



A Proposal For The 2018 Presidential Job Summit

An Alternative Path to Job Creation

Problem statement

Please provide no more than half a page providing an outline of the impediments to job creation that exist and how the proposal will meet the challenges

Joblessness, hereafter referred to as unemployment, along with many other developmental ills in South Africa, are dependent for their cure, on a sustainably growing and stable economy, which is in turn largely dependent on the design and execution of macroeconomic policies.

On the one hand, the effectiveness of fiscal policy however, to not only stabilise the economy and especially help create jobs has been called into question both in times of recessions and expansions. The transmission mechanism, according to this well received framing of the role of fiscal policy, is the output gap. This then places unemployment to be determined as a by-product of investment, consumption and income, which are directly affected by fiscal policy.

In this proposal, we submit that a shift to a policy that directly targets labour demand gap, instead of the output gap, will be considerably more effective in clearing unemployment while simultaneously stabilizing incomes, investment (production) and boosting consumption. This approach not only circumvents a number of shortcomings linked to the aggregate demand management but delivers macroeconomic stability and also addresses issues of poverty both in urban and rural settings. This is a policy approach that solves the unemployment challenge over the long run due to the fact that it tackles structural, cyclical including seasonal aspects.

According to JM Keynes, the principal objectives of fiscal policy was to solve “the real problem, fundamental yet simple..(namely) to provide employment for everyone” (Keynes, 1980:267). He inextricably linked the goal of macroeconomic stabilisation to the goal of full employment. That Keynes’ call to directly target unemployment was obscured by the Neo-classical synthesis and revived by the New Economic Consensus with their empirically dubious Ricardian Equivalence that run through the output gap instead of labour gap, has caused immeasurable confusion and damage.

What this conventional approach has led to in South Africa and elsewhere is that governments end up “nudging” & “pleading” private sector to create jobs, the business of which they are not in, instead of government directly championing it thus bringing in the private sector later.

On the other hand, monetary policy in our current system is targeted at curbing inflation, which by extension hurts (un)employment, instead of directly supporting unemployment. Again, here, if Keynes’ precise definitional foundations of analysing inflation were followed, (commodity/capital inflation vs incomes inflation, the principles for solving the problem of inflation would be clear, (Keynes, 1930: p 155-156) instead of the flawed system we use as followed by Reserve Banks. The role of the Reserve Bank would be even clearer. In part, targeting unemployment becomes central.

In further directing the key function of the central bank, and how monetary policy should work, Keynes suggested that bank “credit is the pavement along which production travels, and the bankers if they knew their duty, would provide the transport facilities *to just the extent required* in order that the productive powers of the community can be employed at their full capacity”. (Keynes, 1930 p.220). Directing credit is emphasised in this statement as a key role of central bank as controller of the banking system. Elsewhere he segregates industrial use of credit from non-industrial. Again, here Keynes couples credit & employment as central to output. Schumpeter refers to Keynes’ approach as the “functional differentiation of credit”.

The key impediment to job creation therefore lies in the role, manner and direction in which both fiscal and monetary policies are applied in SA via a vis job creation and economic expansion. The fear of inflation, arising from models built on flawed understanding of Keynes’ proposals is ungrounded and puerile.

The right to work is part of the UN Declaration of Human Rights; the goal of full and productive employment is part of the founding statues of the International Labour Organisation, re-asserted as part of the Global Pact signed in 2010, following the financial crisis and its devastating impact on labour. Government, through the macro levers, must be at the forefront in targeting this pandemic.



Jobs impact

*Indicate the impact on employment of the proposal and what is required to make sure that there will be a positive impact on employment
Please also indicate other anticipated benefits from the proposal, if any.*

The primary purpose of proposing to target unemployment and credit is to effect maximum positive impact on what are the most critical macroeconomic challenges of our time: joblessness and lack of sustainably high economic expansion. The positive impact runs from employment to macroeconomic stabilisation- thus sustainable economic growth.

This proposal seeks to directly affect jobs and economic expansion- nothing else and from where many benefits accrue to other aspects of the economy.

Benefits flowing from this proposal include the stabilisation of income, the control of inflation and the ability to generate growth without impacting on the broader macroeconomic position of the country.

Any other approach will, as seen for years now, be short term, unsustainable and a waste of fiscal and monetary resources without concomitant returns. The past 25 years of repeatedly doing what we are currently doing has manifested itself in an unprecedented weak economy and massive unemployment and the associated social chaos we witness.

Theory of change

Please provide no more than half a page that indicates in practical terms, how the proposal would work - what has to be done, what the outputs would be, how that would lead to the desired outcomes.

Approaches

There are two components:

The design of the credit/money system including its institutional architecture that support the real economy including job creation and the specific design of a job guarantee scheme that focus on jobs take the following forms:

- a) In order to achieve a stable, sustainably healthy and job creating economy, the role and direction of both the fiscal and monetary authorities need be redesigned. Both will be targeting unemployment and economic expansion (not fighting deficits, thus debt and not fighting prices instead of what causes prices). These two targets will have their outcomes as overall stable macroeconomic environment. They (fiscal and monetary authorities) will need to be working cooperatively together to deliver on their respective roles

The design will automatically lead towards the desired structural transformation: industrialisation (not the current de-industrialisation) and curb financialisation, which has reached frightening levels. This will be achieved through the appropriate direction of credit to the productive and job intensive sectors (just as we direct interest rates to achieve stable prices).

