

## Employment Numbers and Pres Zuma's Speech

What a week that was!!

Four important political developments have taken place over the last week. Julius Malema Esq's suspension from the ANC was confirmed on an appeal hearing, an internal ANC report rejecting nationalisation was strategically leaked just before the mining indaba in Cape Town, 2011's employment numbers came out and Pres Zuma opened the 2012 Parliamentary session with the customary State of the Nation speech. We focus on the latter two.

### Employment

The story can be summarised in one phrase: 60% recovered, 40% to go.

The 2009 recession cost SA 870 000 jobs. At the end of Dec 2008 some 13.844 million people were employed. A year later, in Dec 2009, it was down to 12.974 million.

Twenty four months later, in Dec 2011, 60% or 523 000 of those job losses have been recovered. It still leaves SA short by 347 000 jobs (or 40%) from before the recession struck. The recovery from the 2009 bloodletting was slow: 2010 saw a hesitant recovery with 158 000 jobs and 2011 a more decisive recovery with 365 000 jobs created.

This is a fairly familiar pattern for economies hit by the 2009 Great Recession – things are not back to where they were before the recession. In the US, for example, there are still 6.6 million more people unemployed than before the recession struck.

### Where were the jobs created?

Of the 365 000 jobs created in 2010 79% were created in the various private sectors of the economy and 21% in the public sector.

Some of the **public sector** jobs would have been workers employed for the Census of 2011 and some others would have been employed in the various Public Works and Community Works programmes. As discussed before, these are not jobs in the real and normal sense of the word. They are low-pay and low-productivity jobs more focused on poverty relief than sustainable jobs. But they certainly help to manage the unemployment burden.

The biggest **private sector** job creators were "finance and business services" with 145 000 jobs and "trade" with 85 000 jobs, followed by mining, transport and manufacturing. Agriculture and private households did not contribute much during the quarter.

### Employment co-efficient ... and politics

Over the two years since the abyss in Dec 2009 jobs have grown by 4%. In the same period GDP expanded by about 6,5%. That implies a simple labour market co-efficient of around 0,61. In ordinary English, for every 1% the economy grows, jobs grow at about 0.61%. This is in line with the National Planning Commission's finding that SA enjoyed an employment co-efficient of between 0,6 and 0,7 over

the 12 years from 1997 to 2008. The NPC also found that this co-efficient was much higher than the 0,3 to 0,5 found in other emerging economies.

This simple statistic demolished core arguments that both the right and the left have on SA's labour market.

The right argues that jobs can only be created by abolishing labour laws, minimum wages and minimum conditions of employment. The employment co-efficient tells us that when there is growth the jobs follow... in spite of the labour laws and minimum conditions. And not only are there jobs, but there are more jobs for 1% growth than in many other economies. The left argues that growth is not really important, that one can have "jobless growth" and it is the type of growth that really matters. The employment co-efficient demolishes the "jobless growth" argument. If you have growth, you get jobs, "finish en klaar".

### What is possible

The employment co-efficient also tells us that if we achieve the 2.7% growth expected for 2012, another 200 000 jobs can be created by the end of this year. Although that will take us close to the all-time high of December 2008, it still means that it will have taken four to four and a half years to recover from the 2009 recession.

There is nothing mechanical or automatic about the co-efficient. It all depends on intangible matters like confidence, prospects and "animal spirits"; as well as more tangible things like developments in Europe and concrete investment. So saying that we can add another 200 000 jobs is not so much a forecast, as a statement of what can happen in a "muddle through" scenario.

Which takes us to Pres Zuma's speech – what does it do for growth and job creation?

## Pres Zuma's State of the nation Speech

The speech by and large dealt with infrastructure – for economic development on the one hand and for social development on the other.

### Economic growth

The president announced 5 large infrastructure projects covering transport, water, electricity – in Limpopo and Mpumalanga to support mining and coal delivery; in the Western and Northern Cape to support bigger iron ore exports; in the North West primarily to upgrade ten roads (heaven knows, that province needs it!); in the Eastern Cape to support agriculture and general industry; and in the Gauteng/Free State/Durban corridor to enhance rail and port capacity. Port charges on exports will be dropped to the tune of R1 billion. The mining industry, in particular, but also agriculture and manufacturing, will benefit from these infrastructure projects.

Two questions arise. Firstly, will these announcements increase the amount of R802 billion (or roughly 7.5% of GDP) that was allocated for capital expenditure in the mini-budget in October last year? My

sense is that it is more a case of detail on how that R802 billion will be spent, than an actual increase in the amount. For clarity on that we will have to wait for the national budget on 22 February.

Nevertheless, even if the money to be spent stays the same at R802, the profile now given by the President to these projects will enhance implementation – actually making sure the money gets spend. But it does mean that there is no extra stimulus for growth beyond what was already in the numbers.

Secondly, who will benefit from these contracts? Several Indian and Chinese companies have lobbied over the last years for these projects and it will be interesting to see how much of the action is allocated to them. I have a feeling it will not be the usual suspects that will benefit – a range of new suspects are going to appear reflecting SA's closer relationship with the BRIC countries.

### Social development

The president announced that the credit guarantee scheme which Housing minister Tokyo Sexwale announced more than a year ago will commence in April and will be administered by the NHF – the National Housing Finance Corp, an institution that has been around for a while. The scheme will benefit people who earn too much for an RDP house but too little to get a bank loan. It should enhance home ownership in the lower income categories.

Water supply is enhanced with the revitalisation of 25 dams (9 already done) and the building of 5 new water augmentation plants.

Hospitals and nurses' homes will be refurbished to prepare the infrastructure for National Health Insurance.

The president reiterated the R300 million budgeted last year already to do preparatory work on the establishment of two new universities in Northern Cape and Mpumalanga.

### General observations

- It looks as if the ban on labour brokers, mooted in 2009, will not take place. Said he: "Government seeks to eliminate all forms of abusive practices inherent in labour broking ...". I interpret that to mean no general ban, but tighter regulation. Hopefully SA would follow the International Labour Organisation (ILO) convention on labour broking, which allows the industry to exist, develop and grow, but ban exploitative and abusive practices.
- The president urged citizens to be involved in the formulation of land reform proposals, pointing out that next year it will be 100 years since the Land Act of 1913 was passed which excluded Africans from 87% of the country's land. He is clearly preparing the ground for some big announcements on land in the run up to that centenary.
- He welcomed Cosatu's newly formed Corruption Watch; confirmed that the task team on cleaning up state procurement is continuing its work and that procurement personnel is being vetted.
- He gave a lot of air time to the National Planning Commission's Plan for SA. It should help to embed the Plan in the bureaucracy and body politic.

## The Test

So, back to the question: does the speech support growth and job creation?

Yes it does, but (subject to numbers from the budget on 22 February) it does not support a quantum leap to 5% growth and 5 million jobs. I see steady and consistent progress based on more growth (3%+); 300 000 jobs in good years; constant improvement in infrastructure; expansion of human and social capital ... in short, the steady slow march to modernity that SA embarked on 22 years ago.

Not a leap à la the Chinese or Koreans; certainly not the much touted collapse so beloved of the Afropessimists, just a steady "muddle through". The way most of mankind has progressed for most of history – one step after the other. Or as Churchill would have put it: "KBO – Keep buggering on".