
- **Hints at the importance of structural unemployment in understanding the (non-)participation decision of the discouraged worker (i.e. a mismatch of skills / characteristics).**

## Rural versus urban areas: earnings functions

- Find significant differences, indicating segmentation
- **Asymmetry on finding jobs:** urban work-seekers could take rural jobs, but most rural work-seekers do not have the characteristics to compete in the urban job market (even if migration is possible and good labour market information is available)
- **Such spatial rigidities and segmentation imply barriers for rural persons to enter urban labour markets.**

## **Leibbrandt, Bhorat & Woolard (2001) (DPRU / SALDRU)**

### **Issue: No level playing field for rural employed with regard to efficient search strategies**

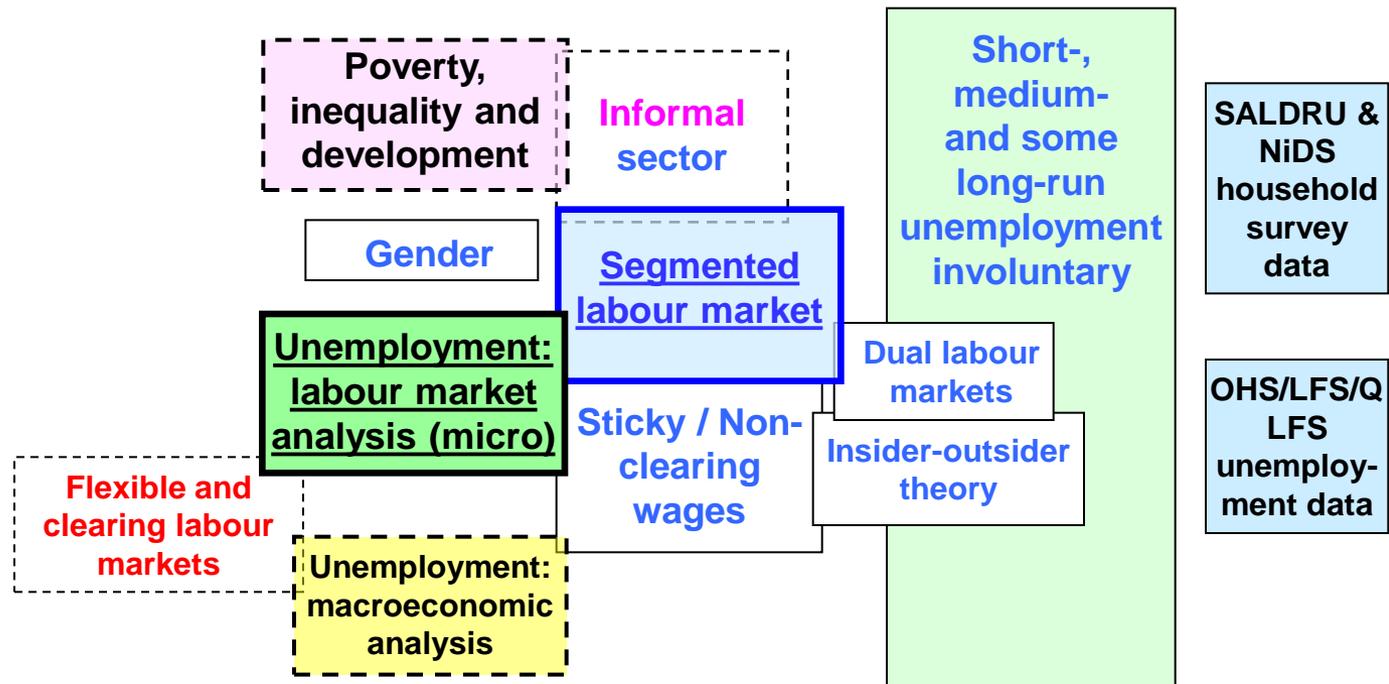
- They have no contact with labour market or employed persons networks – key transmitters of employment information (Wittenberg 1999).
- Often join households with welfare income, often old-age pensioners in very remote areas. Increases cost of search significantly (cf Klasen & Woolard 2008 below).
- **SO: Very hard for the most needy rural unemployed to compete in the labour market.**

**END**

- The next slide shows a more comprehensive diagram of this first discourse, including a range of adjacent research areas, policy areas and theoretical viewpoints.
- Note the rough indication of a 'generic discourse view' on whether unemployment is voluntary or involuntary.
- And some indications of the key data sources.

# Fig 4

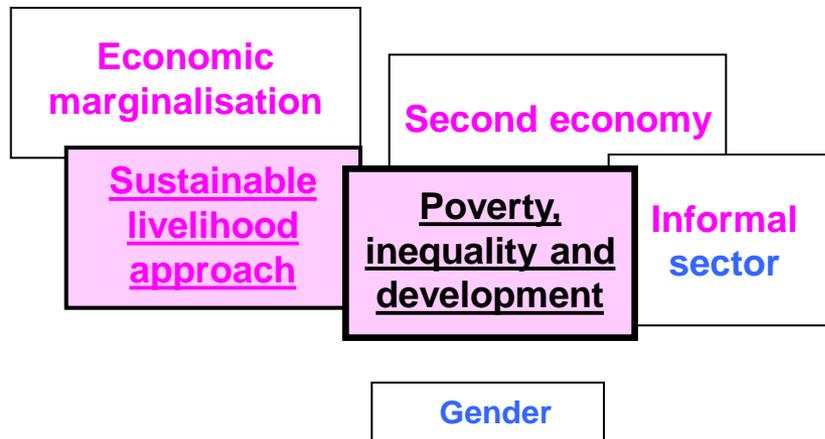
## The complete labour market discourse cluster: from the labour market to the informal sector



- Note that the labour market discourse, especially on segmentation, **involved an adjacent area, i.e. the informal sector**, as indicated in the labour discourse diagram above.
- Equally close is what appears to be another cluster: one about **unemployment, poverty and inequality**.
- This second cluster **seems to have two sub-divisions**:
  1. Poverty and inequality approaches
  2. Sustainable livelihood and marginalisation approaches

# Fig 5

## The poverty and inequality discourse cluster: from unemployment to poverty



# The poverty and inequality discourse cluster Part I: From unemployment to poverty and inequality dynamics

## Mainly SALDRU (and some DPRU)

1. [Leibbrandt, Woolard & Borat](#) (2001: Borat *et al* book on poverty)
2. [Leibbrandt, Borat & Woolard](#) (Contemporary Econ Policy 2001)
2. [Klasen & Woolard](#) (2005: Income mobility and household dynamics)  
(2008: Surviving unemployment)
3. Banerjee, Woolard et al (2008: Why has unemployment risen?)

Also note the work of [Nattrass](#) on AIDS and poverty/unemployment

## Leibbrandt, Woolard & Borat (2001)

### Focus on causes of inequality and poverty

- How does the labour market and unemployment relate to, or explain, household incomes inequality, and poverty?
- **Decomposition of inequality** (i.e. of factor in determining the poverty as well the Gini coefficient)
- Household wage income is the dominant as inequality status of a household.
- Wage inequality makes a 67% contribution to the overall Gini coefficient of 0.59 (in 1995).
- **Wage income is central for avoiding poverty and the depth to which households sink below the poverty line.**

## **Leibbrandt, Bhorat & Woolard (2001):**

- Unemployed predominantly (53%) found in households with no wage earners, and 76% of these were in poverty.
- Having at least one member in wage employment halved the probability of a household being in deep poverty.

