FISCAL POLICY FOR EMPLOYMENT AND INDUSTRIAL DEVELOPMENT

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Starting Premise: The Role Of Macroeconomic Policy

Creating employment opportunities in developing economies is commonly (mis)conceived as only being:

1. increasing economic growth and fixed capital investment; and/or

2. a responsibility of labour market and industrial policy.

Macroeconomic policy is often relegated to the role of providing a ‘market-friendly’ ‘stable’ macroeconomic environment.

- This includes through low debt and deficit, low and stable inflation, liberalised financial and capital markets, and sustainable balance of payments.

These objectives are pursued irrespective of the impact on employment and other social outcomes.

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A Transformative Macroeconomic Policy Approach

The employment and development challenges in South Africa can only be comprehensively addressed by reassessing how we think about macroeconomic policy and combining macroeconomic, labour market and industrial policies within an integrated pro-employment policy framework.

Macroeconomic policy must explicit aim to advance:

- Employment creation (decent and productive employment)
- Structural transformation

Currently macroeconomic policy works sometimes at odds with such an agenda.

This requires...

coordination of, and integration across, macroeconomic, sectoral and labour market policies under a shared integrated employment policy *framework.*

Within this...

macroeconomic policy – a specific focus of this paper – has a leading role to play.

Therefore ...

macroeconomic policy should:
- directly aim to stimulate employment through both demand- and supply-side measures in the short and long run.
- while supporting the sectoral and labour market policies that seek the same outcome

A Transformative Macroeconomic Policy Approach

Enact…

a three-pronged – and interrelated – approach that sees macroeconomic policy:

1. directly spur employment and development where policy space allows,
2. resolve macroeconomic imbalances that retard employment generation,
3. advance structural transformation while supporting complementary sectoral and labour market policies.

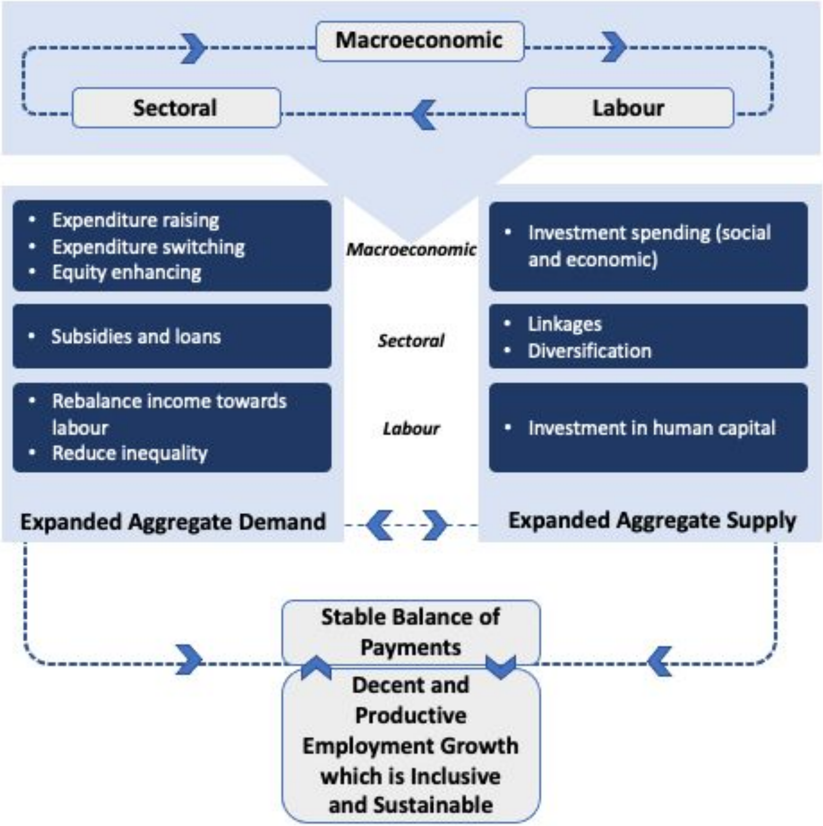
To achieve…

'internal balance' – 'full employment'; and

'external balance' – a sustainable balance of payments.

