

The state of employment and unemployment in South Africa

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Introduction

The unemployment problem in South Africa is not a recent phenomenon (Altman 2001a, 2001b; Bhorat & Hodge 1999; Edwards 2000; Kaplinsky 1995; Klasen & Woolard 2000; Meth 2001; DoL 1998). Net employment has been stagnant or falling since the early 1980s. The structural characteristics of falling employment have been caused by a number of factors related to the apartheid government's policies aimed at promoting 'separate development'. For example, the supply of labour suitable to a middle-income economy was constrained by a complementary set of adverse education, population control and labour market measures, whilst at the same time having the effect of diminishing household incomes and therefore a nation's greatest resource: its people. At the same time, markets were constrained by a closed economy and legal constraints to black entrepreneurship amongst others. The direction of development has further limited labour absorption by putting the economy on a firmly capital-using path, as will be argued in this paper.

So a large stock of unemployed people has built up over many years, and each year the economy has trouble absorbing not only this stock, but new entrants as well. The overall picture is quite complex: many formal jobs were lost, but since the mid-1990s, total formal employment has simply stagnated (Altman 2002a; Edwards 2000; Meth 2001). Most of the job loss was found in resource-based industries, construction and the public sector, generally due to a range of technological and policy-induced decisions. Inside the picture of no net growth was considerable private sector restructuring, where any job creation that did occur absorbed higher-skill labour, sometimes in new sectors: those retrenched have either shifted to outsourced businesses or are unemployed. The main source of employment growth for lower-skill labour was found in the informal sector until 2000 – primarily in street trade and domestic work – but even this sector seems to be stagnant or declining since then. Alongside

stagnant formal employment, is a context of high population growth and large net inflows into the labour market. The labour market expands on average by about 600 000 net new entrants each year. By 2001, the strict and broad unemployment rates had risen to 30 per cent and 41 per cent respectively. Even by the strict definition, unemployment continues to rise by about two to three per cent each year.

From a policy perspective, employment depends on both economic growth and the labour-absorption capacity of the economy. Policy must target both of these. Higher growth rates can be achieved through productivity improvements (technology, industry restructuring, improved know-how, and so on) and/or growth in domestic or foreign market demand. Higher growth rates are difficult to achieve, and do not in themselves guarantee labour absorption as we have seen in recent years. This is partly because South African growth has been more reliant on *intensive*, rather than *extensive* growth. Moreover, in a distorted market, particularly in the context of the apartheid legacy, extracting more employment per unit of investment and output requires forceful stimulation and market reforms.

This chapter outlines the experience of employment, under employment and unemployment, and then moves on to explain possible causes and policy implications.

Unemployment in South Africa

Measuring unemployment is a tricky affair. Properly calculating employment and unemployment across the full population is really a new activity: there have been many changes in the measurement instruments over the 1990s as Stats SA has sought to make improvements. The Labour Force Survey (LFS) is currently by far the most reliable source of information. It is thus preferable to draw broad trends rather than focus on precise point estimates.

Unemployment can be measured in a number of ways. The accepted international norm focuses on 'strict' (or 'official' or 'narrow') measures that include only workers still actively looking for work. The 'broad' (or 'expanded') definition includes those parts of the labour force that say they would like to work, but have become discouraged. In South Africa, the review of both measures is important due to racial and gender biases: by far, the majority of discouraged workers are African rural women. Of the 7,7 million workers who

were unemployed in 2001, 3,2 million were discouraged. The *chronic nature* of unemployment is demonstrated by the fact that only 41 per cent and 32 per cent of *urban* men and women respectively that were defined as strictly unemployed, had previously had a job. One-third to one-half of the 'strictly-defined' unemployed had been out of work for more than three years. Although some (eg. Schlemmer) argue that many of these people may well be working in small piece jobs or in the informal sector, the LFS is covering any and all economic activity, including unpaid labour, so should be capturing this possibility. Labour force participation rates are quite high and more people are looking for work: this may mean that people are more hopeful or alternatively, more desperate, as the picture is still quite bleak.

Even by the strict definition, unemployment is expanding each year. While unemployment is rising for all race groups, the racial incidence is enormous, mostly falling on African workers. The main contributors to *growing* unemployment include: expanding labour force due to population growth, increased participation rates (with the end of apartheid – freedom of movement to urban areas, increased hopefulness; increased female participation) and no net increase in the number of job opportunities.

