

Jobs & Economic Freedom

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Is GEAR working?

The government's Growth, Employment and Redistribution (GEAR) strategy spoke of "mobilising all our energy in a new burst of economic activity", which "will need to break current constraints and catapult the economy to higher levels of growth, development and employment".

Seven "mutually supportive" core elements of this "integrated strategy to enhance economic growth and employment creation" were identified as fiscal discipline, relaxing exchange control, reforming industrial policy, restructuring the public sector, investing in infrastructure, increasing labour market flexibility, and launching a social agreement.

Since the announcement of GEAR, some slow but useful progress regarding exchange control and privatisation has been overshadowed by legislation increasing labour costs and raising not reducing labour market rigidities. Taxation and the size of the state sector remain high. Thus incentives, savings, investment and growth remain low. Little has happened to convince foreign investors that GEAR is actually going to be implemented or that faster growth is imminent.

What do top countries do?

A US Congressional study of government expenditure and growth rates in OECD countries during 1960-1996 showed a direct correlation between the size of government spending and growth of real GDP. Where total government expenditure was less than 25% of GDP, the average OECD growth rate was 6,6%. At the other end of the scale, countries with high-spending governments (over 60% of GDP) managed average growth rates of only 1,6%.

During 1980-1995, South Africa's government expenditure grew from 30,1% to 37% of GDP, while GDP itself shrank by an average 1,2% per year. The GEAR strategy seeks GDP growth rising to 6% by 2000 AD. The findings of the US Congressional study indicate that, if South Africa wants its economy to grow at about 6% per year, total annual government spending must be reduced from the present 37% to below 25% of GDP and maintained at that lower level.

Why do we work?

There is a tendency to forget why we work, and to discuss employment and wages as if they are unrelated to productivity and output. The false assumption that there is only a fixed amount of work to be had, in some kind of static fixed-cake economy, leads to suggestions about how best to ration out this work, with shorter working weeks and other such measures. Make-work practices such as requiring petrol-pump attendants persist. Government spending on artificial jobs abounds.

But we do not live to work – we work to live, and we would all prefer to work less and live better. On a national scale, we want to maximise production, not employment. We should be trying to maximise output with whatever is the optimal combination of entrepreneurial skills, capital machinery and human labour. It is preferable to make provision for relief payments to temporarily unemployed workers than to distort production efforts with artificial jobs.

Such large-scale relief payments are unaffordable, but fortunately our large-scale unemployment is temporary and unnatural. Such a situation can only result from serious interference with the universal human willingness to work and produce for personal gain. Historically, primitive tribes and nations have suffered from primitive production methods, but not from unemployment. To find and then remove the causes of unemployment, we have to identify what is preventing work-seekers and work-providers from getting together.

How would you maximise UNemployment?

To create and maximise UNemployment, you could:

- pass minimum wage laws and give unions one-sided legal powers to force up employment costs to prevent low-value workers from obtaining work
- restrict the movement of capital in and out of the country to discourage foreign investment from creating production and employment

- create licensing and approval requirements, complex regulations, mandatory high workplace standards, and restrictive working hours and public holidays to discourage enterprise
- tax production, income, savings and consumption to discourage growth
- protect uncompetitive local industries to reduce the movement of skilled labour into more productive work
- redistribute tax revenues by maintaining protected and unproductive state operations to interfere with the market and force up labour costs
- operate state monopolies to dissipate tax rands¹ and provide poor services
- adulterate the currency by excessive money creation to create uncertainty and discourage saving, investment and growth

All this sounds familiar.

Real jobs cannot be created

Unemployment of those who are willing to work is not a natural situation, but jobs can be destroyed by deliberate action to interfere with the market. On the other hand, real productive jobs cannot be created, either by government spending or by legislation.

Sooner or later every rand spent by government has to be obtained by taxation. Taxed-away earnings are no longer available to stimulate market growth. So all government spending, including expenditure on job-creation projects, starts from the destruction or prevention of productive private sector jobs, before the bureaucratic waste even begins.

Except when it simplifies or repeals prior law, legislation can only redistribute job creation by subsidising one sector or penalising another. Whether spending or legislating, the best a government can manage is to do no harm. But usually, even when not making war, governments impede growth and cause unemployment.

As long as wages are flexible enough so that prospective employers can afford to “clear the market” of available workers, natural economic growth enables all who want to work to do so. It is a function of good government to remove the impediments to economic growth and employment.

Going for growth

Real jobs cause and follow growth. All you need to do is clear away the obstacles.

- Remove labour market rigidities and allow downward movement of real wages and salaries;
- remove exchange controls;
- remove restrictive regulations affecting new and existing businesses;
- reduce taxation, particularly of enterprise and saving;
- remove tariffs, protective privileges and subsidies;
- reduce government spending;
- privatise state enterprises; and
- stop expanding the money supply.

And, of course, the more rapidly and completely these actions are taken, the better.

Further Reading

Hazlitt, H. (1979) *Economics in One Lesson*, Arlington House, New Rochelle NY.

¹ South African Currency