



Evidence-based Employment Scenarios

Elements of Employment Scenario Building:
How Do Sources of Job Creation Matter?

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1 Introduction

Below, I sketch out some basic elements that need consideration in building employment scenarios from the demand side. For the moment, let's assume that the "supply side" will respond appropriately to any demand side stimuli. In other words, let's assume that labour at the required skill level and quantities could be available for any type of demand.

The paper then goes on to sketch out two initial scenarios for the purpose of stimulating debate. One is more inward oriented, while the other creates more employment through trade. The focus on 2014 poses some limitations on the exercise, since the implications of any scenario may only really become evident over a longer period of time.

2 Elements of scenarios: categorising the role of different sectors

There are certain broad sectors that should feature in any employment scenario. These include those aimed at poverty alleviation, the public service, 'follower' services (that are mostly private sector non-traded services such as retail) and dynamic goods and services production (such as manufacturing, financial sector, or tourism).

Poverty alleviation

No matter how successful employment policy is, it is quite certain that severe unemployment and under-employment will persist. The problem has simply become too big for market-based solutions to solve the problem within the next 10 to 20 years. The "problem" includes both severe unemployment and very low levels of remuneration from market-based employment. Therefore, it is certain that the continued expansion of the system of grants, and much more convincing expansion of extremely low productivity, non-market services such as EPWP-type projects in government construction, care, self-help projects and survivalist activities, will be essential to any employment and poverty policy.

- The expansion of grants is now an administrative decision as the delivery infrastructure has improved considerably. The main questions include: How much should be spent on grants? What are the trade-offs between poverty alleviation and work incentives?
- The expansion of very low productivity non-market services is an administrative decision, such as social sector expanded public works projects. Currently, it is estimated that about 120,000 people may work in community care, and about 200,000 people may be in construction-related EPWP (September LFS, 2006). The main questions include: How much should be spent on these services? What are the positive and negative labour market effects? Is there a willingness to invest deeply in administrative capability in localities, CBOs, etc. to enable the required reach?
- The expansion of very low productivity market services is more complicated, as it is not an administrative decision. These activities include self-help survivalist informal activity. Much more convincing intervention will be needed to stimulate low productivity, market-oriented, essentially non-traded services (e.g. taxis, informal retail, hairdressing, etc.). Their expansion is

constrained, not only by internal constraints (e.g. lack of finance or skill) but also by market concentration. Little is known about how the more marginalised parts of sectors grow relative to their larger counterparts (e.g., how might informal retail grow as shopping malls penetrate the townships?). Presumably some combination of demand side (e.g. incentive packages to workers, etc.) and/or supply side measures (e.g. low interest loans, etc.) could be considered.

The public service

The public service can play an important role in job creation and in underpinning low skill wages. In South Africa, the public service has also been important as a first recruiter of black graduates. There is no specific size that the public sector should be. Underdeveloped economies may have a bloated civil service and could be a major source of formal employment. Economies such as Sweden or Canada, that are strong welfare states, employ a large proportion (up to 30%) of the formal workforce, and at some points in time this has been an explicit or implicit part of their employment solution. South Africa's civil service is smaller, employing about 14% of the formal workforce (or 18% of total employment). In South Africa, public employment contracted in the 1990s, and is more or less stagnant in the 2000s. The choice to expand public employment is a purely administrative or political choice.

“Follower services” in the formal economy

Some activities are really spin-offs from other activities and from growing incomes. This includes activities like retail, wholesale, fuel attendants, or motor vehicle repair. This is an increasingly important source of employment growth in South Africa and globally, as shown by the 10 international case studies being prepared by Prof Al Berry for the HSRC (with some interim results presented in Berry, 2006).

Already, these types of sectors contributed about 17% of total South African employment in 2004, or 20% of formal employment. This is already quite substantial by global standards. It has grown dramatically in recent years, partly in response to falling interest rates. But how much more could it grow? These sectors are very poorly understood in development thinking, and so this question is very difficult to answer.

