



Theme: CREATING EMPLOYMENT

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Executive Secretary: Murray Sanderson

Freeway

How not to do it

Creating employment sounds simple. That, surely, is a task for governments. As the country's largest employers, and the managers of national finances, governments must take the lead. Expanding the nation's infrastructure by building schools, hospitals and roads will in itself create employment. And encouraging foreign investment will provide a further boost. That at least is the theory. But does it work? A recent letter to The Post newspaper remarked on "the number of people roaming the streets" in Zambia, and continued, "It's all because the government cannot create and provide any employment, and as such it's just as good as not having a government at all."

Why are governments not able to live up to such expectations? Because their financial resources come from taxing and borrowing, both of which actions involve taking money from individuals and businesses, who would otherwise spend it more productively.

But governments must be seen to act. So what is their usual response? They regulate employment by making laws to require 'good' employment practices and 'decent' wages. But this, far from facilitating employment, actually discourages it. For it makes workers more costly to recruit and employ, as indicated by articles in this issue of the journal.

That tends to create 'two nations', the gainfully employed and the permanently unemployed. Most of the latter, because they lack training and experience, cannot obtain employment at the remuneration required by law. The minimum wage, far from benefiting them, has made it far harder for them to find employment.

Are the trade unions not able to help? Alas, they do not even want to do so. Their sole concern, understandably, is to improve the pay and conditions enjoyed by union members. They have no interest in non-members. So the unemployed, since they lack an organisation to voice their interests, tend to be completely ignored, except at election time, when politicians make empty promises to create more jobs.

Is the current well intentioned practice of regulating salaries and conditions of service frustrating employment, rather than facilitating it? If so, it requires urgent review.

How our Government can Facilitate Employment

By Eustace Davie

At the stroke of a pen, 5-million more South Africans could enter the workforce today.

Current legislative and regulatory barriers prevent employers - from the largest to the smallest - from employing labour by mutual agreement. Because of this, more than 7-million people are being denied entry into the labour market.

The severe barriers that prevent unemployed people from entering the labour market are there to increase the job security of those who are fortunate enough to be employed. Labour unions vehemently oppose government making even modest changes to the labour laws and regulations to allow the jobless to find work. They swiftly accuse employers of 'exploiting' workers if they hear of any person finding a job that pays a wage below that regulated as a "decent" wage.

Government and the labour unions appear to believe that it is better for the worker to be unemployed and have no wage at all rather than one they do not consider "decent". How can they believe that their support for stringent legislation, which prevents millions of people from getting work, places them on the moral high ground? How can they shut their eyes to the huge and escalating human misery this situation is causing?

Economies are not static but dynamic. Adding extra workers means extra production and extra capital to finance the extra production, including the cost of the wages of the additional workers. A nation with its potential workforce fully employed

has a dynamic, growing economy that adds wealth and rapidly increases the incomes of all its people.

When the cost of production rises, firms tend to look at automation. They introduce machines to do what men and women do if the cost of labour rises above the cost of automated production. Unions need to bear this in mind and remember that this causes the loss not only of existing jobs but also of potential future jobs in new firms and factories. Fewer unskilled workers would be unemployed if the total cost of employing them were to be reduced, thus making their labour more cost-effective.

A zero-sum approach wrongly assumes that there are a fixed number of jobs available. It does not take account of the huge amount of additional production that would occur if labour compliance costs were lower.

According to the latest statistics from Stats SA, the typical unemployed individual is a first time job seeker, has been unemployed for longer than a year, and has not completed secondary level education. The typical potential employer of an inexperienced job seeker is an individual, small business, or non-profit organisation, in areas of activity where they would be unlikely to compete with union members.

The unions should encourage employment of unskilled people in small firms. Those people, once they have learned skills, will become candidates for swelling the ranks of the unions. The fears of the unions are unfounded; their members are well protected from retrenchment and certainly from being replaced by inexperienced low-cost young people.

SA badly needs economic growth. Any increase in economic activity will create a massive demand for labour. If employers, from the largest to the smallest, could employ people by mutual agreement, at least 5-million more people would probably earn a minimum of a conservatively estimated R5-billion and potentially R15-

billion per month. An economic boost to the country with R60- to R180-billion per annum lawfully flowing into the hands of millions of the poorest families in the country.

There is tremendous scope for an increase in the demand for labour. It is crucial to recognise that there will always be employment for people whose value to the employer of their productive output is greater than the cost of employing them. The cost of complying with the labour laws is a major deterrent to the hiring of labour, especially in the hiring of people with low skills. Compliance costs are as high, if not higher, for hiring a low-skilled worker at R2,000 per month as it is for hiring a high-skilled worker at R6,000 per month. Labour law compliance costs are therefore a serious deterrent to the hiring of low-skilled workers.

