Work/Jobs

Is economic growth driven by employment or productivity?

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Is economic growth driven by employment or productivity?

The employment versus contribution to GDP per sector could be seen as a broad indication of productivity in each sector, also discussed previously in comparing productivity in Africa with that in China and India. The relationship is complex. For example, owing to the large surplus of labour on the continent, economic growth in Africa is actually more employment intensive than it would otherwise be. It is often cheaper to employ more labour than to invest in better systems, technology or even in training for current employees.

Meagre investments in health and education lead to a skills gap, which, in turn, results in low labour productivity, as also reflected in the World Bank's Human Capital Index, which ranks sub-Saharan Africa lowest globally with regard to lost productivity of the next generation of workers.

Against this background, the various scenarios discussed in this website are likely to result in only modest employment growth – insufficient for a substantive impact.

There is an unavoidable tension between employment-intensive growth and productivity-intensive growth. If an economy does not grow, the pressure for more output per worker will contribute to the steady decline in employment or a reduction in average remuneration. Typically, that would happen through the process of automation. To grow employment, Africans need to pay particular attention to measures that can unlock more rapid economic growth while paying attention to the nature of that growth. The often-unspoken challenge is whether it is politically possible for Africa to pursue the exploitative manufacturing labour practices through which countries such as China and the Asian Tiger economies initially developed. This is discussed in more depth in the theme on governance , but pertinent to the discussion here is that it is inherently more difficult for low-income democracies (of which Africa has many) to institute the measures required for rapid economic growth than for authoritarian states. But then, the latter are seldom focused on implementing pro-growth policies in any case, with China, Rwanda and until recently Ethiopia the obvious exceptions.

In the discussion on the Current Path and manufacturing, the phenomenon of premature deindustrialisation from already low levels in Africa was briefly explored. It appears unlikely that Africa will be able to grow employment rapidly based on growth in manufacturing, as was the case during industrialisation in today's developed countries. The analysis presented in those themes is that middle-income countries are experiencing declining shares of industry as a contribution to GDP and hence declining shares of employment in this sector. This is happening at an earlier stage of development than it did in today's developed countries.[1] But because manufacturing is important in changing the productive structures in the entire economy (i.e. also in the agriculture and service sectors), African countries need to pursue industrialisation aggressively where this is possible.

The trend of premature deindustrialisation complicates the potential impact of structural transformation towards more formal and less vulnerable employment in many African countries. In effect, the opportunity for industrialisation in Africa as a pathway to provide employment and productivity improvements seems to be slipping away. As manufacturing is the single most important vehicle through which economies transition to higher productivity, the long-term impact of premature deindustrialisation could be debilitating. The conclusion, presented by many, is that African countries need to look elsewhere for growth, primarily tourism, agriculture, natural resource extracts, and IT services.

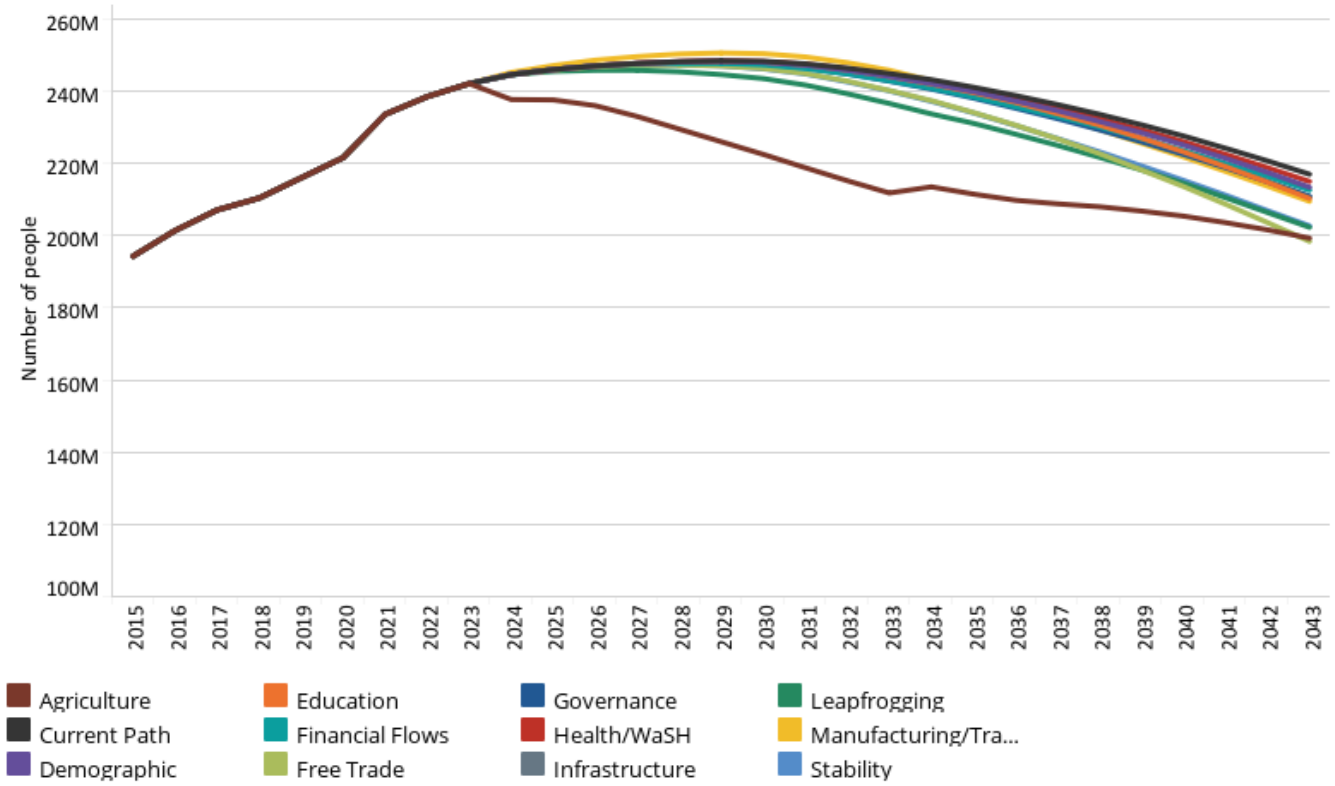
The problem is that few of these sectors offer particularly exciting employment or productivity prospects. Africa is already overly dependent on natural resource extraction and very vulnerable to the associated swings in commodity prices. Commodity dependence can provide growth, but it is often linked to political dysfunction and may trap a country at the low end of the value chain. Tourism is employment intensive, but not all countries have the offerings to provide attractive packages or destinations. Nor does tourism offer the kind of learning-driven productivity improvements generally common to manufacturing. Agriculture, where Africa has significant potential, automates even faster than industry.