## Klasen & Woolard (2005) (2008)

- **Which factors cause household to get out of poverty (or into poverty)?**
  1. Family member getting (or losing) a job
  2. Additional dependent family member
  3. Changes in remittances
- **Four types of poverty traps that impede efforts to improve income:**
  1. Large initial household size
  2. Poor initial education
  3. Poor initial asset endowment
  4. Poor initial employment access (link to labour market).
- **Households with few initially employed members and many unemployed members find it more difficult to improve income (by accessing labour markets)**
- **Those with little labour market experience face significant segmentation and disadvantages.**

## How do the unemployed survive?

- Many of the unemployed survive by attaching themselves to a household with some income (distorted household formation)
- Mostly household receiving old-age pensions and other social grants
- Unemployed children stay on with parents even beyond age 25
- Often keeps them in, or take them into, remote rural areas
- Explains high rural unemployment
- And takes them further away from employment opportunities, **which discourages job search from there**

- Also reduces their employment prospects and thus their search enthusiasm (from participation and search equations)
- Little evidence that access to pension income discourages search due to higher reservation wages
- Locational decision is the main causal factor discouraging search
- Thus: **Regional immobility and locational rigidities in the labour market.**
- **Help explain persistence of high involuntary rural unemployment, despite no apparent restriction on wage flexibility in those areas.**

## Some observations on the SALDRU work (in both clusters)

Important conclusions on the relationship between poverty and unemployment:

1. **Unemployment is a major contributor to poverty.**
2. While the focus of their work is on explaining inequality and poverty, it highlights **how the condition of structural poverty, and the presence of poverty traps, inhibit access to labour markets and information on employment opportunities** – and thus the functioning of labour markets (whether informal or formal).

**Thus: poverty contributes to unemployment.**

***NOTE the existence of a bidirectional causality surrounding the unemployment–poverty nexus***

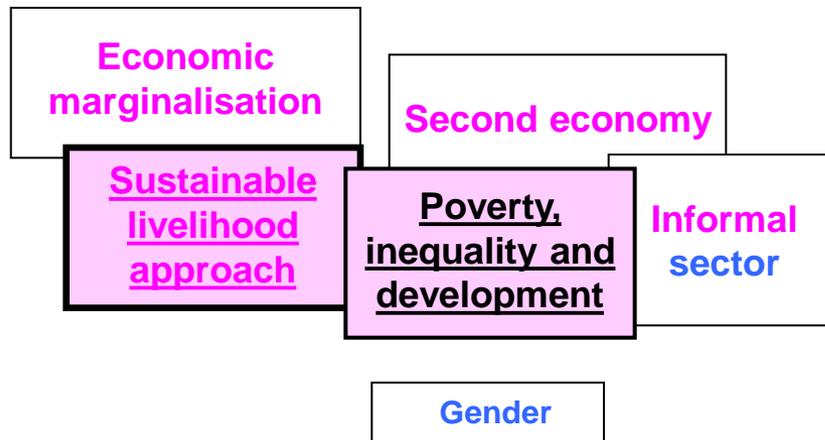
Also:

- Important insights on the human impact of unemployment and, therefore, the **importance of addressing unemployment**.
- Different emphasis than the formal-informal segmentation model adopted in much labour market work e.g. Kingdon & Knight. More a rural-urban lense.
- **This work has a higher sensitivity to underdevelopment and vulnerability** than 'purer' labour market analyses – a good mix of development economics and labour economics

**END**

# Fig 5 (repeated)

## The poverty and inequality discourse cluster: from unemployment to poverty



# The poverty and inequality discourse cluster Part II: From poverty to sustainable livelihoods and marginalisation

- Study of poverty and livelihoods, often in the context of dualism
- Either formal-informal, rural-urban, or first-second economies  
... alternatively 'marginalisation'
- Unemployment has a particular place in this discourse

- Focus is on the structural dimensions of poverty, specifically chronic poverty, as well as
- Livelihood strategies of the poor, often within rural-urban linkages
- PLAAS = Programme for Land and Agrarian Studies (UWC) is representative of this approach. Also CPRC (UK)
- Also some staff at UCT and at UKZN School of Development Studies (SDS) and elsewhere, also sociologists.

## Illustrations of the debate

1. Du Toit (PLAAS) (2005: Chronic poverty)
2. Du Toit & Neves (2007: In search of the 'second economy')
3. Seekings (2003: Unemployed an underclass?)

## Du Toit (PLAAS) (2005: Chronic poverty)

**Issue: Underlying structural dimensions that render people vulnerable to being poor for long period of time.**

- Highlights on “the complexity and diversity of the social dynamics and power relations that underpin it”.
- Criticises analytical traditions that “tend to depoliticise the study of poverty”, often through neat econometric equations.
- Research method focus on bringing together **both quantitative and qualitative research.**

- Explore a range of livelihood components and indicators of deprivation, also mapping broader social networks and local political economic dynamics and forces.
- Contrasts monetary poverty (low income) with a broader concept of ‘multidimensional deprivation’.
- Examples:
  - In some sites, up to 64% of households “often when without sufficient food”;
  - In some sites, up to 45% of households “often went without sufficient fuel”;
  - In some sites, up to 55% of households often went without sufficient shelter”
- **Such factors undermine livelihood and survival strategies, including access to labour markets.**

- Econometric investigations of the duration of income poverty (including unemployment) need to be complemented by analyses of the **underlying structural dimensions** that render people vulnerable to being poor for long period of time.
- This is about the **“political economy of poverty and livelihoods”** i.e. it is the way individuals are positioned in their community in terms of:
  - asset distribution,
  - levels of education,
  - access to resources,
  - labour market marginality (employment insecurity and unemployment),
  - social networks and
  - **social power relations**

**relative to the local elite, public officials and other influential resource and employment-opportunity gatekeepers.**

- Their empirical findings show that the interaction of these factors can make a successful and sustainable escape from poverty, e.g. through employment, very difficult.

This also applies to successful self-employment.

- Thus the explanation of continued or chronic unemployment-inequality-poverty becomes much more complex than labour market inflexibility, rigidity, distortions or inefficiencies – or similar factors typically captured in standard labour market research.
- Thus it also requires a broader set of research methods, e.g. case studies to complement and check econometric findings.

## Du Toit & Neves (2007: Second economy)

**Issue:** Dualism, segmentation and the concept of the 'second economy'

- This term was a recognition that trickle-down effects don't work well for those at the margin, requiring different interventions (e.g. as in the idea of a developmental state).
- But it has been misinterpreted: The second economy was seen as being disconnected from the first economy.
  - ❖ Note: Second economy not equivalent to informal sector. Also includes the involuntary unemployed and some economically inactive.
- In reality mainstream and marginal activities are thoroughly linked and interdependent.
- The problem of poverty and unemployment is not that many people are excluded from participating in the economy on grounds such as race, gender, education and location.

