

**Macroeconomic policy and South African unemployment:
establishing an agenda for research
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a) Background to the topic

A recent survey of the South African unemployment research (Fourie 2011) reveals, inter alia, that there has been a limited amount of macroeconomic research on SA unemployment (compared to labour market studies, for instance). What there is, is on output elasticities of employment, sectoral shifts in employment, and possible labour-market related constraints on growth – and some work on increases in the long-run equilibrium rate of employment (the so-called NAIRU) after 1994.

A characteristic of all the macroeconomic work on unemployment in SA – and of macroeconomic policy analysis – is that it deals with the formal sector only. Meanwhile, evidence from unemployment research in the fields of labour economics and development indicate substantial segmentation in the South African economy: between the formal and the informal economies, within the informal sector, and between the survivalist segment and the informal and formal economies. Moreover, several labour market barriers exist that prevent people from improving their employment and earnings situation. Many such barriers impact especially the poor and flow from the condition of poverty. This forms the basis of much marginalisation, inequality and continued poverty (Fourie 2011:10-44). Surveying standard macroeconomic theory it becomes apparent that the labour market assumptions of standard macroeconomic models (and derived policy proposals) are at odds with such segmentation and barriers.

b) Research question and objective

The objective of this research is to bridge the divide between the macroeconomic discourse/models and the labour and development discourses on unemployment. Against the background of a concise critical evaluation of the ability of standard macroeconomic theories to capture and explain the South African unemployment situation, the research proceeds to take up the challenge of including the realities of segmentation, dualism and labour mobility barriers into a theoretical macroeconomic model.

To include these realities we seek to develop a three-segment model. This three-segment model extends the Layard, Nickell and Jackman (LNI) model by integrating labour market segmentation and labour market entry barriers into the model. The model should provide novel findings on labour market equilibrium in a segmented context, on the presence of voluntary and involuntary unemployment in such an equilibrium, and on how demand or supply shocks differentially impact, through knock-on and flow effects, on employment and unemployment in the three segments (which include a survivalist segment). The impact of hysteresis in such a model is also considered.

Once the three-segment model has been developed, we want to use the model as a foundation for an unemployment-oriented macroeconomic research agenda. The agenda will focus on issues such as the following:

1. The differential impact of demand and supply shocks (macroeconomic cycles) on employment and unemployment in different segments and sectors, and
2. How labour market structural conditions (segmentation; entry barriers) can soften or aggravate this impact.
3. The impact of macroeconomic growth on employment (and unemployment) in different labour market segments and sectors, and
4. The impact of labour market structural conditions (segmentation; entry barriers, wage differentials) on the employment effect of macroeconomic growth.
5. The extent to which labour market structural conditions are a constraint on macroeconomic growth.

c) Data and research method

Given the absence of a suitable existing model, we need to develop an appropriate theoretical model. This is done conceptually as well as in a more formal (mathematical) format. Given its theoretical focus, the paper uses existing time-series and household-level data to merely inform the development of the theoretical model.

d) Expected outcomes

We plan to publish one article/chapter out of this research.

e) Time-frame

We plan to finish this project during 2013.

f) Sequencing and prioritization

We have not thus far submitted any other projects.

g) New or ongoing research

A first draft of the paper sets out the conceptual aspects of the theoretical model. The next step will be to develop a more formal theoretical (mathematical) framework.

h) Other funding

We have no other funding.