

Getting beyond doctrine

In last month's comment I gave a summary of the numerous pressures that are building in SA's labour relations system. This month I want to discuss one of the two contentious issues in our labour relations system– the ability to create more jobs.

(The other one is wage setting which is now heading for the Constitutional Court. We must let the Court tell us what is legal and what not, and then we can pick up the threads again.)

Doctrine in our public debate

On the issue of labour laws and job creation the public debate is highly polarised. Doctrine dominates.

On the right the free marketeers argue that deregulation will enable more jobs to be created. Deregulate and the labour market would clear at a wage which will eliminate unemployment. The extreme free marketeers even dismiss initiatives like the wage subsidy. (Ironically this puts them in the bed as the far left ... strange bedfellows!!)

On the left the argument is that SA is suffering from jobless growth; that neoliberal policies and an independent Reserve Bank undermine employment; that there should be more state intervention in the economy to effect more growth and jobs.

There is a stalemate in the debate, no view is capable of landing a knockout blow on the other. It all comes down to the ideology or doctrine you believe in.

More research needed

Outside SA's borders, in the US for example, this area – the impact of minimum wages and labour laws on job creation and growth – is probably the most researched aspect of economics. Not so the case here with us.

Here the bulk of our research is concerned with macro-economics; and from there we generally rely on doctrine to tell us what should happen in the labour market.

Moving beyond doctrine

But things are beginning to change.

In 2011 a seminal paper was published by Prof Frederick Fourie, professor in economics at the University of the Free State and a most formidable researcher and economist. He analysed every research paper published by local and international researchers on SA's labour market over the preceding 15 years. It involved some 200 research papers.

Fourie's most important finding is that research and debate on (un)employment in SA can be divided into 3 distinct discourses which give us 3 different views of the labour market:

A **macro economic** view which stresses the importance of economic growth. The theme is: "High growth (and lower wages) will lead to higher welfare, more employment and more income for all, including the poor."

A labour market view which stresses the factors that influence supply and demand for labour at the micro (or enterprise) level. It stresses the segmentation and dualism which undermine the normal forces of supply and demand. Here the theme is: “Whatever the growth rate or business cycle phase, the complex (*mal*)functioning of the labour market causes unemployment and inequality.”
(*my addition*)

A poverty-inequality view which stresses that unemployment is part of a much bigger problem of under-development; of structural and chronic poverty. In this view poverty and inequality cause unemployment, as much as unemployment causes poverty and inequality. The theme is: “Whatever the growth rate or business cycle phase, the poor, marginalised, powerless and unemployed do not benefit much from the economy.”

Fourie’s observation was that people belong to one of the views and they stick to that. Little cross fertilization.

It is interesting to note that the National Planning Commission’s recommendations cover all three areas identified by Fourie. Ideas are beginning to cross pollinate. Slowly we are realising the issue is a bit more complicated than doctrine suggests.

Pushing the boundaries

Now a further potentially significant development has occurred.

It is a new website, called Econ 3X3, started by Prof Fourie, run in collaboration with SALDRU at the University of Cape Town and supported by National Treasury. Heavyweights. The aim is to focus specifically on the topics of employment, inequality (or “distribution” as the economists like to call it) and inclusive growth.

Here is one public, non-academic space where doctrine is taking a backseat to nuanced thinking and some hard data.

Data

On that website Fourie has now published another important article, his first since 2011.

In it he draws attention to the fact that for 60 years since the end of the Second World War the employment co-efficient in SA fluctuated around 0.5. (I.e. for every 1% growth of the economy jobs grew by 0.5%.) There goes the left’s jobless growth criticism – jobless growth is an employment co-efficient of 0, not 0.5.

For the free marketeers, the news is also bad. Sixty years is a very long time covering all kinds of extremes: from high growth to recessions; from droughts to floods; from high mineral prices to low ones; from political unrest to peace; from war on our borders to peace on our borders. Yet jobs were created in more or less a constant ratio to economic growth. At 0.5 the SA economy has never been very “employment intensive”.

Several reasons are advanced for this, *inter alia*, as the economy modernises more technology and capital are used and comparatively less labour. It is part and parcel of modernisation.

Some researchers also claim that low employment intensity is a characteristic of a mining economy. The employment ratio only increases when there is diversification away from mining to services and manufacturing. Be that as it may.

History

Free market critics will respond and say that the 60 year co-efficient of 0.5 means nothing because SA have had labour laws since the 1920s; if we did not have them, the co-efficient would have been higher. There is of course no empirical proof for that argument, it comes from doctrine.

What we do have empirical proof for is that every time there was massive labour unrest, more labour market regulation followed as a method to prevent further unrest.

The 1924 labour laws followed the mineworkers' strike of 1922; the Wiehahn reforms of 1979 followed the labour unrest of 1973; the 1995 labour law amendments followed the high strike activity of the 1980s (strike numbers more than halved in the decade after 1995); Marikana was immediately followed by efforts to replace mine based bargaining with centralised bargaining i.e. more regulation; and when De Doorns burnt, the DA, ANC and COSATU all called for higher wages through a government wage review – more regulation again.

The 100 year trend is clear: when the pawpaw hits the fan we do not move to a free market; we go the opposite direction. We choose to channel the fight into some orderly processes (i.e. regulation) where the unrest does not threaten society.

So What – Why do I discuss this?

Firstly, to appreciate that the problem of unemployment is infinitely more difficult than the normal doctrinaire discussion allow for. We will make it easier for ourselves if we understand the complexity of it all better.

Secondly, to indicate that our thinking/understanding is evolving. We are not stuck in some stagnant ideological position with no hope of getting out.

Thirdly, to point out the NPC has made some useful proposals which can take us further in practice.

Most of all, there are no magic bullets, be they fired from the left or the right; only a chipping away at the obstacles. "Muddle through".