Policies to spur development and raise employment through increasing demand should avoid making the balance of payments chronically worse. So increasing demand in the economy should go hand in hand with attempts to stimulate more domestic production – that is, increasingly supply capacity – rather than sucking in more imports.

Put simply: use macroeconomic policy to 1) increase demand in the economy, 2) without unduly increasing imports, while 3) expanding domestic supply in the economy.


Macroeconomic
Sectoral
Labour
Expenditure raising
Expenditure switching
Equity enhancing
Macroeconomic
Investment spending (social and economic)
Subsidies and loans
Sectoral
Linkages
Diversification
Rebalance income towards labour
Reduce inequality
Labour
Investment in human capital
Expanded Aggregate Demand
Expanded Aggregate Supply
Stable Balance of Payments
Decent and Productive Employment Growth which is Inclusive and Sustainable

Macroeconomic Policies

Aggregate demand

Raising aggregate demand expands markets for consumption and investment goods, thereby allowing firms to grow through achieving (static and dynamic) economies of scale. This leads to sustained productivity growth within firms and the economy (the most proximate determinant of long-term economic growth).

Expenditure-raising policies:

- Levels of government spending;

- Revenue mobilisation;

- Composition of government spending (consumption vs. investment);

- Spending which impacts the distribution of income; and

- Income policies, such as tax breaks or government transfers.

Expenditure-switching policies:

- Exchange rate management;

- Multiple and dual exchange rates;

- Import and export taxes and quotas to discourage imports and encourage exports, either targeted (focusing on particular products or sectors) or general; and

- Capital controls and interest rate mechanisms to attract or repel capital flows (thereby impacting pressures on the exchange rate).

Aggregate supply

Aggregate supply measures target employment growth through increasing the availability and quality of production and the factors used to engage in production.

Investment expenditure

- Physical infrastructure can increase productivity.

- Industrial policy.

Social expenditure

- By spending on health or education human capabilities can be raised, similarly.

