

The stark reality facing SA in 2010 can be summarised in one word: unemployment. I rate that by far the most critical issue facing the nation right now. SA cannot build the social capital it needs if unemployment is not reduced substantially.

What has changed to move this to the top of the priority list? Two things have radically altered the landscape.

The destruction of 2009

2009 saw 870 000 job losses for the year. The total number of people employed in the economy dropped from 13,844 million at the end of December 2008 to 12,974 million at the end of December 2009.

This change can also be conveyed in three other numbers: 44%; 39% and 41%. 13,8 million people employed means that **44%** of the working-age population, i.e. everyone between 15 and 64, were working. In 1995 that was **39%**. After the one million job losses in the first nine months of last year we regressed to **41%**.

The fall from 44% to 41% means that about half the progress made since 1995 was reversed during 2009. It was truly a terrible year.

(Doing the numbers this way – employment as a percentage of the working-age population – enables us to allow for the impact of population growth. The cohort of people between 15 and 64 keeps growing.)

Slower economic growth

The second thing that has changed is the growth in the economy. In the golden years of 2004 to 2007 the economy grew at 5% p.a. and we created 500 000 jobs per year.

However, in 2009 the economy contracted (probably by around -1.8%) and we lost one million jobs in nine months.

For 2010 most economists expect growth of around 3%.

In the current uncertain environment it is very hard to forecast growth for one year, let alone for five years. But let us assume 3% growth p.a. and a labour market co-efficient of 0,75, meaning the labour market grows at 0,75% for every 1% growth in the economy. Then we can create 300 000 jobs per annum.

So the other big change has been a move from a 5% economy to a 3% economy. That is sufficient to keep pace with population growth, but insufficient to bring down unemployment.

Political response to unemployment

Government has responded to the unemployment crisis with the following:

- A huge increase in infrastructure investment – now running at 9% of GDP and budgeted to go to 10%. Long after the World Cup is gone infrastructure upgrades will still continue and that will help with growth and job creation.
- The Expanded Public Works Programme, which aims to create 4,5 million “job opportunities” over the five years to 2014. This is where Pres Zuma promised 500 000 job opportunities by Dec 2009. We must wait for the data to be released to determine whether that was achieved. These job opportunities are generally of low pay and temporary should not be confused with “normal” jobs created in the economy.
- An industrial policy aimed at assisting the establishment of new industries (or expansion of existing ones) and thus creating jobs. Suffice it to say this policy has so far not delivered on the expectations and the promises made.
- A number of cross-cutting areas are attended to like skills development, telecommunication costs and some red tape.

The missing element

All the above is necessary and good, but there is only one effective response to unemployment and that is a higher rate of growth. Our own recent history has confirmed that: at 5% growth we created 500 000 jobs a year.

However, higher growth requires on-going structural reform to enhance competitiveness and productivity; strong political will to implement such reforms; and clarity of purpose to convince citizens of what we want to achieve.

First and foremost, you need political will. That can make the difference between 3% and 5% growth. And that is currently lacking.

Since last May we have been alerting clients to the fact that we do not fear a swing to the left so much as a swing to stagnation – policy gridlock. Is that not more or less what we are seeing in our current politics?

Somewhat in defence of the politicians, I must confess that I remain absolutely amazed at the range of people that do not subscribe to the view that high growth is a pre-condition for progress. In numerous discussions I encounter a “yes, but” attitude. There is always the suspicion that only the haves will benefit from growth, and therefore to pursue it is not sufficient. If that is the opinion of the body politic, one can understand politicians not focusing. But it is also the duty of ministers to lead and shape public opinion.

So What?

- When we combine figures from the labour market, economic growth and demography it is quite clear that 3% growth is just not enough to dent unemployment. At 3% we create enough jobs to

absorb the growth in the 15 to 64 age cohort – the so-called working age population. But we do not make progress with unemployment.

- 3% economic growth is more than our current 1% population growth. So it is enough to create more wealth, lift per capita incomes and create more resources for social spending. But we will not dent unemployment.
- Failure to reduce unemployment will also undermine the country's social capital with consequences for crime and social cohesion.