Government Technical Advisory Centre

PUBLIC ECONOMICS CONFERENCE

INTERNATIONAL EXAMPLES OF LOWERING UNEMPLOYMENT AND/OR MAINTAINING A LOW UNEMPLOYMENT RATE

Sibusiso Gumbi

Director: Macroeconomic Policy

*National Treasury**

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**Author presents in their own capacity. The views expressed herein do not necessarily reflect those of National Treasury*

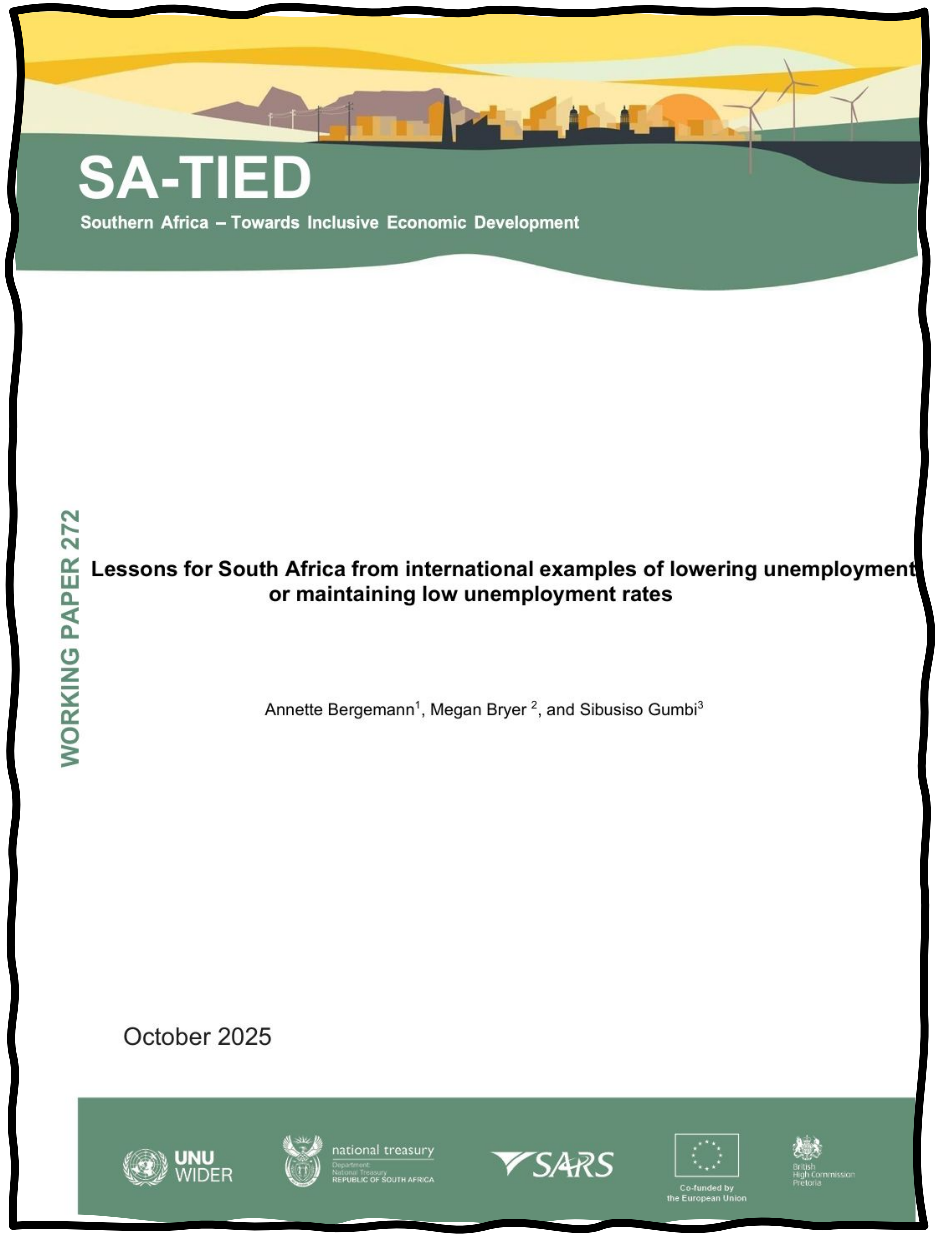
What we know…


EMPLOYMENT
YOU SAID EDUCATION IS THE KEY YET ALL DOORS ARE LOCKED
EDUCATED AND UNEMPLOYED
HIRE A GRADUATE I DID NOT STUDY TO STAY AT HOME
#HIREAGRADUATE
HIRE GRADUATE
HIRE GRADUATE
Employable Educated #HIRE AGRADUTE
EnterpriseNGR
NEED WORK

