



For an Equitable Sharing
of National Revenue

POLICY BRIEF 8

**THE EFFECTS OF MUNICIPAL SPENDING ON
URBAN EMPLOYMENT**





EXECUTIVE SUMMARY

South Africa has one of the highest unemployment rates in the world. Unemployment has remained above 20% since the dawn of democracy in 1994. Despite the widespread perception that unemployment levels are generally lower in urban centres, compared with the rest of the country, the reality is that urban municipalities also face unemployment levels that are almost as high as the national average. Research by the Financial and Fiscal Commission, which examined the indirect effects of municipal spending programmes on job creation, found that spending on job creation and poverty alleviation initiatives contribute positively towards employment. In particular, spending on the Expanded Public Works Programme (EPWP) and the Community Work Programme (CWP) has a significant positive effect on the total level of employment for

metros, but not for other urban municipalities, namely secondary cities and large towns.

With a view to enhancing the employment effects associated with urban public spending – particularly given that urban municipalities, with their relatively higher labour absorption rates, may offer an avenue through which the unemployment challenge could be alleviated – the Commission recommends that the employment creation role of the EPWP should be broadened to specifically target secondary cities and large towns. In addition, an assessment of the EPWP integrated grant for municipalities should be carried out to ascertain how the grant can be redesigned to encourage more secondary cities and large towns to apply for a bigger portion of this grant.

BACKGROUND

Persistent urban unemployment is regarded as one of the most challenging economic problems facing the South African economy, particularly in the context of sluggish growth and a weak economic outlook. High unemployment levels in urban areas closely resemble that of the national average. Yet, despite the high levels of urban unemployment, urban areas still experience high rates of rural-to-urban migration. The key labour market goal of the National Development Plan (NDP) is to reduce the unemployment rate to 6% by 2030. With inadequate responses to long-standing challenges, relating to mismatched supply and demand of skills, overall poor quality of work seekers produced by the education system, and a limited informal sector, the achievement of a 6% unemployment rate may be unreachable by 2030.

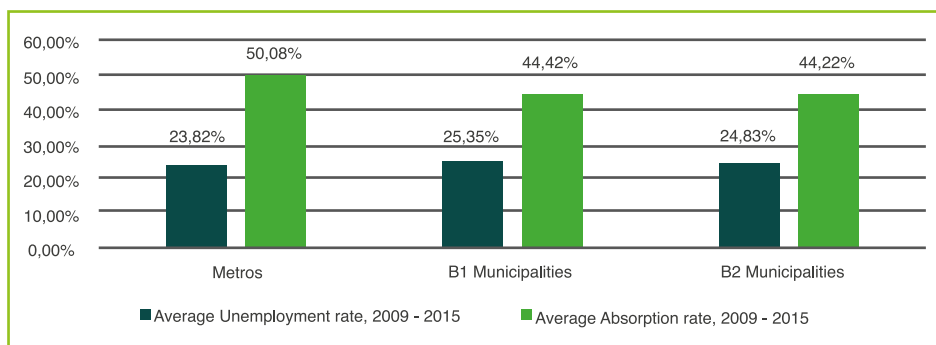
Given that the increasing demand for services and the social ills that accompany high levels of unemployment play themselves out in the municipal space, a better understanding of how urban municipalities can alleviate the unemployment challenge is required. While the labour market and job creation policies are national competencies, municipalities have various fiscal levers at their disposal that can serve to either facilitate or hamper employment creation in their jurisdictions.

In this regard, the Commission examined the indirect effects of municipal spending programmes on job creation. For the purposes of the study, the fiscal levers examined were spending on the EPWP, spending on the CWP and infrastructure spending. The EPWP and CWP were selected as they are government's key public employment programmes, introduced with the specific purpose of addressing the unemployment challenge. In addition, they are implemented at the local level. Infrastructure spending was selected based on economic growth literature as well as the fact that government's growth strategy is infrastructure-led. The specific variable of interest for the study is spending on the EPWP, as municipalities have direct control over this.

RESEARCH FINDINGS

An overview of the South African urban labour market reveals that, at aggregate level, economic growth has not been significantly employment intensive. Furthermore, on average, unemployment rates are lowest in metros (23.82%) and highest in secondary cities (25.35%) followed by large towns (24.83%), but the differences are marginal, as reflected in Figure 1. As this illustrates, the absorption rates in these urban municipalities is high, which lends credence to the value of continued migration of rural inhabitants to the urban centres despite the high levels of unemployment in urban areas.

Figure 1. Average unemployment and absorption rates in metros, secondary cities (B1) and large towns (B2) 2009 – 2015



Source: Commission's calculations based on Global Insight, Regional Explorer (2016).

CONCLUSION

Unemployment, and the economic and social costs that accompany it, represents an increasingly significant challenge to urban municipalities. However, urban municipalities have under their control various fiscal levers that can be used to relieve the pressures of urban unemployment. Given that municipalities have direct control over spending on EPWP, and that it has a positive effect on employment in metros, consideration should be given to expanding its employment creation role across other urban municipalities. To this end, the Commission recommends that:

- The employment creation role of the EPWP should be expanded to specifically target secondary cities and large towns.
- The Department of Public Works and the Department of Cooperative Governance and Traditional Affairs should carry out an assessment of the EPWP integrated grant for municipalities, to ascertain how the grant can be redesigned to encourage more secondary cities and large towns to apply for a bigger portion of this grant.



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