Construction can also be an important source of employment growth. Its growth depends critically on both public and private sector demand. In part, its continued expansion relies on the ability of supplier industries to provide inputs efficiently. There is also potential to expand into exports, but this will only have an impact on employment if South African workers are built into supply contracts, as is done by Korea and China.

Minerals-related commodity production and export

Although mining exports have fallen, minerals-related exports expanded dramatically in the 1990s. Capital-intensive, resource-based exports in metals, minerals and chemicals account for over 50% of South Africa's exports. Yet, mining employment has been falling for many years, to about 400,000 jobs currently, and capital-intensive resource-based manufacturing employs up to 150,000 people. Even taking into account employment multipliers, growth in these sectors are unlikely to be really important contributors to ultimate employment growth. But their output and export growth influences ultimate employment outcomes substantially. This is partly because these sectors are

important attractors of total investment and infrastructure spending. More importantly, their weighting in South Africa's export profile means that a global commodity boom can have the impact of appreciating the Rand and discouraging labour-intensive traded sectors.

The expansion of commodity-related exports mainly depends on global demand, as well as how conducive local conditions are. Some of the local conditions include taxation, relative profitability, the conduciveness of supply contracts from buyers (e.g. Eskom contracts with the coal industry), etc.

“Dynamic” goods and services

The main wild card is the extent to which more dynamic goods and services production that can contribute to decent work might be expanded.

This broad category refers to sectors that could deliver to growing global markets, can have substantial linkages into the local economy, and promote learning. In a developing country context, they are often newer industries that require some stimulation to get them moving and to encourage the formation of clusters. This category includes industries such as manufacturing, financial services, tourism or high-value agriculture.

The critical question is related to the extent that these sectors are stimulated, and what their shape will be.

In the first instance, these sectors can be distinguished as:

- a. Labour-absorbing goods and services (tourism, business services, apparel, furniture, agro-processing, capital equipment, metal fabrication, etc.).
- b. Capital- or skill-intensive goods and services (e.g. finance, medical, beverages, non-ferrous metals, chemicals, etc.).

It goes without saying that any society benefits where a larger proportion of jobs are created in dynamic sectors. Dynamic tradable goods and services are more sustainable and beneficial sources of job creation because they:

- Tend to experience rising terms of trade, relative to commodities.
- Have stronger multiplier/spread effects.
- Can have stronger learning effects.
- Ultimately rely less on public expenditure. Even if there are initial or ongoing support mechanisms, these activities do not rely completely and indefinitely on state procurement. This reliance is dangerous, since a downturn in state revenues will generally result in a cutting of these programmes.
- Pay higher wages, as shown in Table 4.

An employment scenario that relies on commodity-related tradables and very low productivity services will lead to (or entrench) an extremely dualistic society.

The extent to which employment growth is linked to the production of dynamic goods and services is the big outstanding question. It is the most uncertain aspect of any economic strategy, particularly in terms of how to promote know-how and induce the required investment. It may also require those decisions that impose market-related trade-offs; alternatively, the trade-offs might be less than imagined, if there is a willingness to undergo short- to medium-term adjustments.

The elements or instruments to be considered in a policy package might be as follows:

1. At the most basic level, it is inarguable that interventions to underpin economy-wide efficiencies are essential, especially in basic services that are biased to labour-absorbing dynamic trade. This might happen through improvements in the pricing, quality and efficiency of rail, ports or air transport.¹
2. The value and stability of the currency is an important consideration in veering the economy towards either traded or non-traded sectors. Investment in extractive industry and resources may continue despite exchange rate risk. An overvalued currency will favour non-traded sectors (such as retail) and greater import dependence. An undervalued currency might promote a shift toward tradables, both in discouraging imports and encouraging exports. But this is only likely to be seen if policy is implemented over time so that businesses see it as credible enough to make major investment decisions.²

¹ In a separate paper, we modelled the impact of closing price and efficiency gaps in transport and telecommunications on GDP, employment and incomes (see Davies and van Seventer, 2006). It asked how much more employment and GDP growth would there have been had telecommunications and commercial transport been internationally competitive? The paper looked at the impact of three possible reforms – a reduction in mark-ups, a fall in non-tariff barriers and improved efficiency.

