

BUSINESS REPORT

Harvard Group Details Growth Roadblocks in South Africa

By Ethel Hazelhurst

Johannesburg - More than 6 million unemployed South Africans would have jobs if the economy performed as well as those of emerging market peers, according to the International Growth Advisory Panel, chaired by Ricardo Hausmann of Harvard University's Kennedy School of Government.

Last night, Hausmann presented the panel's findings on constraints in the South African economy at the Gordon Institute of Business Science, following the publication of its 21 suggestions last month.

South Africa's problem is that only 13 million people, or 42 percent of the working age population, have jobs, the panel's research shows.

This compares with countries at similar levels of development in Latin America, eastern Europe and east Asia, where the rate of employment is more than 60 percent.

The panel was engaged by the national treasury to help the government meet the targets of its accelerated and shared growth initiative for South Africa: growth of 6 percent a year by 2010, and to reduce unemployment to less than 15 percent and poverty to less than 16.7 percent of households by 2014.

Unlike those emerging economies with a higher employment rate, South Africa has a serious mismatch between the skills required in the domestic economy and the skills available, says the panel's report. It adds that unemployment is highest among those with little education.

"While 85 percent of those with a university degree are working, fewer than 35 percent without a matric have jobs."

Part of the difficulty, the panel says, is that the parts of the economy that create jobs for unskilled people are not growing very fast and are even shedding jobs. In mining, 323 603 jobs were lost between the historical employment peak in 1986 and 2004. In agriculture, 112 352 jobs were lost between 1994 and 2004 and in manufacturing, 332 441 jobs were lost between the 1982 peak and 2004.

So as the workforce increases, the sectors that traditionally absorb unskilled labour no longer do so at the same rate, partly due to the export sector's failure to perform better.

A related problem is that the high-growth sectors that are creating jobs - such as finance and business services - need skilled people. But in South Africa there are not enough skilled people to fill the jobs in these sectors.

"It is clear from business surveys and from the general national debate that skills are in short supply and a strategy to relax these constraints is necessary," the report says.

The panel recommends that South Africa's growth strategy be based on the expansion of the tradeable sector as it represents "a better match with the currently underutilised human resources of the economy".

However, "this sector has some characteristics that make it vulnerable". For instance, it faces competition from other countries. "Since foreign consumers have options, they will not be willing to pay for aspects that make South Africa relatively costlier."

These aspects include inefficient logistics systems.

"The economy has invested very little in transportation and energy since the 1970s and it shows. Whether it is road, rail, port or pipeline congestion or electricity shortages, the economy is clearly demanding an expansion of capacity."

The panel points out that investing in capacity will increase supply. However, it warns that a public investment programme must be accompanied "by greater fiscal savings". It recommends a surplus worth between 1 percent and 2 percent of gross domestic product, compared with the 0.6 percent projected in the February budget.

The panel's recommendations fall under the headings: macroeconomic strategy, trade and competition policy, labour market policies, industrial policy, public administration and black economic empowerment.

The panel is made up of experts drawn from a range of institutions including Harvard, the Massachusetts Institute of Technology and the University of London. It started work in January 2006, making several visits to South Africa to hold workshops with government officials, economists, business representatives, trade union officials and others.

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