- They *are* participating in the economy.
- *But the way they are integrated causes them to be marginalised and to remain powerless to change their position vis-à-vis the 'centre' and to assert themselves as empowered economic actors (in both rural and urban situations).*
- The challenge is not to eliminate the 'laggard' informal or second economy or integrate it into the first economy, but to adapt the way the (single, but internally differentiated) economy functions so that the marginalised are empowered and their livelihood and employment strategies are supported.
- Otherwise the normal functioning of the economy just perpetuates the inequalities that one observes.

## Seekings (2003)

### Issue: Whether the unemployed constitute an 'underclass'

- The group he has in mind are the 69% of the unemployed who have never worked before.
- Or the two-thirds of the unemployed with incomes below the poverty line.
- Or the 68% of the unemployed have been unemployed for more than 12 months.
- Analysing PSLSD and 1995 OHS data, finds evidence that a significant portion of the unemployed and their dependents are in an underclass defined in terms of acute disadvantage.

## Factors underpinning special disadvantage in the labour market:

- **Long-unemployed** have lost capacity to seek or secure employment
- **Low human capital:** they have lost their human capital, lacking minimum skills
- **Lack of social capital:** they have limited contact to social networks or connections to people who know about job opportunities
- **Adverse location:** far away from employment opportunities
- **Lack of financial capital** for possible self-employment
- For this underclass, more than 80% of their income comes from pensions and remittances

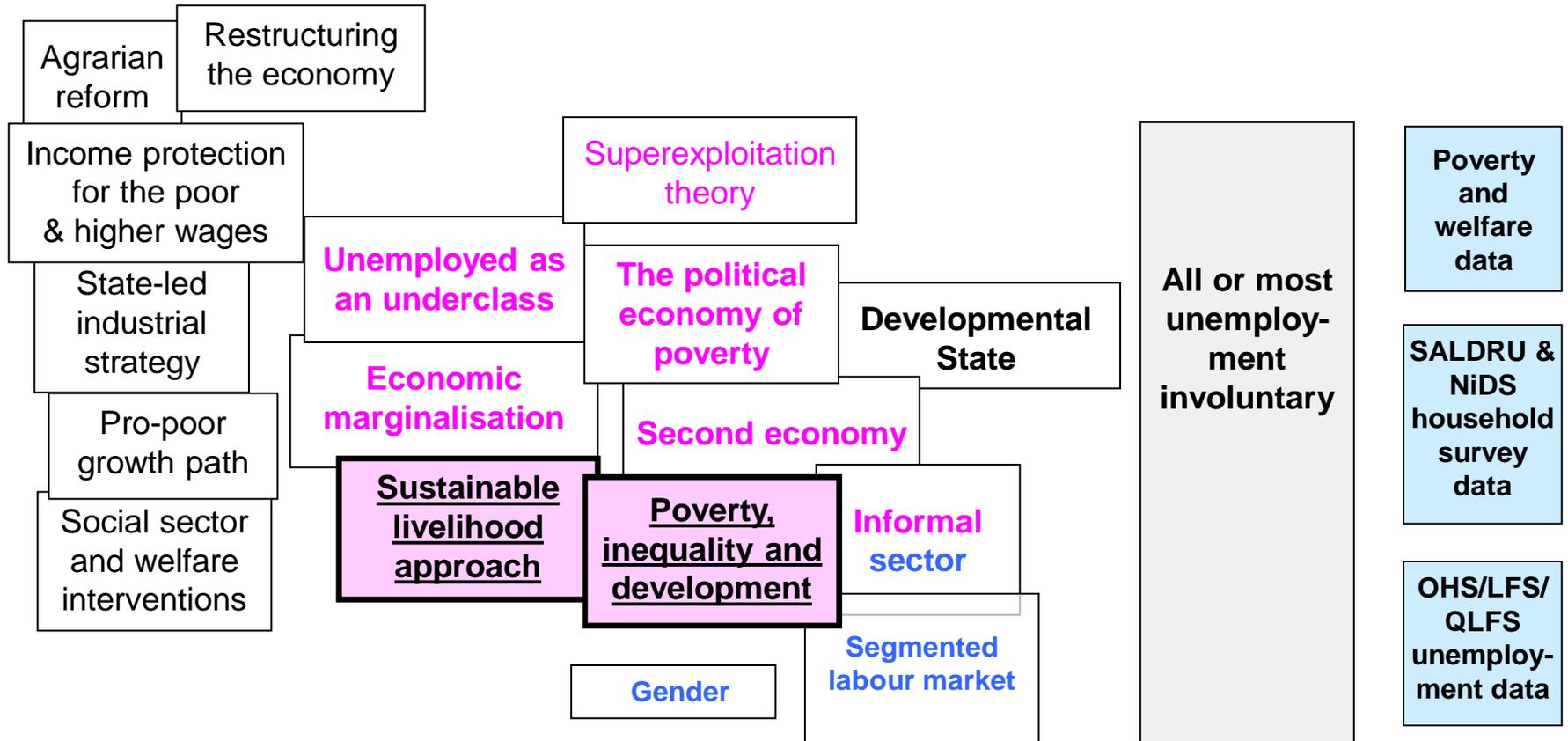
- Such underclass households are less likely to be living in a house, less likely to have piped water or a toilet inside the dwelling, and less likely to be satisfied with life.
- They are susceptible to a range of psychological, social and motivational problems:
  - anxiety, fear, depression
  - feeling useless and without energy; suffering from boredom
  - having low self-esteem, being lonely, without friends or love partners.
- Because of all these factors, and in particular the lack of social capital and networks, these individuals and households are characterised by exclusion from access to employment opportunities, or at least are very disadvantaged in terms of such access

END

- The next slide again shows a more **comprehensive diagram** of the second major discourse, especially a *broad range of adjacent research areas, policy areas and theoretical viewpoints*.
- Note the rough indication of a ‘generic discourse view’ on whether unemployment is voluntary or involuntary.
- And some indications of the key data sources.

# Figure 6

## The complete poverty and inequality discourse cluster: from unemployment to poverty



## Poverty discourse cluster: summary comments

1. One cannot talk about unemployment without talking about segmentation and the informal sector.
2. One cannot talk about unemployment without talking about poverty and household inequality (and *vice versa*, of course).
3. One cannot talk about poverty without talking about livelihoods and marginalisation.

Findings on poverty traps and a range of factors that structurally inhibit job search and entry into labour markets from a condition of poverty and from rural areas, have pertinent implications for how one thinks about:

- Dualism and (multi-) segmentation
- A secondary sector (competitive and market clearing?)
- Entry and mobility barriers
- How (well) labour markets function
- The causes and nature of unemployment, etc.

The existence of a bidirectional causality between unemployment and poverty appears to be critical.