Table 7.1 *Unemployment trends (percentages)*

	1994	1995	1996	1997	1998	1999	2000	2001
Strict definition	20.0	16.9	19.3	21.0	25.2	23.3	25.8	29.5
Broad definition	28.6	26.5	34.9	38.9	37.5	36.2	35.9	41.5

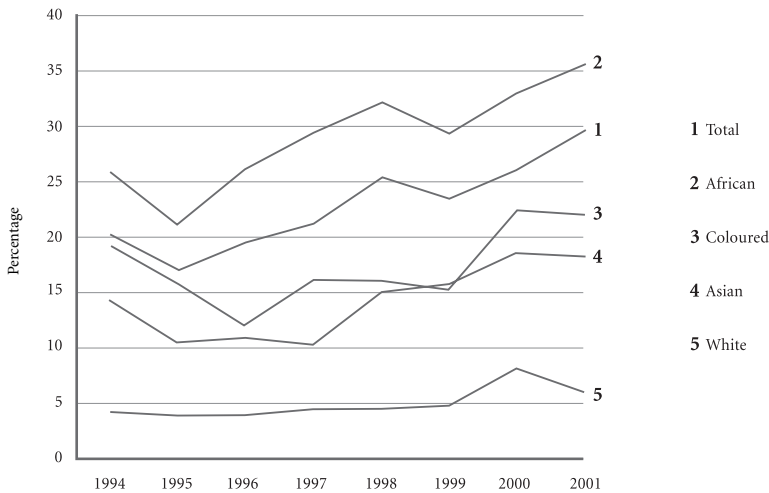
Sources: October Household Survey (OHS) 1994–99, Labour Force Survey (LFS) Sept 2000, 2001

Table 7.1 presents unemployment trends between 1994–2001. As noted, care should be taken in reviewing these figures, and year-on-year trends deserve less attention than overall direction over the period. The official unemployment rate rose by ten per cent between 1994–2001, reaching almost 30 per cent of the labour force. The broader definition of unemployment that includes discouraged workers, increased from 28,6 per cent to 41,5 per cent over the same period. The recorded unemployment rate would have grown much faster if not for the massive growth in the informal sector. There is some debate as to whether the pace of informal sector growth is real, or whether Stats SA has improved its data capture: for simplicity sake, this submission will work on the assumption that the growth is real.

Unemployment by race

As Figure 7.1 clearly shows, unemployment rates for African workers are much higher than for other groups. However, it also reveals that unemployment rates have been growing substantially for every other group, aside from whites, particularly from the mid-1990s. Even so, 35,5 per cent or 3,9 million African workers were unemployed in 2001; compare this to 21,8 per cent of coloured and 18,2 per cent of Asian workers, numbering only 0,5 million.

Figure 7.1 *Unemployment by race, 1994–2001 (strict definition)*

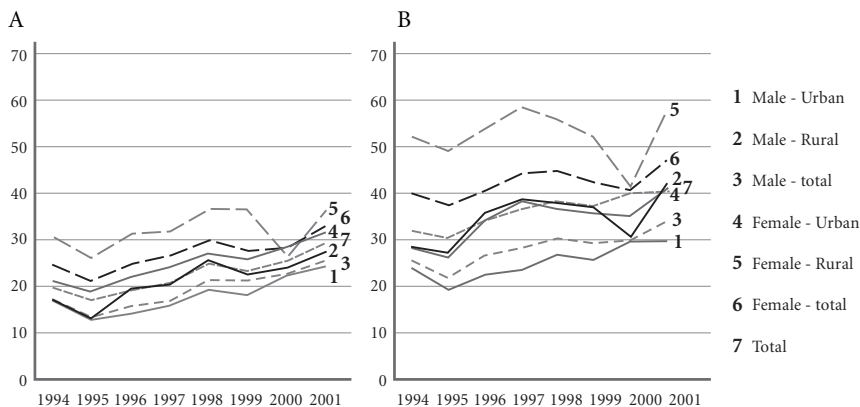


Sources: OHS (1994 – 1999) and LFS (Sept 2000, 2001)

Unemployment by gender and location

The experience of unemployment by gender and location is well known. Figure 7.2 shows strict and broad rates of unemployment by gender, also presenting variations by rural and urban location. The most significant point is the substantially higher rate of discouragement amongst rural African women than for any other group, reaching 58 per cent by the broad definition. The large dip in unemployment numbers between 1999–2001 may well be explained by a corresponding recorded rise and fall in subsistence agriculture, which appears to be more statistical than real.

