“working in the cities”

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Dr. Miriam Altman
Executive Director
Centre for Poverty, Employment
maltman@hsrc.ac.za

Social science that makes a difference

HSRC
Human Sciences Research Council

National goal:
"The creation of decent work & sustainable livelihoods is the primary focus of economic policy"

"***Decent work" means:***

- sufficient work opportunities
- ability to live at acceptable level
- human rights respected, and workers able to influence matters affecting their lives

This will involve:

- Halving unemployment between 2004 and 2014 in a way that enables further improvement to 2024. This requires average 500,000 net new jobs per annum
- Achieving economic path that enables long term real wage growth and reductions in working poverty
- Cost of living affordable to working people

Principles

- As much self-sustaining market-based activity as possible
- As much public provision as possible to make up shortfall and improve delivery
- Commitment to ensuring affordable cost of living for poor households

The context for job creation

Employment & unemployment trends

Unemployment:

- Rising through 1990s, both absolute numbers & UE rate.
- Stagnant and falling UE in 2000s

Employment:

- Positive formal employment growth since 1997 until recently
- Average of 300,000 to 400,000 net new jobs annually
- Constant ratio of high skill to low/semi skilled over past decade (30:70)
  - Large number of low skill jobs have been created – just not enough
- Fast employment growth relative to GDP growth
  - Divergence between sources of growth, and sources of new employment
  - Majority of new employment created in services sector

Youth unemployment

- Unemployment is especially a problem for youth…..
  - 75% of unemployed people are youth
  - Having a matric does not improve chances for young people – Approx 50 % of 20 – 24 year olds are unemployed whether or not matrics. Improves later on.
  - Youth are not ‘lazy’ - 60% of unemployed youth have been searching for 1 to 3 years or more
  - Skills mis-match is only part of the problem. Majority of new jobs are in low skill services
  - These figures quoted before slowdown – likely to be exacerbated over next years as a result of very slow hiring in context of economic slowdown
- Challenges
  - Poor basic capabilities in communication, numeracy, comprehension, search skills, personal presentation, IT skills.
  - Poor networks – most people find job through networks, but only 10% use this method. This is especially true for African youth. For eg, survey in Western Cape showed:
    - More than ½ whites had worked by age 17, vs 1% african females and 7% african males
    - By age 20, 88% of whites had worked vs 20% african females and 31% african males
  - 33% of young women (aged 25-29) are HIV infected – these are young mothers, needing to look for work and raise children, often experiencing depression

The economic slowdown – implications for job creation in next few years

- Deeper poverty – 800,000 jobs lost in past year, throws min 3.2m into deep poverty
  - Unemployment rate has not risen much, simply because approximately same number of people have dropped out of labour market – these are discouraged work seekers
- Not sure how recovery might look? V, U, W, L?
- Very limited market based job creation in next few years?
- Special role for public employment schemes
- Reduced assets and spending of middle and working classes can contribute to long downturn, especially affecting employment
- Loss of capability in manufacturing

Employment orientation of industry

- Increasingly employment and output poorly aligned
- Resource based economy has special tendency to commodities as tradables, and employment in non-tradables.
  - This is trajectory that leads to relatively low growth, low employment and high inequality
  - Very difficult to get off this path due to resource curse elements
- Globally, most employment created in services, this is specifically important for cities
- Question is:
  - what proportion of employment created in tradables that enable real wage growth?
  - What proportion of tradables are stimulatory of indirect market-based employment creation?

Sources of Employment Creation

% change in employment by sector, 1997 - 2005

	Total 1997-2005	Avg annual growth (%)	Sector employment in 2005 ('000s)
Manufacturing	6.2%	0.8%	1,467
Construction	75.1%	9.4%	618
Finance	86.4%	10.8%	1,238
Trade	58.1%	7.3%	1,848
Community services	21.0%	2.6%	2,033
Total formal sector employment	26.2%	3.3%	8,812

IFS	107.0%	13.4%	1,954
Domestic workers	9.6%	1.2%	1,088

Private formal services main source of new employment
Gov't has not played major role as new employer, although this will change

Research Council

Structural misalignments contain potential employment creation, especially in services economy

- High rates of income inequality result in poor circulation of income and demand deficiency
- SA has modernising services economy, with low skill marginalised labour force
- The cost of living is high relative to what most people earn at work
- Commercial and social infrastructure are not aligned to labour absorbing path –
  - Housing/transport poorly aligned to needs of services economy
  - the HSRC found that if commercial transport and telecommunications were globally competitive, unemployment would be 25% lower
- Spatial misalignments due to apartheid legacy
- Social networks and safety nets are weak – not conducive to employment access

Human resource development is not yet conducive to employment path

- Young people leave school without sufficient skills and capabilities to enable effective economic participation.
- This constrains successful re-orientation of economy to job creating path – with shortages of all major skills groups such as engineers, artisans, teachers, health practitioners, ICT, etc
- The education system is highly skewed by race and region, despite pro-poor education spending.
- There are deep institutional and managerial weaknesses in public system, and low teacher morale.
- There are weak institutional links between schools, FET, HET, SETAs and employers
- There is deep racial bias in access to first work opportunity. The majority of black matriculants can expect to be unemployed until at least the age of 24.