It found that GDP would have been 3.9% higher and employment 5.5% higher (translating into about 440,000 jobs). This is quite substantial. However, a number of points would have to be kept in mind:

- The modelling assumes that the economy responds fully to the stimuli of these improvements in price and efficiency. In other words, firms respond fully, there are no skills constraints, wages do not rise, and other prices do not rise. All of these are unlikely. Therefore, the more realistic results would be lower than those reported in the paper.
- The modelling asks what would happen within the context of current industry structure and capabilities. However, it is possible that improvements in infrastructure prices and efficiencies could ultimately make it easier to enter and expand newer industries, thereby encouraging new, unforeseen clusters and capabilities. This would ultimately stimulate longer-term employment and GDP growth, past what the model envisages.
- Assuming they are implemented perfectly, achieve their aims and there are no constraints on business response, these reforms could potentially account for a maximum of 10% of the employment target.

² Ngandu (2005) reflects on international evidence of the link between employment and exchange rate policy in high-growth economies. Unsurprisingly, the literature is mixed in its view about this impact.

- First, it is not certain to what extent exchange rates contribute to export growth. Successful progressive and well-communicated depreciations have been an important element in the policy package of a large majority of high growth economies. Ngandu shows this, and it is a very clear finding in the emerging global case studies being prepared by Prof Berry for the HSRC. In fact, a currency that is not undervalued for a period of time is the exception to the rule. Ngandu reports on a study by Williamson (2000) that shows how 31 out of 33 high-growth economies targeted their exchange rate to some degree. Even in cases where there was a floating rate, the rate was heavily managed. However, these countries also mostly all intervened forcefully to stimulate the investment. A depreciation can also have a negative impact on exports if it contributes to volatility, exchange rate risk and inflation.
- Secondly, most economies have experienced a capital intensification in their tradables sector, and especially in their exports. In the short run, an appreciation can have a positive impact on total employment because production shifts to non-tradables sectors that are more labour intensive (see Ngandu 2005a). This is precisely what happened in South Africa in the past few years. However, this is an ephemeral gain, since the growth in dynamic products is compromised. In South Africa, firms tend to toggle between their production for the local and foreign markets, depending on the value of the exchange rate. However, they will not make long-term decisions to dramatically expand production. Dramatically increasing export volumes is likely to be the main way to expand employment through trade.

3. There may be generalised price incentives that raise the profitability and reduce the risk of expanding non-traditional dynamic products. Some of these policies include R&D allowances, incentives for foreign direct investment, investment in critical infrastructure, etc. There are a small number of successful countries that did not depreciate their currency, such as Ireland. Those countries managed to attract substantial foreign direct investment, partly attracted with substantial investment-related infrastructure and market access arrangements.
4. There may be policies to promote more small and medium-sized (SME) business. This is sometimes seen as one way to intensify labour absorption, since SMEs are known to employ more people per Rand invested. However, SMEs also pay about 10% to 30% less than their larger firms (see Woolard and Woolard, 2006). Aside from the obvious SME support services, the expansion of small firms has been stimulated through targeted public and private procurement (e.g. Korea, Japan and Brazil), and through targeted incentives (e.g. R&D incentives in Finland are only offered to SMEs).
5. There is considerable debate about the relative merits of strong sector-specific support programmes. All countries that have forcefully intervened to promote specific sectors have had both success and failures. The higher growth economies were those that managed to succeed in some of these experiments to establish non-traditional activities. A strong stomach is needed for these interventions because they will inevitably be expensive to begin with, with outcomes uncertain for long periods of time. To what extent is there willingness to emulate the effort and cost of the MIDP or the investment in tourism? ³

³ The types of interventions to promote new dynamic clusters of activity are numerous, but let us summarise them as:

- basic support such as R&D research incentives, or export market development support
- investment support – for example, with investment incentives
- trade policy which enables market access and domestic protection
- these policies might be generalised or targeted support for ‘lead sectors’.

While there are numerous sector programmes in South Africa, there are only a few really forceful targeted programmes. In manufacturing these are aimed at motors and at clothing and textiles.

Is there a willingness to do something as forceful as the MIDP in other sectors?