Although the labour unions support maintaining the status quo, they are not primarily responsible for the situation. Parliament and the governing party control the labour laws. They are responsible for preventing people from gaining employment by adopting laws that deny them the right to decide for themselves what wage and conditions of employment they find acceptable.

It is therefore the responsibility of Parliament and the governing party to remove the barriers that prevent our potential total workforce from finding work and earning a living. The more people who are self-supporting, the less call there is for welfare, the more money circulates in the economy, the faster this country's economy will grow. More of its people will be job-proud and few will be poverty-stricken.

Author: ***Eustace Davie is a director of the Free Market Foundation, South Africa.***

Another look at Casualisation

By Neo Simutanyi

The term 'casualisation' describes the practice of hiring employees on short-term contracts, where such individuals are paid low wages and denied the benefits enjoyed by permanent employees. This practice is said to favour employers, as it reduces labour costs and maximize profits, but to disadvantage the affected workers with low incomes, poor conditions and lack of job security. The debate on casualisation has focused on the key issue of employment conditions versus employment creation, on quality versus quantity. This essay offers some thoughts on the subject, and argues that casualisation needs to be analysed in the context of a liberalized market economy and the global trend towards labour market flexibility.

During Zambia's 2006 general election campaign some opposition parties took issue with the idea of casualisation of labour, especially by foreign-owned firms. They argued that multinationals had resorted to hiring casual labour for jobs that would ordinarily be permanent. The impressive performance of the Patriotic Front, which campaigned on labour issues, reinforced calls for government to outlaw casualisation and introduce minimum employment standards.

The anti-casualisation debate, spearheaded by the trade unions and some NGOs, suggests nostalgia for the full-time, unionized workforce with guaranteed social security, which characterized the state-dominated economy of the 1980s. For example, trade unions and organisations such as the Jesuit Centre for Theological Reflection (JCTR) have suggested that any worker on a contract of more than six months should be placed on permanent terms so as to enjoy a higher income and guaranteed job security and terminal benefits.

Weighed against the need for providing incomes and employment to a greater number of people, the position of trade unions and some NGOs is unrealistic. It assumes that employers have the capacity to engage workers on a permanent basis and with generous benefits. The reality is that many employers, including government, are unable to do this. The practice of casualisation should be considered, not just as an economic necessity, but as a requirement of labour market flexibility, which contributes to employment creation. It is part of a package of the development of a capitalist market economy.

While it is desirable that all employees be guaranteed a minimum wage to meet basic needs, many employers, especially those in the formal small and medium enterprise sector (SME) and the informal sector, are unable to afford this. But by providing casual work, firms provide employment to thousands of people who would otherwise lack an income. While casual employment tends to be low paid, and of inferior quality compared to permanent jobs, permanent employment increases labour costs and thereby limits overall employment creation.

In a labour surplus economy such as that of Zambia, arguments for high wages and guaranteed benefits and social security for all employees go against sound market principles. We need to avoid confusing and misrepresenting the employment problem. Pay and conditions are not the issue. People need employment and a regular income to meet their needs. Working conditions and job security depend on the overall performance of the economy and the ability of firms to pay.

When considering demands to prohibit casualisation in Zambia there is need to recognize that labour market flexibility is an important prerequisite to employment creation in a labour surplus market economy. Facilitating employment to the great majority of those those who wish to

join the labour force should be the main thrust of public policy in this area. The quality of that employment should come later. China adopted this employment policy very successfully, and is today the second largest economy in the world.

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Why 'Decent Jobs' become 'No Jobs' for the unemployed

By Eustace Davie

The word 'decent' has such kindly connotations. Of course everyone wants workers to have decent wages, working conditions, hours of work and contractual arrangements with employers.

When applied to jobs, 'decent' has a variety of meanings, depending on who does the interpreting. The standards for 'decent jobs' set by labour unions are based on wages, working conditions and other minimum criteria they have negotiated for their members with employers and have had written into the country's laws and regulations: anything less is not regarded as 'decent'.

A desperate person, especially one who has been unemployed for a long time, will have an entirely different perspective of decent work. Money to buy food for the family is likely to be a first objective, then clothing, shelter and so on, along the scale of their priorities. As long as the job is tolerable, desperate people are prepared to accept any job that enables them to make progress in obtaining as many of their priority items as possible.