Working poverty

- Half of working people earned R 2500 or less per month in Sept 2007
- If these households have 4 – 8 dependents with no other earners, then each member lives on average of R 313 to R 625 per month.
- In 2005, social grants added a further average of R 100 per person per month in poor households.
- This compares to Treasury's proposed poverty line of R 420 in 2007, or BMR's Supplemented Living Level of R 670 in 2008.
- This means that 1/2 of working people are in households that skate below or near the poverty line.
- High rate of working poverty means that halving unemployment will not automatically translate into halving poverty unless:
  - New employment opportunities provide a decent income
  - Cost of living becomes more affordable
  - System of social protection deepens

A large % of working people are poor

Income per month - All				
	Sept 04	Sept 05	Sept 06	Sept 07
< R1000	47.9%	36.8%	32.9%	21.6%
R1001 - R 2500	17.9%	27.3%	28.6%	24.2%
>R2501	34.0%	35.9%	38.4%	54.3%
Income per month - Formal sector				
	Sept 04	Sept 05	Sept 06	Sept 07
< R1000	20.5%	20.1%	16.4%	10.6%
R1001 - R 2500	31.1%	30.5%	31.1%	23.4%
>R2501	48.3%	49.3%	52.5%	66.0%
Notes: these are nominal amounts				

Creating jobs in cities

Immediate interventions = ?

- EPWP: major new opportunities for NPOs and communities to access the employment incentive and community works
- Review of job hierarchies to enable lower and semi-skill entry in public sector
- Local procurement
- Payment in 30 days = working capital
- Post school opportunities for youth
  - esp access FET, learnerships, apprenticeships
  - First work experience
    - Transitional jobs for youth in the public sector
- Social welfare: soup kitchens, enable grants roll-out, home food production, etc

Employment policy needs to aim at *long term* challenges & misalignments

- Human resource development
- Housing/transport configurations
- Network services (electricity, commercial transport, telecoms, water)
- Industrial stimulation & market access
- Social infrastructure

Long range view wildcards

- Depth of decline & pace of recovery & legacy effects in SA and amongst major trading partners
- Implications of a ‘post-industrial society’…..
- Shift from energy intensive investment base
- Shifts within mining
- Shift in trade profile towards emerging markets & Africa

Need to find more ways of generating "good jobs"

- Manufacturing seen as key to private sector employment creation & growth.
- This is historical bias, that has not been sufficiently updated in economic thinking globally.
  - Mfg falling contributor to value added & employment at ever lower levels of per capita income
  - Especially true in minerals economies.
- The trend to both skill-intensive and labour-intensive services employment in SA is common globally.
- Trend to divergence between growth & employment encourages wage inequality
- Need to identify ways of aligning growth & employment, esp in services – growing contributor to global trade
- Services as non-tradable is policy choice

Different levers of industrial policy?

- **Movement of people,** both in and out: implications for home affairs and trade arrangements
  - Trade arrangements & placement of people in services trade (eg construction contracts).
- **Domestic outsourcing** of services generates markets domestically that can be used to move into exports
- **Global outsourcing** of services
- Changing **regulatory environment,** particularly in relation to utilities & in relation to reducing mark-ups and transaction costs (eg finance).
- **Urbanisation and a growing middle class** has generated expanded demand for personal, community and social services.
- **High skill immigration** can generate new source of demand.
- **Stimulation of backward linkages**, such as construction capital equipment from foreign construction contracts.
- **Network infrastructure** for commercial and public services becomes even more essential in stimulating activity and supporting linkages

‘propulsion & linkages’

- Essential that there is sufficient propulsive industries.
  - This can mean identify new sources of demand for SA goods and services – example a foreign market, or skilled immigration
- More value gained for SA if:
  - product or process leadership, brand ownership, dominance of distribution channels – implications for R&D, Centres of Excellence, strong clusters
  - Inward linkages stimulated though stimulation of producer & consumer linkages

“linkages”

- Centres of excellence in localities
- Local procurement and supplier development as mainstreamed part of supply chain management
- Economic support that enables small business entry and growth (eg approach to retail)
- Functional social and economic infrastructure to support services economies for ease of mobility

HSRC partnerships

- Employment scenarios
- Agglomerations & the emerging sources of employment & growth
- Testing innovations for job creation
  - Youth
  - Epwp
  - Procurement