The MIDP has certainly been a central explanation for the shift from completely knocked-down kits (CKDs) in auto manufacture toward more value-added and the stimulation of components. However, there has been some criticism that its costs outweigh the benefits to the consumer (high cost of cars) and to the economy (a trade deficit). Stimulating new industries and capabilities is an expensive process.

How can we tell when the state is over-investing in a programme? Are there sign posts that give indications that some interventions might ultimately result in net benefits? How would this be measured?

Are the right incentives being used? For example, both the MIDP and clothing sector duty credit certificates (DCCs) offer duty-free permits for goods that can be sold in the domestic market. DCCs are actually intended to enable duty-free imports for exporters. This is an important explanation for rising import dependence. Neither of these sectors have been important in creating or destroying jobs. (The value of promoting motor components may, however, lie in the development of capabilities). Both proponents and critics of industrial intervention might usefully assess the relative merits of the available instruments.

Tourism has also been identified as a lead sector. It already receives considerable financial support. R300- million per annum is allocated to South African Tourism for marketing and industry support services. Our estimates show that perhaps 280,000 jobs might be created in this sector, based on current plans for the industry (see Policy Brief: *“Foreign tourism’s contribution to growth and employment creation in South Africa”*).

3 Assembling scenarios

In the process of building employment scenarios, we want to identify the possible range of outcomes that would reach acceptable levels of poverty and unemployment. We start here with a couple of possibilities, simply to kick off some discussion. This first process should be a creative one, which is not too concerned with plausibility. Some information is, however, given to contextualise possible employment growth through different sectors or policy choices. A deeper reality check, in terms of costs, politics and trade-offs will be done once a fuller range of options is explored. Critically, thinking out-of-the box and dreaming unrealistically may be an important first step. The point is not to say: ‘that won’t work’ but rather ‘could that work?’. Having said that, the scenarios presented are not ‘off-beam’: perhaps because South Africa is so diversified, changes over a 10-year period do not look so dramatic.

The previous paper for this workshop considered possible employment targets (Altman, 2006). We will consider income distribution targets later once more evidence has been assembled. To halve unemployment, about 4.4-million to 6.6-million net new jobs would be created by 2014, depending on whether the focus is on strict or broad unemployment. Remembering that the aim is to halve both unemployment and poverty, the scenarios need to consider not only the number of jobs created, but also their quality. Because poverty is the target, wages or remuneration will be used as the measure of job quality (and not enjoyment, personal fulfilment, safety, standards and so forth).

At one extreme, the stakeholders might commit to meeting the entire employment shortfall through EPWP-type activities. In another exercise, we found that if employment continued to grow precisely as it had over the past eight years, unemployment might fall to about 20% and we would still need to create an additional 1.5-million new jobs – this would be the shortfall that the EPWP would have to make up for. Although extremely low paid work, the job would be solved quickly. There are obvious constraints to taking this approach. Administrative capability is one. The second is programme cost. But the third relates to “return on investment”. Even if large-scale EPWP is pursued, it is not a sustainable approach as it depends almost entirely on government commitments. These programmes are vulnerable to budget cuts in economic downturns, or where some future government feels less commitment to them.

A sustainable job creation path will have to be identified for two main reasons. First, the unemployment problem is mainly structural and not cyclical. Second, halving strict unemployment to, say 13% or 14%, is still considered unacceptably high by global standards and should only be seen as an interim target – the ultimate objective should be to get unemployment down to a level closer to 6% to 8%. If EPWP were the main employment solution, government would need to commit ever-expanding resources to employing millions of people in these extremely low-paid, marginal activities that rely wholly on continued public commitment.

So, the solution will lie somewhere in a middle range. Here we suggest two possible scenarios to kick off. Table 1 shows the approximate distribution of employment in 2004. We are particularly interested in the following categories of industries:

More highly traded sectors:

- Mining and agriculture
- Manufacturing and dynamic services: these are sectors that can take advantage of growing global markets in dynamic products. In the services sector, this refers to areas like finance and business

services or tourism. It can also refer to high-value agriculture which has many similarities to manufacturing.