Macro-prudential levers will become more pronounced in a new structure that targets both unemployment and credit growth, thus GDP. In the process, the banking system, that is so central to a healthy economy, will become more robust, diverse, resilient and capable of withstanding exogenous pressure.

- b) Using the existing institutional infrastructure in municipalities, provinces and national government, proven unemployed persons register/repository is put in place and matched against sectoral economic activities (goods and services) that pertain to national, provincial and municipal or village.

The programme would be under the jurisdiction of the Dept of Labour (DoL) where the three tiers of government will participate in the programme's administration. Parliament would appropriate funding for the programme through the Dept of Labour. Given the emergency nature of the unemployment crisis in this country, orders will have to be given to the Reserve Bank, just as many reserve banks were ordered to urgently make funds available for the rescue of fraudulent banks, and failing corporations and save nations from the devastating consequences of the crisis on unemployment and economic collapse.



Disbursement of funds will be from national government through the local and provincial systems as they exist today. Many public services/goods that can't be done due to poor financial management and related challenges will be able to be done rather easily.

Included in the goods and services being produced by government will be all state entities and those NGOs that perform public duties. Experience gained from various duties/services will stand ready as reservoir for private sector firms that most of the time claim cant find experienced workers in their localities.

Existing initiatives/experience

Indicate if the proposal has been attempted or piloted, and broadly what was learned

- a) **Macro:** The financial system envisaged in this proposal is akin to what made East Asia, including China the economic powers they are today. Inflation is not the primary target of their monetary authorities, nor is it for their fiscal authorities. It is for this reason that inflation targeting is regarded as a far inferior framework than the credit guidance that propelled the industrial latecomer Germany then Japan and the rest of the East Asian nations and China today.

What we see in China is an economy whose primary focus is targeting unemployment and credit to its productive sector. In both Germany and China, we observe a banking structure and system (financial system) that is geared more toward the productive sector and less towards the inflation generating sectors. These have a natural bias towards job absorbing areas of economic activities.

- b) **Jobs:** There have been many similar programmes around the world starting from the US, Argentina to Ethiopia. While they all vary, they have one common purpose: to eliminate unemployment directly and thus boost incomes and then demand. Recently, a call for the return to the New Deal type of job creation has been echoed in the chambers of the US Congress.

The one enduring success of this programme, even though targeted at the majority poor, instead of every other unemployed, is in India. The first 5 years of the roll-out of this initiative netted over 55 million people. In the same period of time, the Ethiopian scheme scored over 8 million people.

In Argentina, where it was abandoned after the economy improved substantially, was a major coup on unemployment, just like it was in the US.

The fundamental challenge of similar programmes in South Africa, the EPWP is that it is supply driven and targeted at wrong levels instead of being demand driven and targeted widely. The manner in which the fiscal policy is programmed and directed in SA renders any such scheme impotent.

Constituency participation in implementation

What is the potential for constituencies to participate in the implementation of the proposal.

Benefits

What social/economic groups would benefit from the proposal directly and indirectly? Please use the following table, and do not list more than 5 groups. Please describe the benefits as precisely as possible.

Group	Job creation	Other benefits	Time frame for success
Unemployed Graduates	Immediate jobs	Poverty alleviation	Immediate
Unemployed Other	Short to medium	Poverty alleviation	Immediate
Employers		Experience & Skill	6 Months to long term
National Economy		Boosted GDP	6 Months to long term



Cost and potential sources of funding

What social/ economic groups would bear the cost of implementing the proposal directly or indirectly? Please use the following table, and do not list more than 5 groups. Please describe the costs as precisely as possible. In the case of financial costs, who would pay them?

Group	Anticipated costs	Potential sources of funding to implement the project	Time frame for impact
National Govt (Treasury & Reserve Bank)	Not established now- but simulate later	As current but via loan contracts & sovereign money	Short to long term
Banks (State & private)	none		6 months and ahead

Risks

What are the main risks that would prevent the proposal from achieving the anticipated outcomes? Describe at least two.

The current imbedded neoliberal approach to economic management has been well established and very few technocrats are aware of alternative but real macroeconomic proposals that can save the country. The challenge of dissuading officers from the current unworkable fiscal and employment stance pose a major risk.

Risk mitigation

What should be done to mitigate the identified risks? Which stakeholder would be responsible for the risk mitigation activity?

Additional comments

For about 25 years now, a considerable number of initiatives have been suggested and adopted with a view to addressing unemployment and sustainably growing the economy in South Africa. None have worked and are unlikely to work as they are all framed from an economic paradigm that is at permanent tension with the ideals of creating an egalitarian society as envisioned in all ANC and government documents.

Unless a fundamental shift is made to the approach we seek to present, many more job summits with fruitless outcomes will characterise our landscape from one administration to the next, irrespective of who wins elections and has control of parliament.