

# Opportunities and Constraints in Expanding Employment-Intensive Sectors

**Prof Fiona Tregenna**

DST/NRF South African Research Chair in Industrial Development, University of Johannesburg

My basic take here is that the dual imperatives of increasing growth and reducing unemployment in South Africa (SA), complicate the issue of prioritising employment-intensive sectors for expansion/support. Let me start simplistically, nuances and caveats to follow below.

Any given employment outcome can (hypothetically) be achieved through various combinations along a spectrum of growth and employment-intensity. In simple terms, the less employment-intensive is growth, the higher the required growth rate. Economy-wide employment-intensity in turn can be increased either by increasing the share of relatively employment-intensive activities in the economy, or by increasing the degree of employment-intensity within activities, or by some combination of these.

If nothing else happens (that is, no growth in output), increased labour productivity means lower employment. In order for a rise in labour productivity to increase employment, output has to increase more than proportionately. Through growth, overall employment gains can thus exceed any direct labour-displacement arising from increases in labour productivity.

However, productivity increases do not guarantee growth. With the multiple complex domestic and international determinants of a country's growth rate, an increase in labour productivity could be accompanied by a rate of economic growth that is lower than the growth in productivity, associated with lower levels of employment.

Notwithstanding these complexities of productivity growth in relation to the need to create employment, it is clear that countries cannot avoid the imperative of achieving sustained increases in productivity. Without productivity growth, an economy will be unable to sustain economic growth. While there may be short- to medium-term employment growth without productivity growth, the economy is likely to stagnate over time and lose its share in global markets, with negative effects not only on growth, but also on employment.

From a dynamic perspective, an additional complexity is that the employment-intensity of growth also affects the rate of growth. In general, the more productive (less directly labour-intensive) an activity and the greater its scope for cumulative productivity increases, the more growth-pulling the activity is likely to be. Related to this is that the more high-tech activities, that typically have strong future growth potential, are generally less directly labour-intensive.

In analysing patterns in manufacturing across countries and across time, I have found that it is empirically very rare that a country's manufacturing grows (in real value-added or as a share of gross domestic product (GDP)) while simultaneously becoming more labour-intensive (in terms of the simple employment/VA ratio, changes in this ratio will reflect changes in both sectoral composition and the nature of production within sectors).<sup>49</sup> Almost universally, manufacturing growth is accompanied by it becoming less labour-intensive, i.e. more productive.

<sup>49</sup> See Tregenna, F. (2009) 'Characterising deindustrialisation: an analysis of changes in manufacturing employment and output internationally', *Cambridge Journal of Economics*, 33(3): 433-466; Tregenna, F. (2013) 'Manufacturing productivity, deindustrialization and reindustrialisation' in *Pathways to Industrialization in the 21st Century: New Challenges and Emerging Paradigms*, A.Szirmai, W.Naudé, and L.Alcorta (eds), Oxford: Oxford University Press; and Tregenna, F. (2015) 'Deindustrialisation, structural change and sustainable economic growth', *UNIDO Inclusive and Sustainable Industrial Development Working Paper Series*, WPO2/2015. Vienna: UNIDO.

The conundrum of needing to increase both labour productivity and the absorption of labour is especially pronounced for developing economies that have high unemployment. The availability of labour relative to capital in developing economies suggests the use of employment-intensive technologies and techniques, especially in the context of high rates of open unemployment. However, such technologies and techniques are often not optimal for modernisation and catch-up.

SA is a stark case of the above, with a crisis of unemployment as well as close to zero growth. There is heterogeneity across activities (one dimension of this being the heterogeneity across sectors) in, among other things, the extent to which they are growth-pulling and in the extent to which they are labour-absorbing. In choosing which sectors/activities to prioritise for support, we need both those that have strong growth-pulling properties as well as activities that are strongly labour-absorbing (including of low-skilled labour).

While there is not necessarily a direct trade-off between these, there is thus a degree of trade-off. The trade-off is mitigated by factors including the following:

- There are mid-spectrum activities that are both employment-creating and growth-enhancing;
- Factoring in indirect labour intensity through employment multipliers, some activities do not have especially high direct employment-intensity but do have high total employment-intensity due to their strong backward linkages;
- The high rate of unemployment is itself a constraint on growth, so anything that reduces unemployment (e.g. the expansion of labour-intensive activities) is itself likely to be growth-enhancing.

## Quick additional responses to some of the specific questions posed:

- *Where are the employment promoting opportunities in the sector(s)?*

By far the most employment-intensive sub-sector of the economy, in terms of employment multipliers, is the “other producers” sub-sector of services.<sup>50</sup> Apart from a few minor specific activities (e.g. funeral services, hairdressing etc.), this is basically a residual category for services not elsewhere classified, which is not very useful for policy purposes. The next most employment-intensive sub-sectors come from a mix of broad sectors: clothing, catering and accommodation, agriculture, textiles, wholesale and retail trade, furniture, and wood and wood products. The least labour-intensive include heavy manufacturing sub-sectors such as coke and refined petroleum products, and basic non-ferrous metals; the electricity, gas and water sub-sectors; coal mining; as well as finance and insurance. Overall, agriculture and services are more employment-intensive than the industrial sectors, but there is a high degree of heterogeneity within the broad sectors in terms of their employment-intensity.<sup>51</sup>

From a policy perspective, employment-intensity is of critical importance but cannot be the only consideration when selecting which sectors to prioritise for support.

In terms of the manufacturing sector specifically, based on the perspective discussed earlier, I argue that there is a need for what I have termed a “mixed manufacturing strategy”. This would prioritise a mixture of employment-intensive or labour-absorbing sectors (including the utilisation of semi-skilled labour), and more directly growth-enhancing high-productivity activities.

<sup>50</sup> All observations here on the ranking of sectors in terms of employment multipliers are based on the last time I calculated sub-sectoral employment multipliers (see Tregenna, F. (2016) ‘A sectoral view of employment-intensity in South Africa’ in *Towards Employment Intensive Growth in South Africa*, A. Black (ed.), Cape Town: UCT Press.). While there are likely to have been some changes in sector ranking, I expect overall patterns to have remained fairly constant.

<sup>51</sup> An additional comment on evidence and policy is that in order to promote particular sectors on the basis of their employment-intensity, accurate, detailed, and timely information is required on sectoral employment-intensity. Ways of measuring employment-intensity that are relevant here include the labour-capital ratio, the labour-value added ratio, employment multipliers and employment elasticities. For more on different ways of measuring employment-intensity, see Tregenna, F. (2016) ‘Sectoral dimensions of employment’ in *Employment Targeting: Macroeconomic and Sectoral Approaches*, K. Chatani, I. Islam and F. Lapeyre (eds.), International Labour Organisation.

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➤ *Overview of current constraints that impede employment growth in the sector(s)*

A key constraint on employment growth in labour-intensive sectors is likely to be capacity under-utilisation and weak investment in expanded/new capacity due to lack of demand (both domestic and exports). Associated problems probably include poor upgrading and failure to move up value chains, as well as unit labour costs that are higher than in countries specialising in labour-intensive production. Further research would be needed to identify the binding constraints in different sub-sectors.

➤ *Who should drive the recommended interventions?*

Government with social partners – this links with the current masterplans, social compacting etc. Most interventions to support particular sectors are likely to come through industrial policy measures (noting that these extend beyond industry and are also applicable to agriculture and services), as well as through targeted development finance etc.