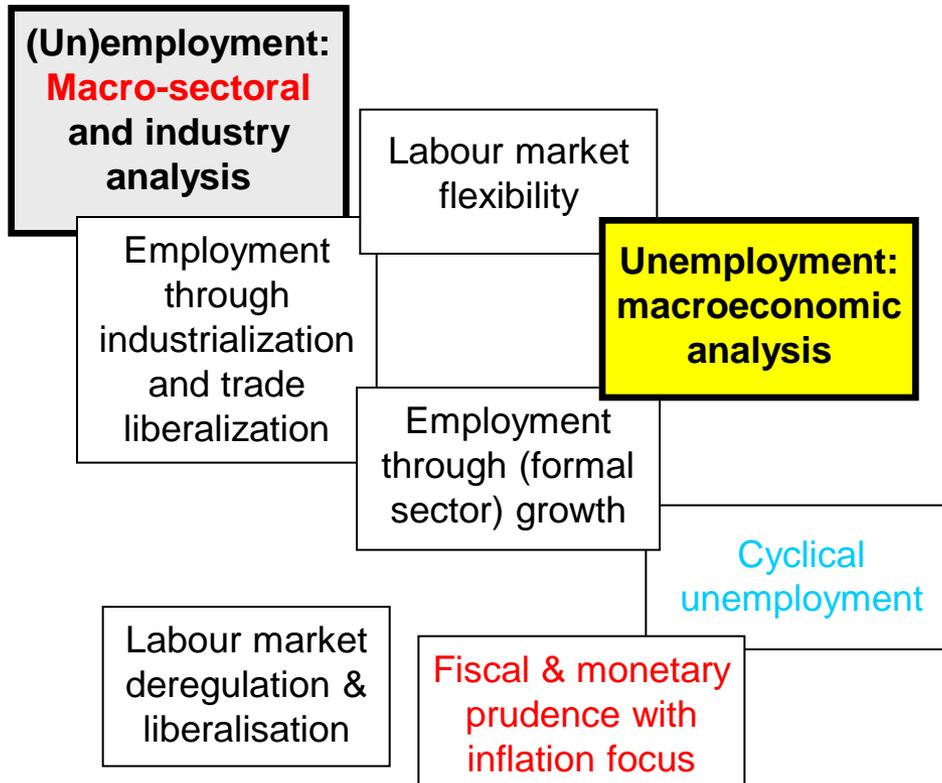
So is unemployment primarily a labour market problem and a development problem?

What then about cyclical unemployment, macro-sectoral changes and something like the natural rate of unemployment?

It is time to turn a third discourse cluster: macro-economic and macro-sectoral studies of unemployment.

## Figure 7

### A first macro discourse cluster: from the labour market to growth, macro-sectoral shifts and employment



# The macro- and macro-sectoral discourse cluster: From the labour market to employment, macro-sectoral shifts and growth

- The transition from labour market and poverty discourse to the macro discourse on unemployment is not so smooth.
- By nature a very different world with an ‘aggregate’ take on labour markets, employment and unemployment.
- Distinguish between
  - **Macro-sectoral**: Analysis of employment in, or shifts between, sub-blocks like manufacturing, agriculture, services, etc. Focus rather on employment than unemployment.
  - **Macroeconomic**: aggregate expenditure, output, investment, trade, government budgets and deficits, Reserve bank, interest rates, exchange rates and inflation.

- Like the other two clusters, it has a **distinctive terminology**, frames of reference, categories, models of analysis, and data.
- **A different body language...**
- **Different questions asked.**
- Still deals with unemployment and the poor, if often only indirectly.
- **Almost complete absence of published research contributions on SA unemployment in the field of macroeconomics.**
- **What there is, often is more about economic growth** (see below).
- Surprising given centrality of unemployment in historical emergence of macroeconomics – although it changed later with the growing dominance of Monetarist, New Classical and Real Business Cycle approaches (lately also at some prominent SA universities).
- **Perhaps also due to data problems** – no good time-series data on unemployment available (but perhaps also orientation?)

- Yet macro-economic issues are central in the policy tussle between government, organised labour and business about unemployment – and it is what gets most attention in the media.
- What can be found mostly, is macro-sectoral analyses (see below).
- And ‘country reports’ from various international organizations: IMF, World Bank, OECD.
- The views of these organizations very influential in the public policy debate, and are frequently echoed in views of private sector economists and commentators on unemployment.
- Locally, the CDE is an active producer of similar reviews, broadly representing the business sector view.
- One important characteristic: the work mostly deals with the **formal sector only.**

## Individual macro- and macro-sectoral contributions:

1. [Banerjee et al](#) (2006: Why has unemployment risen?) – ASGISA-panel
2. [Schoeman et al](#) (2008: hysteresis and increasing long-run rate of unemployment; determinants of unemployment)
3. Ngandu (2008: currency appreciation and employment)
4. [Hodge](#) (2009: Growth, employment and unemployment)
5. [Fedderke](#) (2004: On SA's growth absence)
6. [Rodrik](#) (2006: SA's economic puzzles) – ASGISA-panel
7. [Arora & Richie](#) (2006: IMF working paper)

## International organization reviews & reports:

- [OECD country report/assessment](#)
- IMF country reports
- World Bank

**SA organizations:** [CDE Roundtables](#)

## Banerjee et al (2006)

- Interesting 'bridge' between labour market and macroeconomic analysis
- Most of it belongs to the labour market cluster (transition matrices)
- Confirms that the entire secular movement in unemployment prior to 2005 can be **accounted for by changes in labour force participation**.
- Confirms labour shedding by mining and labour 1970–2005.
- The data show a **dismal employment performance** over the period from 1970 to 2005. Total employment had an annualized growth rate of 1.3 percent per year while the working-age population grew at 2.68 percent per year. This paints a clear picture of the **role stagnant labour demand played in the unemployment problem**.

- They also ask whether the increase in SA unemployment represents an increase in the equilibrium rate or it increased due to temporary shocks, and is due to return to equilibrium without intervention.
- While there may have been some elements of shocks, most of the evidence point to structural changes in the labour market due to the dismantling of apartheid. “Hence, the evidence suggests that the equilibrium rate of unemployment has in fact increased.”
- These structural changes are:
  - the massive influx of female labour supply into the labour force,
  - the transition of the mining sector to lower labour-intensity methods, and
  - the similar decline in agricultural employment.
- An apparent decrease in job search effectiveness may also have increased the equilibrium rate of unemployment.

- What is noticeable, is that their conceptual framework is anchored in the concept of an equilibrium level of aggregate unemployment – and the question of a structural change to this equilibrium level as against short-term deviations from this level due to shocks.
- This is the basic point of departure in standard macroeconomic models, with the NAIRU usually seen as the equilibrium unemployment level.
- Thus an interesting pointer for integrating macro and labour market analysis?

## Schoeman, Blaauw & Pretorius (2008)

Time-series analysis of unemployment 1970-1982 and 1983-2002

- In the first period, unemployment was mean-reverting.
- In the second period, clear upward trend: unemployment was NOT mean-reverting.

Analysis shows hysteresis is present (the series has a unit root): An increase in actual unemployment leads to an increase in the long-term equilibrium rate of unemployment, i.e. **there is no stable natural rate of unemployment.**

Thus long-run unemployment is endogenously determined.