Figure 7.2 *Percentage of unemployment by gender and location, 1994–2001 (strict [A] and broad [B] definition compared)*



Sources: OHS (1994–1999) and LFS (Sept 2000–2001)

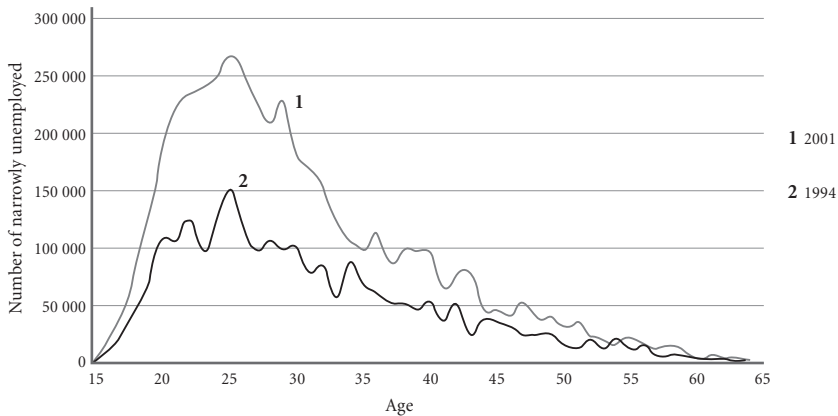
Unemployment by age

The importance of focusing on flows, and particularly on the inability of the economy to absorb new labour-market entrants, must be underlined. Figure 7.3 presents unemployment rates by age group, comparing 1994 to 2001. Generally, one expects higher rates of unemployment amongst younger people as they find their way in the labour market. However, Figure 7.3 shows that the number of young unemployed is growing much faster than any other group, thereby boosting the economy-wide unemployment rate each year. We see that young people are ‘queuing’ for work, only finding work after age 30. To put this into context, almost 72 per cent of the unemployed are under age 35 (LFS Feb 2002). Of the unemployed under 30 years of age, 73 per cent had never worked before. The involuntary nature of this situation is highlighted by the difficulty in finding a job: 30 per cent of unemployed aged less than 30 had been searching for more than three years, while another 30 per cent had been searching for 1–3 years.

These are people who should be economically active, supporting older relatives and children; instead, many young people are joining the stock of long-term unemployed. This has serious implications for economic policy seeking to reduce long-term unemployment. Is this a problem of skills and experiential mismatches and poor labour market information, or is it

deficient demand? The identification of appropriate policy interventions will depend on the extent to which it is one or the other.

Figure 7.3 *Number of unemployed by age, 1994 and 2001*



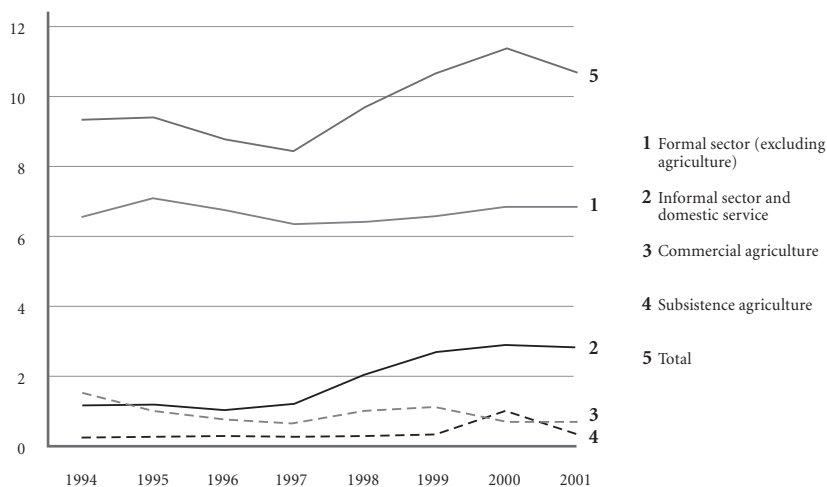
Sources: OHS 1994 and LFS 4 (2001)

Employment and underemployment

Broad employment trends

Employment is a fuzzy concept in developing countries, and many prefer to map out livelihoods. The contribution of employment to household income is particularly important since there tends to be more reliance on families than on individuals. The ‘employment rate’ masks much lying underneath, with substantial implications for households, and for policy. Trends in different types of employment and their welfare implications are discussed below.

