

# Growth needs a better tool than rates

## An Employment-Targeted Economic Program for SA

Robert Pollin, Gerald Epstein, James Heintz & Léonce Ndikumana (International Poverty Centre, United Nations Development Program, 2006)

Reviewer: Anna McCord



THE grim facts about mass unemployment in SA are known to everyone. But the solutions are not nearly as prominent.

A new book by four American and African economists says the range of policy choices that government can and should prioritise to boost employment is wide.

It may be obvious from the title that the book is by a quartet of economists. Robert Pollin, Gerald Epstein, James Heintz and Léonce Ndikumana all work at the University of Massachusetts-Amherst in the US. But being sober-minded economists, they avoid some of the flag-waving

and posturing that sometimes sidetrack this important debate.

Government is emphatic that fighting mass unemployment is its top economic priority, having committed itself to halving the official 26% jobless rate by 2014.

But success in reducing unemployment has been elusive. The Growth, Employment and Redistribution (Gear) approach that dominated economic policy for our first decade of democracy

controlled fiscal deficits and inflation and promoted exports, but failed to make a major dent in unemployment and poverty.

The government is now embarking on the Accelerated and Shared Growth Initiative for SA, which appears committed to some basic features of Gear, especially a low inflation target.

In this context, the warning of the book is stark. If government does not pursue employment expansion aggressively and the economy proceeds more or less as it did between 1994 and 2004, without major policy shifts, the official unemployment rate will rise to about 34% by 2014. This is a recipe for social calamity.

The primary tool government employs for fighting inflation is high interest rates. But this means slower growth and fewer jobs. In other words, we are fighting unemployment with one hand tied behind our back.

The authors call for better

tools for fighting inflation, such as clamping down on monopolies that raise prices at will.

Their most innovative proposal, making cheap credit available to businesses, will interest small businesses and farmers.

Government could offer loan guarantees to banks to encourage them to lend to small and medium-sized businesses and small-scale farmers. Such a programme would be a boon to banks, small businesses and those getting the newly created jobs.

One could claim the authors do not give adequate attention to promoting exports. But they argue that their proposals will not hold back export expansion. We cannot wait for exports to solve our problems for us, they say.

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