Determinants of long-run unemployment since 1983:

- Mainly the interest rate (+) and the fixed capital stock (–)
- Others (weaker):  
degree of unionisation (+); real eff exchange rate (+)

Note: Only formal sector unemployment data

## Hodge (2009) (UNISA)

- Considers statistical relationship between economic growth rates and formal employment rates over time (1947-2007 – constructed annual time series of employment)
- Estimates employment coefficient (ratio of formal employment growth to GDP growth): Average value of approx 0.5.
- Increase in unemployment in 1990s:
  - For the six (uncertain) years up to 1994, coefficient dropped to negative (jobless growth) – but returned to normal 0.5 thereafter
  - After 1995 formal sector employment growth was normal, with labour absorption in line with GDP growth
  - Thus increase in unemployment is not due to historically deficient growth or absorption performance of the formal economy.
- **Rather due to well-known large increase in the labour force:**  
“previously discouraged workers attracted by increasing job opportunities in an expanding economy” (+ migration from African countries).

- Employment coefficient of 0.5 would not be easy to increase, even if it is “regarded as woefully inadequate under the conditions of large-scale unemployment”.
- While growth can be expected to pick up in the medium term, “the prospects for a sustained lowering of the high rates of unemployment depend mostly on future changes in the labour force. Only if labour force growth continues to moderate can we reasonably expect further declines in the rate of unemployment”.
- We simply have too many people who want to work. Formal sector growth cannot absorb enough.
- Note: Only formal sector considered.
- Informal sector seen as a buffer from which additional workers are absorbed (‘sucked in’) in times of high growth, and not as a potential employment creating sector.

END

## Fedderke (2004; 2005)

- Compilation of his numerous contributions on economic growth.
- Focus on factors that constrain growth in SA

*“Certainly it is clear that if welfare improvements in the economy are to be realized, serious attention to growth is of the essence.”*
- Identifies labour market as one of the problem areas.
  - *“What is it about the labour market that has led to the decline in employment creation, and hence to a virtual absence of labour as a positive contributor to output growth in South Africa?”*
- The ‘problem’ of labour markets and employment is handled under the rubric of *market distortions and inefficiencies*, particularly inefficiencies in the labour market.

*“...the functioning of the market mechanism in SA leaves considerable room for improvement ... in particular, the impact of the performance of the labour market in SA.”*

- Documents decline in mining employment after peaking in 1985. Declines in output only a partial explanation after 1990.
- *“The most immediate additional explanatory variable for employment trends ... offered by economic theory is the real cost of labour”*
- Decline in employment visibly coincided with rising real labour cost, so the latter is a likely cause (together with productivity changes).
- Estimates a Cobb-Douglas-derived labour requirements function
- Finds negative real-wage elasticities in all three mining subsectors, and mostly for skilled as well as unskilled workers.
- Given the measured increase in real labour costs after 1985:
  - *“Our initial conclusions concerning the negative real wage elasticity is thus confirmed. While falling demand for mining output is one source of labour shedding in the mining industry, the cost of labour has been an additional source of job loss.”*
    - Compare Rodrik’s contrary finding below, based on a different real labour cost measure.

- In an econometric analysis of 45 sectors in the economy, he finds higher employment growth rates in sectors where the real wage is well correlated with labour productivity (i.e. conforming to the dictates of standard economic theory).

*“The immediate implication for policy intervention in SA labour markets appears to be that ‘well-functioning’ labour markets, defined as those that link factor rewards to factor productivity in accordance with economic theory, appear to be more likely to generate both employment, and sustained improvements in labour remuneration. In effect, to the extent that by labour market flexibility we mean the capacity of labour markets to adjust freely and rapidly to the market clearing wage suggested by labour productivity, the evidence ... suggests that labour market flexibility is desirable.”*

- Econometric analysis of 28 manufacturing sectors finds: average real-wage elasticity = -0.5 to -0.55, but could be as high as 1.9 for some sectors.
- Real-wage elasticity for unskilled labour: -2 to -2.3  
For skilled labour: -0.46

*“...the evidence on the wage elasticity in the SA economy points consistently to wage moderation and hence labour market flexibility as a significant policy instrument for employment creation”*

*“...the wage elasticity of unskilled labour in the formal sector of the economy is particularly dramatic. It remains an abiding puzzle why the SA Department of Labour has not recognized the wage rate as a means of alleviating poverty amongst population groups who stand to benefit most from real wage cuts”*

*“Excessive rigidity, inappropriate bargaining institutions to South African levels of development, excessive industry concentration, and associated mispricing of labour has led to poor employment growth in the economy. It has also disadvantaged the large pool of unemployed who remain excluded from the benefits of the formal economy.”*

*“It is time, therefore, to revisit labor market regulation, and consider, for example, the possibility of introducing multi-tiered labor regulation that would allow more flexible and faster labor absorption for small and medium-size firms. The objective must be to allow the poor, who are often excluded from participation from the labour market through human capital endowments associated with past legacy and information asymmetries, access to employment under labour market regulation that is less onerous on the employer and offers more chances of employment to job seekers.”*

## Rodrik (2006) – Harvard CID, member of ASGISA-panel

### Analysing SA's economic puzzles...

- “While the proximate cause of high unemployment is that prevailing wages levels are too high, the deeper cause lies elsewhere.”

In general, “(r)real wages have not risen much (if at all) since the transition to democracy. “

- Analyses real remuneration per employee in manufacturing
- Decomposes the increase into part due to skills-upgrading and a part due to wage-push.
- Skill-adjusted real labour costs actually fell during the 1990s.  
So excessive real wage increases cannot explain drop in manufacturing employment.
  - Compare Fedderke's contrary finding, based on a different real labour cost measure.

- Sectoral analysis of formal macro-sector employment patterns, e.g. manufacturing vs services, tradables vs non-tradables – taking note of their unskilled-labour intensities.
- Manufacturing employment share has halved since the late 1970s.
- Tradables employment share has dropped from 45% to 30%.
- Tradeables sectors are the most lowskill-intensive parts of the economy (70% of their labour is un-/lowskilled).
- Growth has been in nontradables like financial services, etc.
- Relative shrinkage of esp. manufacturing (and other tradables) has entailed a collapse in demand for relatively unskilled workers.
  
- THUS: High unemployment and low growth are both ultimately the result of the shrinkage of the non-mineral tradable sector (including manufacturing) since the early 1990s.

- *“In principle, jobs can also be created by cutting the cost of labour. But reducing unemployment by expanding the capacity of the economy to provide high-productivity, high-wage jobs for the unemployed is a far better strategy.”*

In the words of Dan Hausman, chairperson of the ASGISA panel:

- *“... the faster development of new high productivity tradable activities will create jobs that can pay decent wages, so that **full employment can be achieved** without a major decline in wages at the bottom of the pay scale.”*

**Note:** Very optimistic conclusion about FULL employment.

Exclusive focus on the formal sector.

Exclusive focus on strict unemployment.