In the short to medium term, the Agriculture scenario appears to have the most potential to have a positive impact on creating employment. However, that will not be on the farm, where employment will increase only if the size of the agricultural sector and its contribution to GDP substantially increase; instead, it will more likely be in the associated supply and distribution chains. The Agriculture scenario is about transforming current traditional agriculture from subsistence to smallholder farming, eventually being incorporated into value chains that link smallholding farmers to retailers using ICT and a host of applications that become the glue holding this complex system together. In this manner, agriculture moves into manufacturing through agriprocessing with significantly higher levels of productivity.

The analysis on manufacturing illustrates that, over a time horizon of a decade and longer, a manufacturing growth path unlocks more rapid economic growth and eventually also provides more jobs than agriculture. In addition, improvements in productivity in agriculture are bound to reduce employment intensity as they introduce modern technology into the sector – although a growing agricultural sector would increase the total number of jobs even as employment intensity declines. In other words, the agricultural sector will not provide the jobs that Africa so desperately needs, although it certainly would play an important role.

The results from IFs support these tentative findings. Total employment does not change much between the various scenarios, but there is a shift of employment between sectors, thus not more jobs, just different jobs. This is most noticeable in the Agriculture scenario, which sees a large decline in employment although with a roughly similar number of jobs being created in the service, ICT and other sectors.

Chart 13: Labour employment in agriculture by scenario, 2015–2043



Source: IFs 7.63 initialising from International Labour Organization data

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The Manufacturing scenario has the most positive impact on employment, and emphasises the importance of growing Africa's manufacturing sector not because of the (limited) potential of manufacturing to create jobs in the 21st century, but

because of its importance in changing the productive structures of African economies and unlocking faster growth. The evidence is that a larger manufacturing sector has important enabling spillover effects. For example, it incentivises high-end services such as financial intermediation, which is crucial for the development of the private sector and also encourages a more productive agricultural sector and consequently the transition into agriprocessing and agribusiness. These changes eventually produce higher growth rates and a more rapidly growing economy, which, in turn, creates more jobs (although only in the medium to longer term).

Also important, although less explicit, are the limits of Africa's higher than expected levels of democratisation in affecting a manufacturing-led growth path. Whereas authoritarian countries such as Ethiopia and Rwanda can pursue exploitative manufacturing labour practices that enable them to compete on cost with emerging Asia, it is doubtful whether that is replicable in countries where democratic accountability is more deeply entrenched.

The African Center for Economic Transformation (ACET) in Ghana is one of many institutions that advocates that both agriculture and light manufacturing are key requirements for the future, and argues for a dual track to industrialisation, where one route leverages the relative abundance of workers for labour-intensive and export-oriented light manufacturing, while the other leverages advantages in agriculture for globally competitive agriculturally based manufacturing. Although an agriculture growth path is appropriate for low-income countries, a manufacturing growth path generally becomes more important once countries achieve middle-income status.

However, as a contribution to GDP, the service sector already dominates. In the Current Path forecast, the contribution from the service sector to Africa's economy steadily increases from 50% in 2019 to 55% by 2043, while that of agriculture declines by more than half, to 7%. This is in line with a global trend towards more service-oriented economies, with job growth particularly in non-routine work such as personal-care services.

Given the dominance of the service sector, most future formal employment growth on the African continent is set to come from here, which includes tourism, retail, trade, transportation, finance and other activities. This is in contrast to the African growth experience over the last 35 years, which, in general, relied on growth in capital-intensive resource- and energy-based industries and did not generate a sufficient number of jobs.[2] Instead, most of the new jobs 'were created in sectors with low productivity levels, such as subsistence agriculture and low value-added services. Self-employment has continued to be predominant.' [3]

The implication of the preceding analysis is that Africa would have to look at other means, such as public work programmes and an extensive system of social grants, to alleviate extreme poverty. Even then the majority of job growth is likely to be in the informal rather than the formal sector. Given the size of the informal sector and the nature of work in Africa, the key question when looking at the future of work is whether digitisation and the use of modern technology can more rapidly formalise African economies and accelerate employment growth, with all the associated benefits described so far.

Endnotes

1. International Labour Organization, World Employment and Social Outlook: Trends 2018, Geneva: International Labour Office, 2018, 2.
2. H Bhorat, R Kanbur, C Rooney and F Steenkamp, Sub-Saharan Africa's manufacturing sector: Building complexity, Abidjan: African Development Bank, 2017.
3. A Abdychev et al, The Future of Work in Sub-Saharan Africa, Washington, DC: International Monetary Fund, 2018, 1.

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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