Figure 7.4 and Figure 7.5 show trends in formal and informal employment. In the non-agricultural formal sector, employment has been stagnant, ranging between 6,4 million and 7,1 million workers. Commercial agriculture lost 750 000 jobs between 1994 and 1996, and is now stagnant, with employment in the region of about 660 000. It is estimated that about 1,2 million people work in the public sector.

Figure 7.4 Formal sector employment, 1994–2001 (millions)

Sources: OHS (1994 – 1999) and LFS (Sept 2000, 2001)

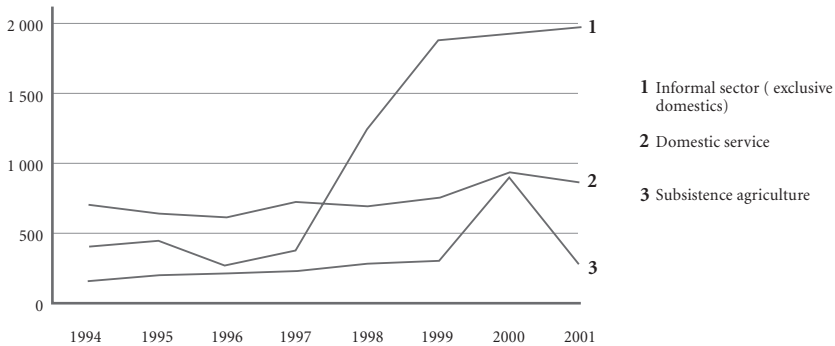
Stagnant employment does not mean that there has not been change: it is now well known that there have been considerable shifts in labour demand, away from lower-skill labour toward the absorption of higher-skill labour. This is found in every sector, except for community services. This may partly be explained by a regrouping of activity to improve productivity in an increasingly competitive environment. In addition, employment-output ratios (or the number of people employed relative to output) have fallen in every sector except community services.

Overall, the main employment growth has been found outside the formal sector. The main variations in employment figures rotate around the informal sector. Reports on job-creating growth or the recent ‘job destruction’ are probably more related to teething problems in statistical collection, than to real change. Stats SA has been actively working to improve its estimates of the informal sector. In this context, drawing a trend is not advisable. Rather, it is more prudent to focus on the most recent measurements at a point in time.

Demarcating informal employment is a little confusing and the categories require explanation. Essentially, it is worthwhile following definitions used by the *October Household Survey* (OHS) and the *Labour Force Survey* (LFS).

These surveys distinguish between the informal sector, domestic work, and subsistence agriculture.

Figure 7.5 *Informal sector employment, 1994–2001 ('000s)*



Sources: OHS (1994–1999) and LFS (Sept 2000, 2001)

In this vein, the 1999 OHS and September LFSs for both 2000 and 2001 all found that the informal sector comprised about 1,9 million participants. This represented a dramatic increase from previous levels of around 450 000 until 1997. It appears that about 200 000 more domestic workers were employed, ultimately reaching about 0,9 million workers in 2001. The other variations in employment measurements arise from subsistence agriculture, first measured in the LFS 2000. About 960 000 workers were found in 2000, falling to 360 000 in the following year! In the absence of any economic or environmental shocks, the peak was probably more related to measurement than any underlying occurrence. So it is estimated that informal employment had a total of about 3,2 to 3,7 million participants by 2001. Surprisingly, only 30 to 40 per cent are classified as 'elementary workers' and so the informal economy should not necessarily be seen as unskilled. The other three-quarters are mostly semi-skilled.

The quality of work

The quality of work can be measured in a number of ways, such as the prevalence of underemployed people wishing they could work more hours, contract flexibility, benefits and remuneration.