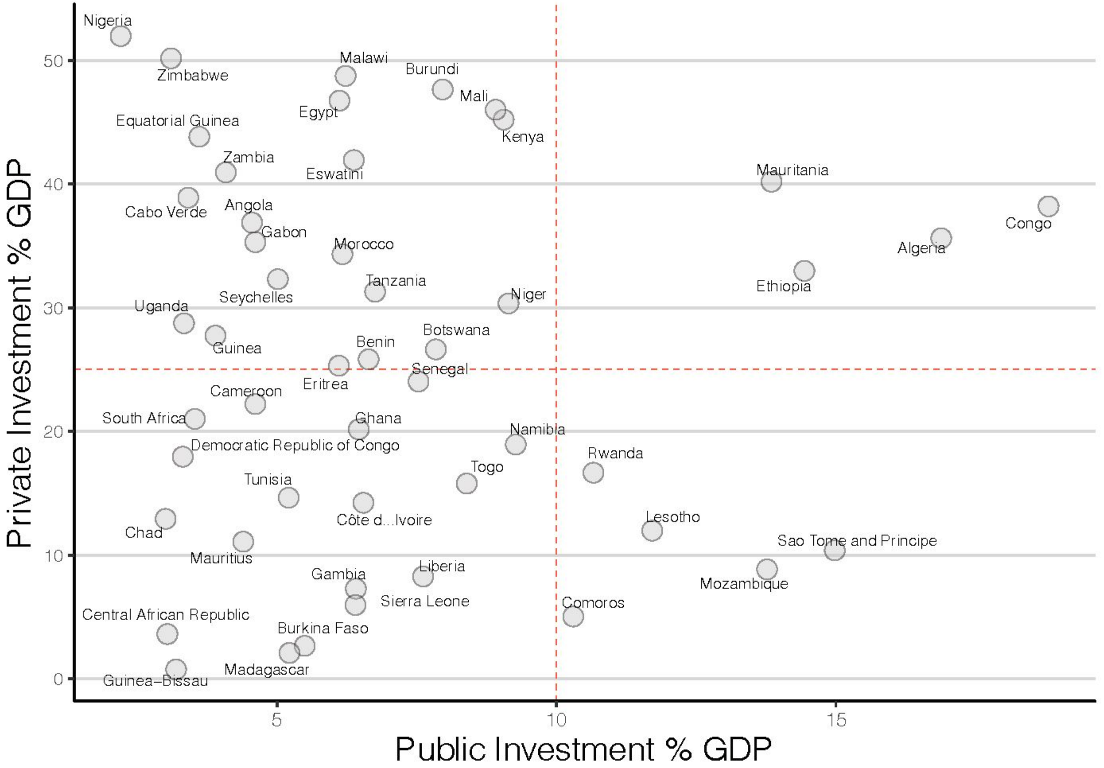
Fiscal Stimulus: Principles

- When speaking about expenditure-raising policies, it is important that we view these in an integrated manner. We should:
  - appreciate the complementarities between public consumption and investment expenditure, the former generally understood as referring to spending on government goods and services, via either salary costs (teachers, nurses, civil servants and so on) or the purchase of goods (medicine supplies, textbooks etc.);
  - acknowledge the integration between raising demand in the short term and transforming supply capacity in the long term (achieving structural transformation); and
  - appreciate that public sector spending most often “crowds in” private sector spending.

Fiscal Stimulus: Investment

1. Benefits of investment spending:
   - Demand for domestic inputs;
   - Absorb and enhance labour’s productive capabilities;
   - Target expansion of supply capacity; and
   - Target sectoral diversification.
2. Governments should target a certain level of private and public investment expenditure, relative to GDP and government revenue. This is commonly done in development planning in Asia and Latin America. A baseline target tends to be devoting around 10-15 per cent of GDP to productive public investment spending.
3. Particular attention is needed to maintain and improve South Africa’s capital stock and improve the efficiency of public investment spending.

Fiscal Stimulus: Investment



Fiscal Stimulus: Sector Targets

4. Investments will maximise employment and economic gains through sectoral prioritisation.
   - Prioritising employment-intensive sectors that enhance productivity gains is important, and can have high employment multipliers and long-term economic gains.
   - Prioritising sectors with a high share of domestic inputs or which earn export revenue will be beneficial to lift balance of payments constraints.
5. Target investments in the care economy sectors. The care economy sectors – education, health and social work – are particularly important social sectors. These serve to advance human capital development which has long-term benefits on both the supply and demand sides of the economy.

Fiscal Stimulus: Expenditure Choices

6. Although it should not eclipse long-term investment spending, consumption expenditure also has an important role to play in ensuring development and balanced and inclusive employment growth.
   - Public sector employment stimulates aggregate demand, is more secure employment and often includes a high number of women workers.
   - Social security transfers have the potential to stimulate and stabilize aggregate demand and support human capital development.
7. Automatic stabilisers can maintain macroeconomic balances in order to support employment growth, as highlighted during the COVID-19 pandemic.
8. Expenditure choices should also consider their distributional impact. Increasingly it is recognized that issues of growth and distribution (inequality) should not be separated when approaching the macroeconomy.

10 Components Of A Fiscal Stimulus For Industrial Growth

1. Infrastructure investment driven by public funds.
2. Capitalise development finance institutions, with refocused mandates towards structural transformation and diversification.
3. Refocus and expand public employment schemes.
4. Large investment in a Just Transition Fund that targets renewable energy industrialisation and sectoral diversification.
5. Adequately fund Sectoral Masterplans and IPAPs.

10 Components Of A Fiscal Stimulus For Industrial Growth

6. Make fiscal multipliers and policy objections a consideration in sectoral targeting.
7. Increased science and technology (and R&D) funding in existing and new specialised areas (e.g. mining or renewable energy) and large-scale funding of targeted skills development.
8. Regional infrastructure fund to reduce non-trade barriers.
9. Investing in state capacity.
10. Consider fiscal diversification and fiscal benefits.

Conclusion

- New approach to macroeconomic and fiscal policy is essential.
- Move from a ‘stablisation’ orientation towards a ’transformational’ orientation that centres employment creation and structural transformation.
- Ensure macro/fiscal policy and industrial policy are mutually reinforcing.
- Appreciate role of fiscal policy in increasing both aggregate demand and aggregate supply.
- Within this a carefully crafted fiscal stimulus can be constructed.

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