Understandably, labour union leaders are determined to set the highest standards they can achieve for their members when defining what constitutes a 'decent' job. Around bargaining tables they hammer out the details: minimum wages, working conditions, hours of work, overtime pay,

leave periods and a great deal more, mainly with large employers, who generally prefer to negotiate with unions rather than with individual workers. Workers have every right to establish unions, appoint representatives, and have them enter into agreements on their behalf. Problems arise, however, when arrangements between large labour unions and large employers spill over and affect non-parties to these agreements.

The current labour laws and regulations have raised a veritable 'brick wall' between potential employers and the unemployed. Potential employers are not prepared to wade through and bear the costs of all the compliance requirements in respect of someone with no skills, no track record, and most probably a badly eroded 'will-to-work' approach caused by long-term unemployment.

The most tragic consequence of the current labour dispensation is that unemployed people cannot apply their conception of what constitutes a 'decent job' to one that others do not consider to be 'decent'. They cannot do that because employers face prosecution if they employ them on the basis of the applicant's conception of 'decent' terms.

For several years, our Foundation has been lobbying for all parties to consider allowing people who have been unemployed for six months or more (to prevent firing and re-hiring) to make agreements (that are exempt from the labour laws) with employers on mutually acceptable terms. The booklet *Jobs for the Jobless: Special Exemption Certificates for the Unemployed* sets out how the situation could be totally controlled if Special Exemption (SPEX) Certificates are issued to the long-term unemployed, valid for a period of two years, allowing the holders to enter into such agreements with employers on condition that the agreements are in writing

Small firms and individuals are the most likely potential employers of SPEX

certificate holders; many only marginally better off financially than their employees. Stripped of compliance costs these employers will probably pay wages to certificate holders that reasonable people would consider to be a 'decent' wage, given the circumstances. We are talking about 'decent jobs': an income, the promise of a future, the chance to feed and clothe a family. A 'decent job' that may not be everybody's conception of the term but what a particular unemployed person would consider to be 'decent'. A job that a jobless person thinks is 'decent' is surely better than no job at all.

Author: ***Eustace Davie is a director of the Free Market Foundation and author of 'Jobs for the Jobless: Special Exemption Certificates for the Unemployed'.***

When employment laws misfire

By Murray Sanderson

Creating employment is an aim we Zambians constantly talk about. Yet we also discourage it. Under the 'Employing workers' category in the World Bank's 'Doing Business' publication, Zambia rates as low as 135 out of 181. Can this disappointing showing be the result of 'worker-friendly' policies?

First, a general point from economics: when a thing is costly we buy less of it. High prices encourage suppliers, but they discourage buyers. The buyers of labour are employers. Set the price of labour higher than employers are willing to pay, and they will either not buy at all, or they will buy less.

Who determines the price of labour? Isn't it the buyers and sellers themselves, the employers and employees? That is true in a free market. But labour markets are often not free, or not wholly free, for political reasons. Workers outnumber bosses, so they have more votes. And politicians want votes, so they pass laws which enforce minimum wages. Such laws are popular. But

there is a snag: legislation that boosts wages discourages job creation. This has happened in Zambia, but to point it out is unpopular, so no one talks about it, at least not in public.

Let's look at two areas where apparently positive policies have negative results.

The Minimum Wages & Conditions of Service Act empowers the Minister of Labour & Social Services to issue statutory instruments which set minimum wages for all non-unionized workers. That is fine for people already in employment, but it creates a serious obstacle for the unemployed, especially for those without training or work experience. Most young unemployed Zambians would gladly accept a job at a rate well below the official minimum wage. But the employer who offers it is breaking the law, and so is the person who accepts it. Thus school leavers are denied the opportunity to get work experience, gain skills and establish a track record. To put it bluntly: our minimum wages law considers only those with jobs; it ignores the unemployed. This is an area where we need to think again.

The other big area where labour legislation discourages employment is terminal benefits. Businesses without pension schemes are bound by law to pay 3 months pay per year of service as a gratuity to workers who retire after reaching 50 years of age and completing 10 or more years of service. For long-serving employees that can amount to a huge sum, far more than most businesses can afford to pay. The fear of incurring such obligations is bound to discourage employment creation. No less important, this law is also very unfair to employees, for the following reasons.

1. Employees who change employers before reaching retirement age forfeit their accumulating entitlements.
2. They also lose out if they give up employment for any other reason, such as to become an entrepreneur.