Less traded sectors:

- “Follower services” that primarily arise as a spin-off from other activities. This refers to sectors like retail and wholesale.
- Construction.
- Public sector.
- Marginal market-based activities in the informal economy.
- EPWP-type activities in construction and community care.

Two possible scenarios are put forward that would have the result of halving unemployment. Scenario 1 has a high domestic orientation in relation to employment creation. Scenario 2 has a higher outward orientation in respect of employment creation. Scenario 1 does not necessarily have less international trade; however, this trade is more capital intensive in character and has less direct impact on employment. The scenarios present only possible employment structures at half unemployment – they are constructed by allocating the 4.4-million jobs across the seven broad categories identified above.

There are some assumptions that are common to both scenarios:

- ***It is assumed that there are no important setbacks, whether related to the global or domestic economy!***
- Mining and agricultural employment has been falling by about 5% to 6% per annum since the mid-1990s. Both scenarios assume that this employment continues to fall, but at a slower rate. A number of factors may influence this, such as continued technology and productivity improvements, gold mining investments coming on-stream, continued expansion in newer metals such as platinum, some growth in high-value agriculture, global demand for commodities and so forth. Having interviewed quite a number of experts and stakeholders in these industries, it seems unlikely that substantial net new employment will be created in these sectors. The policy question might rather be how to slow down employment loss.
- Government commits to expanding EPWP-type activities, creating 700,000 net new jobs in labour-intensive construction and community care.
- Government does not expand public sector employment.

Scenario 1 is a good indication of what might happen if it is thought that the employment creation path between 1997 and 2005 continues into the future.

- Agricultural employment has been falling by about 5% per annum since the mid-1990s. This scenario assumes these losses level off at an average of 2% job loss per annum. Mining employment has fallen by about 6% per annum. Scenario 1 assumes this slows to 3% per annum. About 220,000 jobs are lost in these sectors.
- Manufacturing employment grows by 1.9% per annum, which is about the same rate as that found between 2000 and 2005. About 300,000 jobs are gained.
- “Dynamic” services employment, such as finance and tourism, grows by 2.5% per annum. About 560,000 jobs are gained.

- “Follower” services, such as retail & wholesale and construction, grow by 4.5% to 5% per annum. Between 2000 and 2005, they grew by 5% and 11% per annum respectively. About 900,000 million jobs are gained.
- Informal sector employment grows by 5% per annum, creating about 1.7-million jobs. This is about the same growth rate experienced between 2000 and 2005, albeit in fits and starts.

In this scenario, no major policy changes are made in respect of labour-absorbing manufacturing, and dynamic services are not especially stimulated. It assumes that world growth continues apace, including related demand for commodities, perhaps with a continued volatile and overvalued exchange rate (relative to what would stimulate labour-intensive exports). It is possible that extra stimulus would be required of “follower services” and the informal economy: in this scenario, “follower services” contribute almost one-quarter of all formal jobs, up from about 20% in 2004. Already, these services contribute a large proportion of South African employment, and further stimulation might require special effort or incentives.

Scenario 2 involves more stimulation of dynamic manufacturing and services sectors, through perhaps a currency depreciation, important improvements in supportive infrastructure and targeted sector programmes.

- Agricultural employment falls by the same amount as in Scenario 1. It is assumed that a contraction in the global resource boom might occur (this is one contributor to the expansion of labour-absorbing tradables), so mining employment falls by a little more than in Scenario 1 – by 4% per annum. About 260,000 jobs are lost in these sectors.
- Manufacturing employment expands much more dramatically – by 3.3% per annum, which is almost double that found between 2000 and 2005. Almost 600,000 jobs are gained.
- “Dynamic” services employment, such as finance and tourism, grows by 5.5% per annum, creating about 1.4 million jobs.
- “Follower services”, such as retail and wholesale, grow by the same rate as in Scenario 1 – about 4.3% – and construction grows by 2% per annum because less emphasis is placed on its expansion. About one million jobs are gained.
- Informal sector employment grows by 3 % per annum, creating about one million jobs.