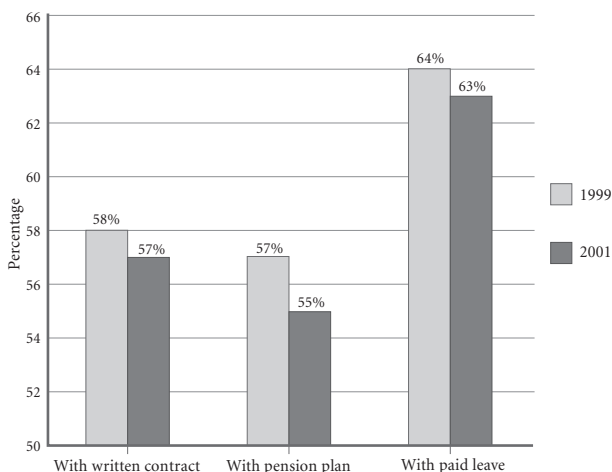
We looked at trends in hours worked and found that by far the majority of those employed in the formal sector worked more than 35 hours per week.

The variations in work quality were more related to contract flexibility and earnings. Although the legislation is often seen as onerous, there is actually substantial contract flexibility in the formal sector. This was found by the International Labour Organisation review looking back on the early 1990s (Standing, Sender & Weeks 1996). Counter-intuitively, the figures below show that there is more, not less, flexibility (or at the very least stability, depending on the reliability of the shift from the OHS to the LFS).

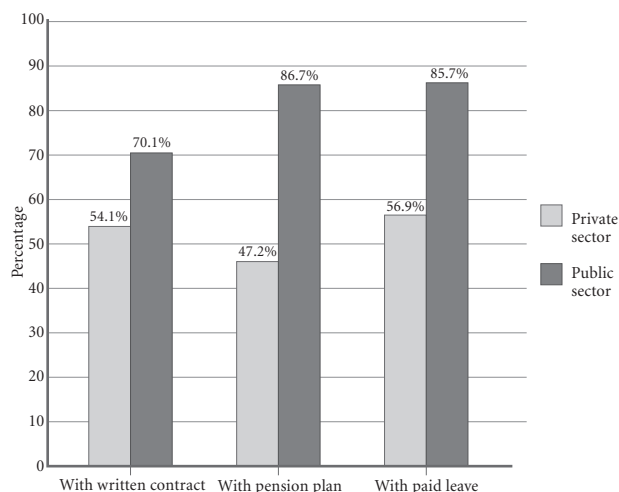
Figure 7.6 shows that just over half of formal sector workers have written contracts or pension plans. Just less than two-thirds are allowed paid leave. In fact, this overstates the contractual obligations in the formal *private* sector. The public service skews the average contractual obligations in the formal sector upwards.

Figure 7.7 shows that by far the majority of public sector workers (comprising about one-fifth of the formal sector) have contracts, pensions and paid leave. This may indicate that either there has long been substantial flexibility, or else that firms are locating strategies to introduce flexibility. Either way, employment should not be constrained by contract inflexibility, except possibly on the margins.

Figure 7.6 *Formal sector work conditions, 1999 and 2001*



Sources: OHS 1999, LFS Sept 2001.

Figure 7.7 Comparison of work conditions in the public and private sector, 2001

Source: LFS Sept 2001

Average manufacturing wages are often the minimum living level. Mean monthly incomes in 1999 are presented in Table 7.2. Formal wages for African workers ranged from R599 to R2 004 per month. It is estimated that more than four million formal sector workers earn less than R23 000 per year. As many households depend on only one wage earner, the sector worked makes a very large difference to poverty levels. As shown below, informal sector workers earn between one fifth to almost a half of their counterparts in the formal sector.

Table 7.2 Mean monthly incomes (Rand, 1999)

	Rand		As a percentage of formal African male earnings	
	Men	Women	Men	Women
White workers				
Formal (urban)	7 514	4 774		
African workers				
Formal (urban)	2 204	2 068	100	94
Informal (urban)	1 012	845	46	38

Informal (non-urban)	705	524	32	24
Domestic (urban)	903	537	41	24
Domestic (non-urban)	347	397	16	18
Agricultural (formal)	1 011	599	46	27
Agricultural (informal)	386	306	18	14

Source: Meth (2001)

Variations in experience of employment by race, gender and location

The persistence of gender and racial segmentation (and discrimination) in the labour market is apparent. While found at all levels, it becomes more stark further down the skills ladder.