# IMF working papers

## Arora & Richie (2006)

- Notes the “common view is that, in order for unemployment to be substantively reduced, investment needs to be increased significantly and the economic growth raised to around 6–7 percent.
- Simulation model showing that, with policies that induce labour-absorbing investment and continued strong TFP growth, several scenarios are possible, for example:
  - If employment growth can get 2 percentage points above labour force growth, the unemployment rate will fall by 10 percentage points together with a GDP growth rate of 5.5%.
  - If Aids cause the labour force growth to halve, the unemployment rate could still drop 10 percentage points, but GDP growth would only be 3%.
  - If employment growth remains as before, the unemployment rate will rise by 2 percentage points and GDP growth would decline to 2.5% (without Aids impact).

- Role of labour legislation:  
*“Evidence based on surveys and informal observation, however, suggests that the labour regulations impose both direct and indirect costs on employers and thereby hinder employment generation.”*
- Minimum wages:  
*“Since the minimum wage legislation explicitly states that minimum wages in each sector should take into account the wage gap that results from the apartheid period, it could result in minimum wages that are higher than the equilibrium market wage that would clear the labor market.”*
- In turn, the level of wages could have a substantial impact on employment. *“Some studies estimate that in the long run a 1 percent increase in wages is associated with a 0.7 percentage point increase in the unemployment rate.”*
- **ONLY FORMAL SECTOR ANALYSIS**

## OECD country reports

2010: Focus on **increasing the trend growth and thereby achieve higher employment growth** – through policies such as:

- Reforms to **wage determination** mechanisms (and sectoral extension of wage bargains, which causes wage inflexibility)
- Address bottlenecks in **employment protection** regulation
- Reform regulatory environment, increase competition ... and **reduce direct government influence on the economy**
- Great **monetary stability together with fiscal sustainability** while reducing the real exchange rate to facilitate **export-led growth**

Government must “make the trade-offs between wages, employment and unemployment clearer to social partners”.

2008: **Main themes:**

In the long run sustained increases in living standards will only be achieved via growth in labour productivity.

- But labour productivity growth is prevented by a “lack of a competition-friendly regulatory environment”.

On employment creation:

- Extent and persistence of unemployment suggest that **labour market policies** can play a role in tackling the problem;
- Labour market **rigidities** in the form of high firing costs.
- The potentially negative labour demand consequences of strong trade unions (mainly focused on employed workers)
- Sectoral **minimum wages**
- Possible disincentive effects on labour supply of the expanding system of **social grants** (to ensure that social aims are being achieved without an undue negative impact on employment).

## IMF Country reports (Note recurrent themes)

- **2008:** Risks to macroeconomic stability have increased with rising inflation and the widening current account deficit, the financing of which has become less assured. Further **monetary tightening** may be needed to prevent second-round effects from the food and fuel price shocks. Given the large public infrastructure program and **low private saving**, a gradual **increase in the structural fiscal balance** would avoid exacerbating current account pressures and bolster confidence. In the medium term, increases in saving and investment, deficit-neutral tax and spending policies to strengthen incentives to invest and work, **and structural reforms to boost competitiveness and productivity could raise growth and employment.**
- **Note formal sector orientation**

- **2007:** Staff agreed with the Reserve Bank that the inflation risks were on the upside, and considered that a **tightening of monetary policy** could be needed.
- The authorities remain committed to the **flexible exchange rate** regime, intervening only to gradually build up reserves, a policy supported by staff.
- Staff agreed with the thrust of the government fiscal plans, including boosting investment in infrastructure and selected social programs, but favored maintaining **a neutral fiscal stance** in the next few years, which would imply a moderately lower rate of expenditure growth than currently planned. (The government is developing a major social security reform.)
- Staff supported efforts to increase employment, and favored the identification and **revision of labor market regulations** and practices that limit job creation. Staff also recommended further **trade liberalization** and simplification of the trade regime.
- Staff supported ... **initiatives to address wide income and wealth disparities**.

## CDE Roundtable 2010

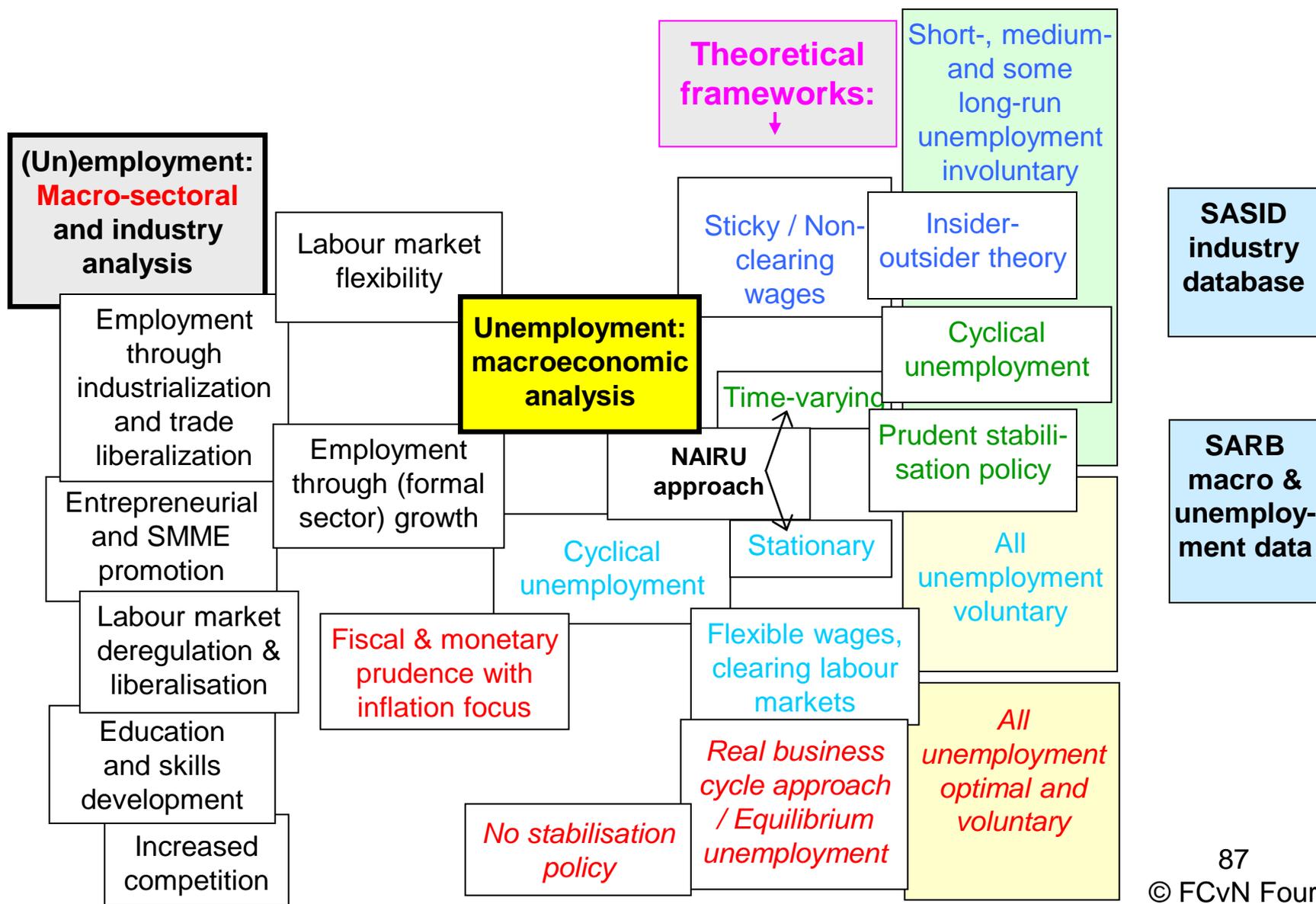
- “Increased public spending on redistributive policies is not only unsustainable, it will have adverse effects on our growth potential.... Moreover, some redistributive spending will deepen costly forms of dependency that further restrict economic growth.”
- “This approach will also place the state in an ever deepening trap. As growth fails, pressures will mount to expand redistribution even further.”
- “The current redistributive model is unsustainable. Instead, we should learn from the impressive performance of many countries in the developing world. This means **we should focus as single-mindedly as possible on adopting and implementing policies that will maximise sustained economic growth.**”