Tackling the problem:

Always worth reflecting:

- ? What labour market evidence already shows?
- ? What lived experience from other countries could be relevant for South Africa’s unemployment challenge?
- ? What trade-offs are required for sustainably reducing unemployment rates and/or maintaining low unemployment rates over several decades?


SA-TIED

Southern Africa – Towards Inclusive Economic Development

WORKING PAPER 272

Lessons for South Africa from international examples of lowering unemployment or maintaining low unemployment rates

Annette Bergemann[1], Megan Bryer [2], and Sibusiso Gumbi[3]

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Bergemann, Bryer and Gumbi (2025) put together the Working Paper: *Lessons for South Africa from international examples of lowering unemployment or maintaining low unemployment rates,* produced under the Southern Africa – Towards Inclusive Economic Development (SA-TIED) programme

Successful countries tend to…

i. Enact policy to **boost include high-productivity service sectors**
   - ✔ Enhance digital infrastructure
   - ✔ Invest in skill development to capitalise sector's growth potential

ii. Support **self-employment and informal work**
   - ✔ Reduce regulatory barriers
   - ✔ Offer targeted financial aid
   - ✔ Implement well-designed active labour market programmes

iii. Balance their approach to **wage determination**
   - ✔ Allow some flexibility for firms while ensuring worker protections
   - ✔ Trade wage concessions for employment security, helps to stabilise employment during economic downturns and build long-term labour market resilience
   - ✔ Speaks to some employer-employee "solidarity"

iv. Improve **access to jobs** through better transport, housing policies, and vocational training

NB: Do structured evaluations of labour support interventions to maximise their impacts

Country case studies:

- **High-income countries**: **Germany, Finland,** and **Russia** saw relatively steady decline in unemployment rates to single digits without experiencing a substantial (more than 10%) interim surge
- **Upper-middle income countries**: **China, Indonesia,** and **Mexico** maintained a low unemployment rate at low single digits for a prolonged period

GERMANY

- Hartz reforms in the early to mid-2000s were pivotal in changing the trajectory of Germany's labour market
  - Central idea: improve employment services and policy measures, activate the unemployed to find employment, and stimulate employment demand by increasing labour market flexibility
  - Reforms included replacing earnings-related long-term unemployment assistance with a means-tested flat-rate benefit, introducing new start-up subsidies to incentivise self-employment, decentralising wage bargaining, enhancing short-time work schemes and incentivising job-seeking
- *Kurzarbeit* short-time work schemes pivotal in recent crises (Global Financial Crisis and COVID-19) to prevent mass layoffs but still reduce employment costs for firms
  - Firms had instruments at their disposal, at low cost, to lower the number of hours worked by an employee, while the German Government subsidised employers' payrolls directly so that workers working fewer hours still receive a large portion of their usual pay through government subsidies
- Programme design and evaluation played a key role
  - Implementation was accompanied by systematic evaluation and the phasing out of less effective interventions

FINLAND

- 1990s recession increased youth unemployment to nearly 34% in 1994
- Positively, Finland was the second fastest growing economy in Europe from 1994 to 2001.
  - Overall unemployment rate recovered to 9% by 2003
- Finland's recovery was powered by services—business services, education, and social care
- During recovery, rising self-employment rates offered individuals an alternative to formal job markets
- National-level bargaining obtained zero wage increases from 1992 to 1993
  - **NB**: In subsequent recovery years, boom industries saw relatively sharp rises in wages