These scenarios are presented in Table 1. On the surface, they may seem quite similar, but there are important differences. Table 2 summarises the distribution of employment by sector type. In all the scenarios, resource industries become a smaller proportion of total employment, which is a fairly commonplace experience in the development process. In addition, the public sector also accounts for a much smaller proportion of total employment.⁴ The informal sector, which is currently fairly small, continues to grow faster than most other sectors. It accounts for 34% and 29% of total employment in Scenario 1 and 2 respectively⁵ (this means 800,000 more people work in the informal sector in Scenario 1). It is probable that it could continue to grow at a pace, even if only because of urbanisation and labour market entrants establishing survivalist activities. “Follower services” are also larger employers than at present.

⁴ By 2014, the public sector contributes only 10% to 11% of total employment, or 15% to 16% of formal employment. This is low compared to most other countries. It has welfare implications in relation to delivery, but also because the public sector pays higher wages to lower skill workers and is an important employer in more depressed regions.

⁵ EPWP-type activities are included here, since they would likely be recorded as informal in the LFS.

The real difference between the scenarios is the extent to which manufacturing and dynamic services employment expands, relative to that in “follower services” and the informal economy. If more dynamic sectors grow by about the same rate as at present (Scenario 1), they will become a smaller share of total employment. In Scenario 2, more policy emphasis has generated faster growth rates in newer industries, expanding their contribution to employment.

Why does this matter, if both scenarios achieve a halving of unemployment? There are potentially two main reasons why this matters.

- First, dynamic goods and services tend to pay high wages. Table 3 shows the possible impact on remuneration⁶. In 2004, about 65% of the workforce earned less than R2,500 per month. In Scenario 1, almost 70% of the workforce earns the equivalent of R2,500 or less. In Scenario 2, about 66.7% of the workforce earn R2,500 or less.⁷ This is a critical dilemma: neither scenario solves the ‘working poor’ problem. It is considerably worse in Scenario 1.
- Second, we must ask how large “follower services” and the informal sector should really be in a middle-income economy. Perhaps the structural change over 10 years does not appear large. But the real differences would appear over a longer period. For example, if the sector growth rates expressed in Scenario 1 persisted for 20 years, the manufacturing sector would contribute only 10% to total employment, whereas the informal sector would have grown to 36%. If Scenario 2 proceeds for 20 years, manufacturing employment contributes 12% and the informal sector is only 25% of total employment. After a longer period of time, the different impact on wages will be very noticeable.

⁶ These calculations are based on weighted average wages from these nine broad sectors sourced from the LFS, 2004. Note that it was also assumed that real wages do not change.

⁷ This assumes that real wages do not rise or fall. Since 1997, real wages for low- and semi-skilled workers did stagnate. However, it is possible that wages could rise in certain sectors if employment expanded: for example, this might happen if manufacturing and dynamic services employment pick up, particularly under conditions of a skills constraint. Certain sectors, such as retail, are becoming increasingly organised – if substantial growth continued, these sectors too might succeed in raising wages.

Table 1 – Two possible employment scenarios

Categories	2004	Growth assumptions (p.a.)	Scenario 1: High domestic orientation	Growth assumptions (p.a.)	Scenario 2: Greater component of dynamic products in trade
Agriculture	700,000	-2.0%	573,770	-2.0%	573,770
Mining	400,000	-3.0%	307,692	-4.0%	270,270
Manufacturing	1,500,000	1.9%	1,800,000	3.3%	2,070,000
Leader services (eg finance, tourism)	2,000,000	2.5%	2,560,000	5.5%	3,400,000
Follower services (eg retail)	1,700,000	4.5%	2,631,600	4.3%	2,550,000
Construction & utilities	700,000	5.0%	1,141,000	2.0%	852,250
Public sector, private social services & parastatals	1,700,000	0.0%	1,700,000	0.0%	1,700,000
Informal sector & dom work & subsis agric; less EPWP	2,660,000	5.0%	4,346,174	3.0%	3,643,987
EPWP-type jobs - construction	220,000	+200,000	420,000	+200,000	420,000
EPWP-type jobs - community care	120,000	+500000	620,000	+500000	620,000
	11,700,000	3.8%	16,100,237	3.8%	16,100,278