3. The same occurs if the employee leaves due to ill health or dies before reaching retirement age.

4. An employee who is dismissed for an offence forfeits the entitlement.

5. All employees lose out if the employer goes out of business.

Another kind of terminal benefit is redundancy pay, which Zambia by statutory instrument sets at 2 months pay per year of service. This may not sound a lot, but for a company which has to reduce staff numbers due to financial difficulties, it can be a huge problem. So it acts as an incentive to keep the work-force as small as possible.

Other countries seem to recognize this danger, for few of them insist on redundancy payments in excess of one month's pay per year of service. Indeed, among the 181 countries covered by 'Doing Business', Zambia's benefit level is equalled by only two other countries, Ghana and Zimbabwe. Alas, future legal obligations to workers who lose their jobs can present a major obstacle to job creation.

These considerations suggest that 'worker-friendly' legislation can fail to achieve its purpose, and may seriously discourage employment creation. Clearly, a careful review of our Minimum Wages and Conditions of Service Act is urgently needed. Even the best-intended laws can misfire.

Author: ***Murray Sanderson is Executive Secretary of ZIPPA***

Quotations

The rights of the employee - the job as a species of property - must not impair the institution's ability to do its job. They must not impair its ability to abandon, to retrench, to enforce discipline and performance standards. An example of what not to do is the employment laws of Belgium and Holland. To protect workers, they impose heavy penalties on laying off people. All this has done is to create record

unemployment and economic stagnation. Employers forego expansion rather than hire new people.

- **'The New Realities' by Peter Drucker**

The government must make up its mind whether in tackling employment it should look at the big picture that includes the unemployed or cater for the interests of the already employed.

- **Jasson Urbach**

The mistaken view that fiscal stimulus is good persists because we can actually see the people who are put to work with government funds. What we cannot see are the jobs that would have been created elsewhere in the economy with that same money had it not been taxed or borrowed by government.

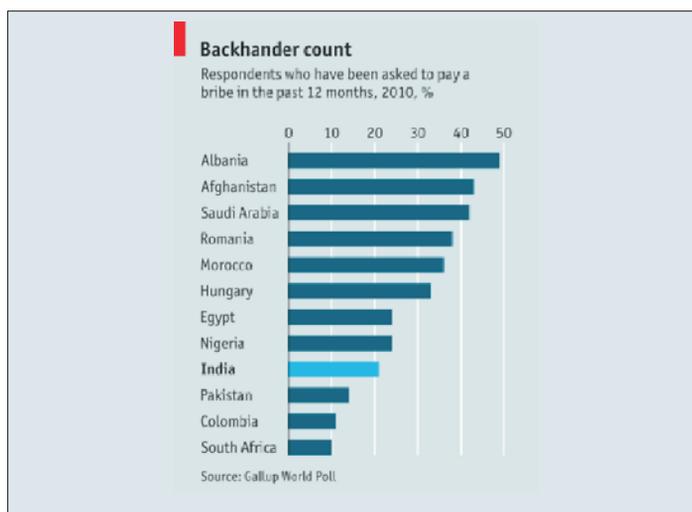
- **Jasson Urbach**

A novel way to combat corruption

Who to punish: **India's chief economic adviser wants to legalise some kinds of bribe-giving**

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CORRUPTION conjures up images of shadowy deals among lobbyists, corporations and crooked government officials. But it is often more mundane, as officials demand bribes even to deliver routine public services. Figures from Gallup, a pollster, reveal just how widespread such corruption is (see chart).



Economists argue that such small-scale graft does great damage. Official extortion erodes trust. As authorities in countries like Greece are discovering, fighting tax evasion is hard if people have little trust in the honesty of tax officials themselves.

An Indian website, ipaidabribe.com, set up last summer by anti-corruption activists, reveals just how grasping officials can be. It has documented over 8,500 instances of bribery adding up to nearly 375m rupees (\$8.4m) in backhanders. These include 100 rupees to get a policeman to register a complaint about a stolen mobile phone and 500 rupees for a clerk to hand over a marriage certificate. The amounts are much larger to facilitate income-tax refunds, where the standard "charge" is 10%; sums between 5,000 and 50,000 rupees change hands.

But such initiatives can do little beyond allowing people to vent their anger about corruption. Kaushik Basu, the chief economic adviser to India's finance ministry, suggests that this may be partly because the law treats both bribe-giving and bribe-taking as crimes. This makes it hard to blow the whistle on corrupt officials, because the bribe-giver has also broken the law. If he complains, he risks prosecution or, more likely, being asked for another bribe by the police. In a provocative paper based on game theory, Mr. Basu argues for the legalisation of some kinds of bribe-giving. His proposal has instigated a furious debate in India, with television channels even assembling panels to discuss it.