- “**‘Going for growth’**, in other words, will pay off in the form of far higher levels of national income, much higher employment rates and the consequent lifting of millions of people out of poverty. ... **Higher levels of economic growth will entail faster expansion of formal employment**, with more and more people being drawn into the formal wage economy.”
- “Instead of seeing their human capital corrode through unemployment, millions will obtain real workplace experience, on-the-job training, and the psychological and cultural attributes needed to become more employable. These are enormously important consequences of expanding employment.”

- “CDE should not be misunderstood. We are not saying that inequality and poverty should be ignored for the sake of growth. We are arguing that rapid economic growth has a proven capacity to address large-scale poverty and, in time, inequality. It is the only sustainable approach. It will improve the circumstances and quality of people’s lives and their families opportunities for the future. And it is the only approach that will empower tens of millions of South Africans.”
- “In the short and medium term, redistribution cannot do what finding a job can. It can marginally ameliorate the worst poverty, but it simply cannot create the sense of self-worth that is the consequence of full participation in a society. It follows that to reverse mass poverty and the sense of exclusion, South Africa needs to create an inclusive economy as quickly as possible. **Doing that demands high and sustained economic growth, and a massive increase in the number of formal sector jobs. Nothing else will do.**” **END**

- A **complete diagram of this third discourse** includes a very broad range of adjacent areas, policy areas and viewpoints, and theoretical approaches (following slide).
- Note that a large part of the macro discourse diagram (right-hand side) is almost empty in terms of actual research in South Africa.
- What is shown, is the main theoretical approaches found, e.g. in teaching programmes at departments of Economics at SA universities:
  - Neo-Keynesian (i.e. sticky, non-clearing wage models)
  - New Classical (i.e. flexible, clearing wage models)
  - Real Business Cycle (i.e. equilibrium unemployment models)
- These approaches have **very different views on the nature of unemployment** and on macroeconomic policy approaches, as often mentioned in passing in contributions on e.g. inflation or growth.
- These differences are reflected in **contrasting ‘generic views’ on whether unemployment is voluntary or involuntary.**

# Figure 8: The complete macro discourse cluster: from the labour market to growth, macro-sectoral shifts and employment



## Conclusion ... or: *So what?*

This was a meander through a landscape that reflects the thoughts, analysis and hard work of many people – and discourses *about the lives and hard livelihoods of many people on our landscape.*

*A more complete “unemployment discourse landscape”, organised around the three core clusters, is shown on the following slides.*

# Figure 9

## Three clusters ... three discourses?

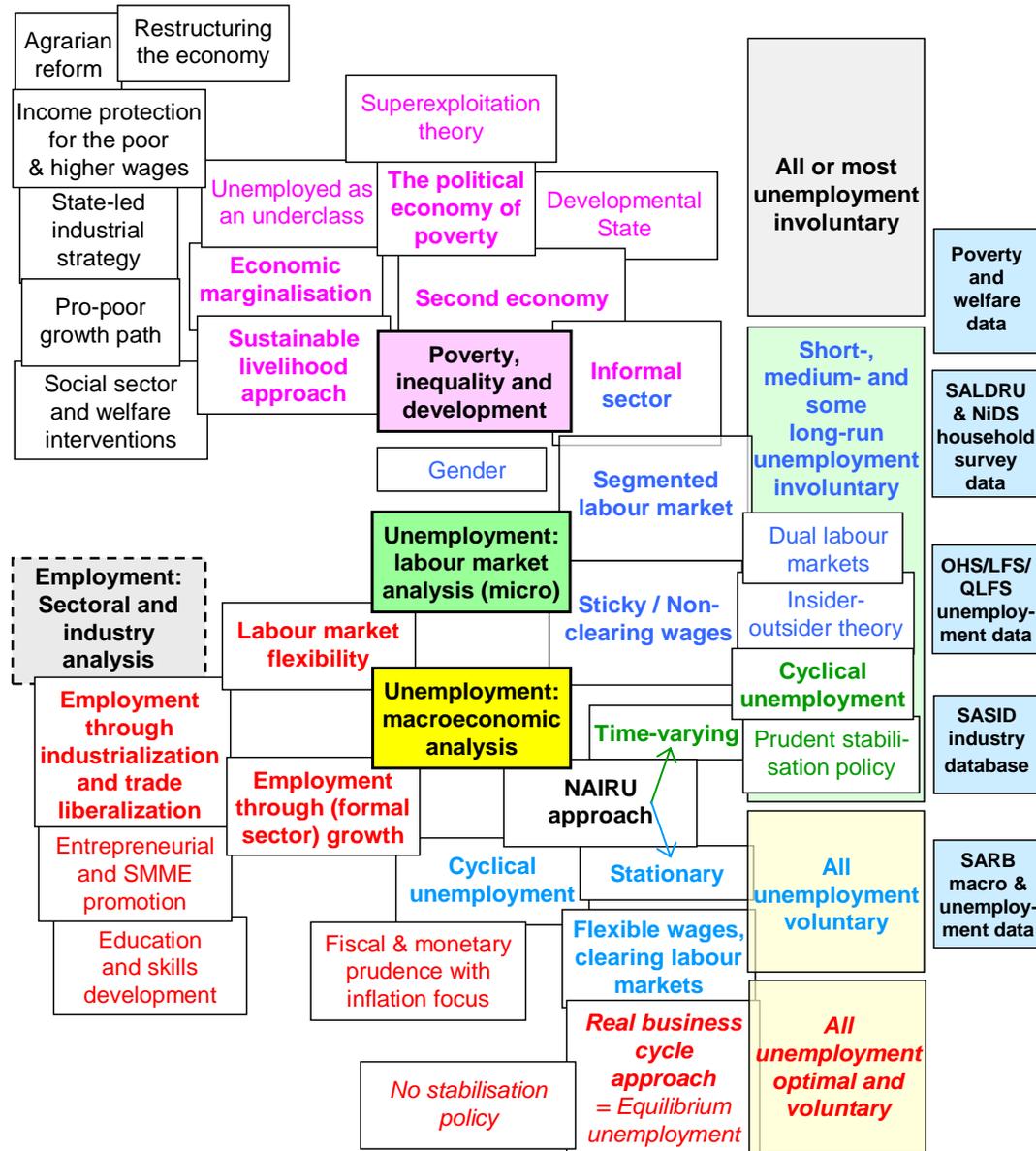
Poverty,  
inequality and  
development

Unemployment:  
labour market  
analysis (micro)

Unemployment:  
macro  
analysis

**Figure 10:**

**The SA unemployment discourse landscape:  
Three worlds, three (or more) discourses**



One dominant impression is the wealth of insights to be found in the variety of research contributions, in the different clusters, in the different approaches, in the different paradigms.