RUSSIA

- Russia's displayed flexibility in working hours and wages made possible by unique mix of rigidity **<u>and</u>** flexibility
- Inherited labour market centralisation meant sharp declines in the real wages could be enacted broadly in times of crisis
  - Employment protection law in Russia is stringent, imposing high costs of dismissing workers
  - Firms would typically respond through a combination of reducing working hours and wages
- Additionally, a two-tier wage system allows firms to keep one part fixed, rigid and not easily altered, and one part variable, which can be very flexible
- Variable part tied to firm performance; with wages fluctuating with firm's performance during boom-and-bust cycles
- Enables firms to adjust variable pay during downturns, prioritising job retention over rigid wage structures
- Every time the Russian economy declined, so did salaries in companies, but when the economy improved, salaries also rebounded

CHINA

- Reforms induced a large-scale reallocation of labour from the rural to the urban economy, in part responding to increased demand for (unskilled) labour in rapidly increasing service sector
- That said, migration of rural workers to cities remains heavily regulated by the state.
  - Restrictions for the type of jobs that rural migrants can take; invariably low-skilled jobs that urban workers want to avoid
  - Migrants working in the cities lack adequate access to social security measures, such as unemployment benefits, health care, and pensions
- Informal sector accounts for a significant share of the Chinese economy, almost 60% of the total urban employment in China by 2006
  - Drastic rise caused by a combination of factors, rapid marketisation, emergence of informal private enterprises and self-employment, and large-scale rural-to-urban migration of workers
- Importantly, small enterprises are an essential part of the Chinese economy
  - Total employment: ~18% from large firms, ~30% from medium firms, and ~51% from small firms
  - Consequence of deliberate government support: National Innovation System, lower costs of borrowing, billions in SMME-specific financial aid

INDONESIA

- Indonesia’s service sector now absorbs nearly half its workforce
  - Particularly, Indonesia’s informal sector, is a key determinant of low unemployment, especially in rural areas, while acting as a shock absorber during downturns
- Small and micro enterprises make up over 98% of all the establishments in the country
- However, it ranks particularly low in available measures of job quality
  - Vast informal sector contributes to significant labour market insecurity, with many workers earning less than the minimum wage
- Indonesia’s low unemployment also masks exclusion of segments of society, such as women, from the labour market

MEXICO

- Like Indonesia, Mexico's microenterprises act as shock absorbers during downturns
  - However, importantly, low social protection for the unemployed "forces" individuals to work odd, marginal jobs for survival, where they do not get counted as unemployed
- The scarcity of social protection also sees unions in Mexico, which has a high rate of unionization, prioritise employment and sees them moderate their calls for wage increases
- Micro enterprises that employ most of the workers are characterised by very low compliance with labour codes vs. workers employed in large firms
- There has been noteworthy progress in improving business regulation, making it easier for local entrepreneurs to operate
  - Including improvements in electricity access, cross-border trade, contract enforcement - including the creation of small claims courts - and electronic tax filing that improved the formalisation of informal firms

Tradeoffs □ □

Quantity vs Quality of work

- ❖ Mexico and Indonesia owe a large part of their sustained low unemployment to uneven, often uncertain informal work
- ❖ Many workers in China lack access to adequate social security measures

Worker protections vs job-enabling reforms

- ❖ German reforms boosted employment but aggravated wage inequality by promoting more low-wage jobs
- ❖ Russia’s economy prioritised job retention over wage stability

Choices are politically and socially fraught

So what can we do?

- ✔ **Expand services-led growth**
  - ✔ Invest in enabling infrastructure, esp. digital, reduce data costs, incentivise high-value services
- ✔ **Enable informal and self-employment**
  - ✔ Cut red tape, expand breadth and depth of (micro)finance, support informal traders as legitimate economic actors
- ✔ **Recalibrate labour market institutions**
  - ✔ Consider more flexibility and innovation, including in areas like wage bargaining and labour-saving short-time work
- ✔ **Fix ALMPs**
  - ✔ Evaluate, streamline, and scale what works; **rationalise what doesn't**
- ✔ **Address spatial inequality**
  - ✔ Improve transport, change zoning laws, bring housing closer to jobs

Thank you

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