Some thunder that the economist is condoning corruption. But Mr. Basu makes clear that paying an official to bend the rules in one's favour should continue to be illegal. The category of payments he would like to legalise are "harassment bribes", made by a person to get things to which he is legally entitled. In such cases, Mr. Basu argues, the giver should be granted immunity from prosecution and a proven complaint should result not only in punishment for the corrupt official but also in a "refund" for the bribe-

giver. These steps, he believes, will align the incentives of those asked for bribes and law-enforcement agencies which seek to prosecute corrupt officials by giving their victims the confidence to lodge complaints and encouraging them to hang on to evidence of bribery. Fear of being caught should make officials more wary of asking for bribes in the first place.

This sounds promising in theory. But India's courts are notoriously slow. Jean Drèze, an Indian development economist, reckons that the difficulty of pursuing a legal case against a corrupt official may mean that few will complain. If so, Mr. Basu's idea may inadvertently result in an increase in the incidence of corruption. At least some people who would earlier have refused when asked for a bribe, Mr. Drèze reckons, would now pay up.

Yet when the bribes are for things that are their due, refusal to pay is unrealistic for most people. The tone of those posting on the bribe-reporting website suggest that people are keen to strike back at corrupt officials. Because Mr. Basu's idea should make this easier, it is worth considering. So are steps such as moving more transactions online, to reduce contact with officials. Fighting corruption will need more than one clever idea.

ZIPPA Activities

June was a busy month for ZIPPA. On 3rd we held a debate at the Copperbelt Mining, Agricultural & Commercial Show on the controversial subject of Taxing the Mining Industry. That was followed the next day by our AGM. Then on 8th came the long awaited workshop on the ZRA's Taxpayer Charter, to be followed a week later by meetings at universities and colleges on 'Ideas for a Free Society'. Reports follow on the last two events.

Taxpayer Charter Workshop

A Taxpayer Charter workshop was held in Lusaka on 8th June. This was the climax of a

consultancy carried out by ZIPPA through its consultant, Dr. Njunga M. Mulikita, and financed by USAID. The workshop produced several recommendations for improving the effectiveness of the Charter. The following deserve special mention.

a) Instead of looking just at end results, the monitoring of charter standards should focus on managing the processes required to achieve them.

b) The performance of ZRA staff members in relation to the Charter should be recognized by appropriate rewards or sanctions.

c) Competition relating to charter performance should be introduced between stations and departments.

d) Visitors to ZRA offices to be served strictly in order of arrival.

e) Quarterly performance results to be published regularly in the press with comments from ZIPPA.

f) An annual Taxpayer Charter Forum to be held to review performance.

ZIPPA will maintain regular contact with the ZRA's Director of Research and Planning to follow up these undertakings. The Workshop also recommended that government establish an inclusive national Mechanism/Platform to promote and monitor performance of Citizens' Charters across the public service.

'Ideas' Meetings

The other major event in June was a visit from Temba Nolutshungu, Director of South Africa's Free Market Foundation, to address university meetings on the theme 'Ideas for a Free Society'. The visit had been delayed by an accident, and most of our universities were having exams or were already closed. Despite that, Temba was able to address meetings at the Zambia Catholic University, at Mulungushi University, at Evelyn Hone and at the National Institute for Public Administration. His well judged presentations, aroused great interest. They

will be followed up by emailing copies to the 220 participants who provided email addresses. The meetings were also an opportunity to provide over 500 free 'Ideas for a Free Society' CDs for study at leisure.

New Website

We now have a new website at www.zippa.co.zm Visit it: we think you will like it. The designer, Emmanuel Mumba, a Copperbelt University student, has done an outstanding job. It is now for ZIPPA members and other visitors to activate it.

Disclaimer

The views expressed in this journal are those of the authors. They are not necessarily shared by members or by ZIPPA, which has no official view.

Membership

ZIPPA's financial year starts on 1st April. Invoices for the 2011/12 financial year will be mailed to all Corporate and Institutional Members. Individual Members will also receive them on request. Otherwise please mail your payment to 'ZIPPA' at P O Box 20516, Kitwe, Zambia. Payments can also be sent to 'ZIPPA', Account No. 020710017796013, Investrust Bank Plc, Kitwe, Sort Code No. 17.02.02, SWIFT Code VSTRZMLUXXX.

When you make such a transfer kindly email us at zippamail@gmail.com, giving details of date and bank used, to enable us to identify the payee and mail your receipt.



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- Student
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Subscription

- K30,000
- K200,000
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April 2011/March 2012

Details of Applicant

Name: Postal Address:

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