Yet the unemployment and poverty problems in SA persist, with little apparent impact from various policy initiatives using inputs from many respected researchers/economists and research units.

We have been through various progressions:

- From the aggregate to the sectoral, to the labour “market”, to the household and to the individual.
- From the formal, to the segmented formal-and-informal, to the survivalist.
- From employment to unemployment to inequality to poverty.
- From economic growth to earnings to inequality to suffering.

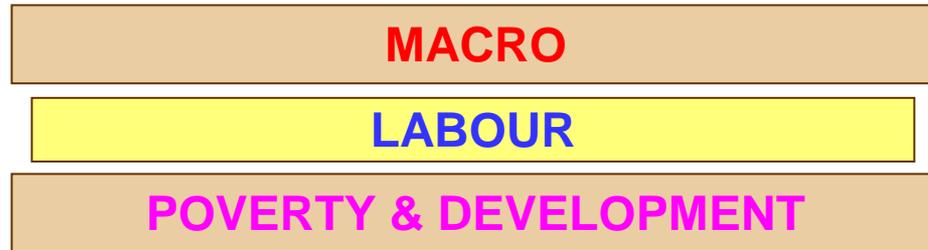
Some are mere transitions, others have to traverse rather severe fault lines in the discourse landscape...

- **Three clusters, three worlds, three discourses?**

Is there an integrated, cross-informed debate on unemployment and poverty, or do we have three worlds and three very different discourses – each with its own paradigm, theoretical framework, techniques, language, body language?

*The meta-analysis above suggests a significant degree of separation, although less in some cases (e.g. between the two poverty sub-discourses, or even between labour and (some) poverty-inequality contributions).*

- The unemployment discourse *sandwich*:



### Some (slightly provocative?) simplifications:

- **Macro:** Looking across and down from the top
- **Labour:** Busily trying to figure out labour market mechanics and dynamics
- **Poverty:**
  - **Poverty & inequality:** Looking at the inequality between top and bottom
  - **Poverty & livelihoods:** Looking at the bottom and up *from* the bottom

## More provocative simplifications:

### Three basic views of unemployment?

- 1. Macro:** Unemployment is not really a problem for SA macroeconomists – unemployment is a labour market problem.
- 2. Labour:** Unemployment is the main problem and primarily due to labour market factors and worker characteristics.
- 3. Poverty:** Unemployment is a serious problem, but part of a larger problem of structural/chronic poverty, inequality, powerlessness and underdevelopment.

## On the formal economy:

- **Macro:** Focus on the formal sector and formal sector growth to “suck in” the unemployed and poor.
- **Labour:** Focus on both the formal and informal sectors and various barriers, and how they affect incomes and inequality.
- **Poverty:** Whatever the growth rate, the poor, marginalised and unemployed do not benefit much from the formal economy and are powerless to change their position.

## SO:

- Is there communication between the different clusters, different discourses?

Or are they analytically blinkered and “polaroized”, closed to insights from another discourse, another ‘world’?

- Why is it so difficult to reach across subdisciplines, disciplines and paradigms?
- Recall earlier slide on factors that obscure and fragment the discourse

## Several grids overlay the landscape and serve to obscure and fragment:

- An **ideological grid**: Are there ideological preferences for certain approaches?
- An **epistemological grid**: Are there technical, scientific and methodological preferences in/for certain areas?
- An **institutional grid**: Where does the research take place, where do the approaches reside?
- A **funding grid**: What are the preferred locations for the various funding agencies?
- A **policy grid**: What are the preferred focus areas and approaches of the main government departments (Treasury, Trade & Industry, Economic Development, Labour, etc.) – and **which research units do they consult?** (Are there differences *within* departments?)

- **Macro-economists** in South Africa seem not to be very bothered with the implications of the messy details from labour, household and poverty studies – or with the significance of such studies. At most they will mention a couple of empirical findings from labour market analysis (e.g. K&K). Their theme is:

“High growth (and lower wages) will lead to higher welfare, more employment and more income for all, including the poor.”

... as long as labour markets are flexible etc.

- **Labour market analysts and inequality analysts** not bothered with either cyclical issues, shocks or long-term growth issues, or the impact of variables such as exchange rates, budget deficits and interest rates.

“Whatever the growth rate or business cycle phase, the complex functioning of the labour market causes unemployment and inequality”.

Thus they focus on long-run unemployment – but they are not much interested in the macro question of variations in the rate over time.

- **Livelihood analysts** are similar, and often not much interested much in labour market analysis either, since it does not capture the powerlessness of the unemployed poor.

“Whatever the growth rate or business cycle phase, the poor, marginalised, powerless and unemployed do not benefit much from the economy.”

- **Can they not learn from one another?**
- **Can they afford NOT to learn from one another?**
- **Which examples of such learning can one propose for South African researchers?**

## Examples:

1. That the condition of poverty systematically debilitates job search and job market information surely must be very relevant for a macro-sectoral or macro-economic model/analysis of SA unemployment and/or SA growth. (There *are* search cost models in the literature – although more than search costs and frictional unemployment are at issue here; similar for “information asymmetries”.)
2. That structural conditions cause long-duration unemployment and chronic poverty surely must be part of a South African macro-economic model or analysis.
  - Fourie & Burger (2009) *How to think and reason in macroeconomics* perhaps is the only SA textbook that attempts to integrate the realities of development and poverty into a macroeconomic model, contextualising the macroeconomic policy debate.

3. That entrepreneurial, small-scale firms or self-employment face significant entry barriers vis-à-vis established formal-sector firms must be very relevant for a macro-sectoral or macro-economic model/analysis of SA employment and growth.
4. The impact of cyclical or other shocks on the unemployed and the poor surely must be relevant for a livelihood analyst and anti-poverty policy designer.
5. The various segmentations surely must be relevant for any analysis of unemployment, including the macroeconomic and macro-sectoral?

- Policy-makers, and esp Treasury, MUST integrate findings from different approaches and different research units.
- They must have an integrating, overall understanding where there is a sufficient degree of consistency, alignment and cross-cutting absorption of 'truths', assumptions and insights between areas and approaches.
- Do South Africa economists and social scientists help them to do that?
- Can and should we not develop and apply integrated models, or linked models, or pluralist models of unemployment, poverty and inequality?