Source: Labour Force Survey is the source of employment figures for 2004

Table 2 – Summary of employment outcome under two possible scenarios

Sector group	2004 (%)	Scenario 1 (%)	Scenario 2 (%)
Mining and agriculture	9.4	5.5	5.2
Manufacturing and leader services	29.9	27.1	34.0
Follower services and construction	20.5	23.4	21.1
Public sector	14.5	10.6	10.6
Informal sector and EPWP	25.6	33.5	29.1
Total	100.0	100.0	100.0

Table 3 – Average wage earnings under two difference scenarios

Remuneration per month	2004 ⁽¹⁾	Scenario 1: Domestic orientation ⁽²⁾	Scenario 2: Dynamic products in trade orientation ⁽²⁾
<R1000	47.4%	51.4%	49.4%
1000 - 2500	17.8%	18.2%	17.4%
>2500	34.8%	30.3%	33.2%
	100.0%	100.0%	100.0%
Total number employed	11.7 m	16.1m	16.1m
Strict unemployment rate (rounded)	26%	13 %	13 %

Notes:

(1) With the exception of EPWP, each sector has some proportion of workers in any income category. These proportions are drawn from the LFS, 2004.

(2) The proportions of people in any one income category in Scenario 1 and 2 differs depending on how much employment in that sector grows.

A 1% difference in 2004 is equivalent to 161,000 workers.

Table 4 – The distribution of formal sector earnings by sector

Sector	Wages earned per month		
	1-1000	1000 - 2500	2500 +
Agriculture, hunting, forestry and fishing	85.2%	4.7%	10.1%
Community, social and personal services	20.4%	10.7%	68.9%
Construction	58.0%	22.2%	19.8%
Financial intermediation, insurance, real estate and business	30.0%	15.5%	54.5%
Manufacturing	38.0%	23.6%	38.3%
Mining and quarrying	10.1%	32.6%	57.4%
Private households	95.7%	3.4%	0.9%
Transport, storage and communication	28.3%	16.7%	55.1%
Wholesale and retail trade	56.0%	17.3%	26.7%

Source: LFS, Sept 2004

4 Concluding remarks

Some initial thoughts about framing employment scenarios were offered in this paper, focusing on employment creation. Future work will consider other aspects such as labour market dynamics.

From an employment creation perspective, there are five broad sources of job creation, including:

- Poverty alleviation activities, ranging from EPWP to self-help survivalist activities.
- The public service.
- “Follower” industries, such as retail or construction, that are relatively low paying.
- Commodity-related export industries, such as mining, iron & steel or heavy chemicals, that do not really create much employment.
- “Dynamic” goods and services industries that take advantage of growing global markets. These sectors tend ultimately to depend less on the state and pay higher wages. Examples include business process outsourcing, finance and large parts of manufacturing. It can also include high-value agriculture such as cut flowers.

Two initial scenarios were put forward, with the aim of stimulating debate. Scenario 1 was more domestically oriented, with the main employment growth in the informal sector and “follower services”. Scenario 2 was more outward oriented, with more

substantial growth in dynamic goods and services. It is assumed that the public service does not expand, but that 700,000 EPWP opportunities are created. Mining and agricultural employment continue to decline. It is assumed that nothing will go wrong significantly in South Africa's growth path.

Scenario 1 requires fewer economic policy trade-offs and closely emulates the track South Africa is on already. Most microeconomic interventions would be focused on stimulating domestic-oriented formal and informal sectors. But there are longer term economic and social costs. Scenario 1 does less to build employment-oriented dynamic products sectors, and the impact is seen dramatically when the scenario is extended for a longer period of time – in this scenario, the informal sector becomes a very significant employer. Moreover, in Scenario 1, lower paying sectors expand, so that over time the size of the working poor (here measured as those earning less than the equivalent of R2,500 in 2004) grows quite dramatically. Scenario 1 sees the working poor rising from about 65% to 70% of the workforce. Extending this scenario would further lead to wage erosion. This could have serious implications for social welfare and make greater demands on a system of social protection.

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