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# Employment creation targets ARE ACHIEVABLE

The government is committed to halving unemployment between 2004 and 2014. The HSRC employment scenarios show this required the creation of five million jobs. With the downturn, the same objective has been restated. But running up to 2020, can it be achieved? Yes, absolutely, says MIRIAM ALTMAN.

As the clearest expression of government intention, what does the budget tell us? Five million jobs could be created if the economy grew by an average 4.5% pa between 2010 and 2020, but then government would have to pay for two million public works type jobs costing about R25bn.

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The budget forecasts a growth rate of 3.4% this year, rising to 4.4% by 2013. If the economy grew a bit faster, at say just over 5.5% pa, the target could mostly be reached through the market, and only 700 000 public works jobs would be needed, costing about R10bn. Treasury already forecasts a growth rate rising to 4.4% by 2013. So why not stretch it a little?

Sustainable employment growth will depend on new and expanded business investment. The budget offers some important items, such as continued commitment to infrastructure spending and investment incentives. Infrastructure spending accounts for 9% of GDP, but about one-third goes to capital and import-intensive investments by Eskom. In other areas, project management, scheduling and timely payments have been a challenge.

Fortunately, most of our barriers to job creation are self made and rectifiable. We could achieve faster employment creation if these barriers were addressed,

ranging from energy, to water, to transport, among others.

## ENERGY SUPPLY AND COST CONSTRAINTS

Energy is a perfect example where electricity shortages will be a brake on job creation up to 2016. Faster action is needed to sign up power suppliers to the grid. More is needed to fund municipal electricity distribution systems. Efforts to promote energy efficiency are central. The new investment incentives that allow for tax deductions where firms invest in new or upgraded technology are welcome if not a little late in coming, more than two years after the onset of the energy crisis. The 12i tax incentive was announced late last year, and the 12i incentive, which will be specifically aimed at energy saving measures, is anxiously awaited.

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And while the electricity price is set to double shortly, Treasury has proposed a carbon tax that could add a further 25% to an investor's electricity bill. The policy mix could be improved to ensure that new investments have access to electricity, without having the lifeblood squeezed out in the process. Rapidly rising electricity prices are enough to dissuade energy intensive investments.

## TAX DEDUCTIONS AND INCENTIVES

The 12i tax allowance has received considerable attention, but most of the press has suggested it would promote capital intensive projects. However, this is not quite the case. In fact, it marks an important shift away from the historical leaning of the department of trade and industry (dti) to capital intensity.

This incentive allows a tax deduction to the amount of 35% to 55% of capital invested in a new investment valued at over R200m or an expansion or upgrade valued at over R30m. Some of the qualifying activities involve plans for improved energy efficiency, local purchasing of inputs, especially from small and medium enterprises (SMEs), labour intensity and skills development. It also offers a training allowance of R36 000 per employee. This is a step in the right direction, although cash might be more helpful in a downturn, especially for the smaller expansions.

It would have been preferable to hear more about expanded support to companies that aim to invest in Africa and Asia, and about incentives to attract foreign companies to use South Africa as a springboard. More could be said about government's commitment to expanding its local supplier base and paying its suppliers on time. Late payments cause serious cash-flow difficulties for SMEs.

The State of the Nation address reported that the dti's payment hot line has thus far facilitated R210m worth of payments, but much more needs to be done. In fact, this is a location for a pact with corporate South Africa to truly commit to 30-day payments as one way to solve cash-flow problems for SMEs.

Minister Gordhan rightly spoke about the impor-



tance of innovation as a foundation for the SA economy. While public support for research and development has expanded substantially, it is off a very low base. Innovation is going to be an essential ingredient in South Africa's ability to expand its industrial base.

#### YOUTH UNEMPLOYMENT

There has been much talk about how to address youth unemployment. No doubt, an expanded economy is essential. Even so, matching youth into jobs is a challenge. Treasury proposes a R5bn tax incentive to subsidise the hiring of youth. The proposed R9bn youth fund aims more broadly to support evidence-based interventions that would enhance youth employability. Depending on how it is spent, this could potentially improve the employment prospects of about 500 000 young people, or about 15% of unemployed under-24s. This is significant.

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But is it possible that young people are not employed for lack of work-readiness skills, such as attitude, communication, reading comprehension or IT awareness? Seventy per cent of those who sat the 2010 matric exam achieved a grade lower than 40% in maths and science, and almost half achieved less

than 40% in geography and history. The majority of matric graduates understood less than a third to a half of the curriculum.

A population of young people who are alienated from institutions has been created, who cannot therefore meaningfully engage in the labour market at the most basic level. Reducing the price of labour will not address this fundamental gap. It is essential that the majority have basic capabilities that enable them to work and study further.

Some part of this gap might be addressed through expanded further education and training opportunities. Indeed, it is common to pull young people out of the labour market in countries with high unemployment. Together, the Further Education and Training, National Skills Fund and SETAs reach a maximum of 5% of the 4.5 million unemployed under-35-year-olds, with proposed spending of R43bn over the MTEF. The critical challenge lies in improving quality and pass rates to enable meaningful expansion of mid-tier learning.

#### GROWING THE PUBLIC WORKS PROGRAMME

The expanded public works programme (EPWP) must reach more people, even if the economy grows faster. Half of the programme still aims to intensify labour absorption in public infrastructure projects. But the

EPWP was also revamped to encourage municipalities, ward committees and non-profit organisations to generate opportunities. The idea was to encourage more dispersed design and delivery so as to expand reach. The emerging programmes are Community Works and Employment Incentives for municipalities and the non-profit, non-state sector.

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The budget is a little hard to follow but funds allocated specifically to EPWP job creation rise from about R1.4bn in 2010/11 to R2.5bn in 2012/13. Considerably more funding will be needed – up to five times more.

Programme expansion will depend substantially on improved communication, support and financial management, as increasingly NGOs are meant to know about it and access the funding. If successful, the CWP and 'non-state-sector Employment Incentive' should deepen service delivery as local structures stabilise and strengthen.

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