Even at the highest levels, the returns to education for black graduates is lower than for white graduates. This is partly explained by choice of institution, but also due to mistaken choice in course of study and weak job-search capabilities. It does appear that insider-outsider phenomena are important even at this level (Moleke & Fourie 2003).

At lower levels, the persistence of gender discrimination is also stark. The returns to education for African women is much lower than that for African men. Although educational attainment is the same or better for women, at least half of African women are crowded into few low-level occupations such as domestic work or 'elementary' work categories such as tea ladies, cleaners and the like. Male workers with the same education find jobs in a much wider variety of occupations such as trades, and across manufacturing sectors. This partly explains the variations in earnings between men and women. Then earnings by location also clearly differ substantially, with lower earnings in rural areas.

This has implications on households and on firms:

- It results in persistence in cycles of poverty for *female*-headed households in particular. This may have implications for the focus of policy on the particular needs of female-headed households and the reduction of cost of living, for example, through child-care services and so on, and in the longer term, more forceful policies to enable career pathing of women out of dead-end jobs, and improved focus of education and work placements for girls.

- It reduces the potential skills pool as firms choose from only a portion of the workforce on the basis of gender and race, rather than capability.
- It raises policy questions insofar as rural livelihoods are concerned, where the required balance between social grants and earnings from economic activity may differ from urban areas.
- It is probable that the weak contract coverage and benefits provision apply mostly to African workers: this raises questions in respect of the role of the state in connecting benefits to work, or at least in enabling some kind of 'forced' savings (in addition to just the state pensions).

Implications of employment trends

Alongside renewed GDP growth in the 1990s was an expectation that jobs would be created. Instead unemployment has risen. There has been some debate as to whether South Africa has experienced jobless or job-creating growth. That is, have we turned the corner where the economy is finally on a path to job-creating growth? Is the main problem that employment growth is being outstripped by labour force expansion?

Over the 1990s, more output was squeezed out of fewer people, so there was stagnant formal employment in the context of GDP growth. Some job losses are blamed on productivity improvements and technological change. The idea that we might be 'turning the corner' refers to the possibility that the substantial restructuring and productivity improvements made in the 1990s will slow down, and further increases in output will rely on more horizontal expansion.

The idea of job-creating growth arises from the fact that, at the very least, there has been some net growth in employment. So the economy 'turned the corner' in 1998, after almost a million jobs were lost between 1994 and 1997 alone. This was an important turning point. However, the only net gains arose in the informal sector, where measurement is difficult (and so trends difficult to ascertain).

So, is this really job-creating growth? Or is it 'jobless growth'?

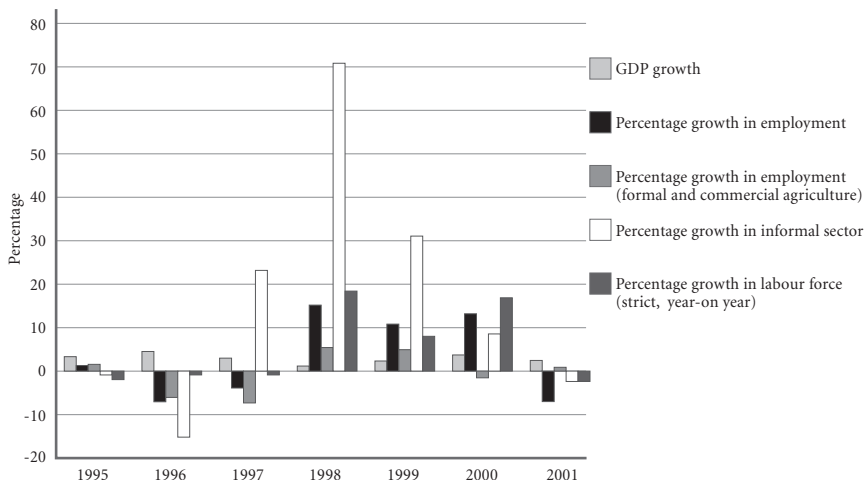
One way to assess whether employment is growing in accordance with economic growth, and 'turning a corner', is to assess whether there is some trend or reversal over a number of years. A comparison of growth in GDP and employment is offered in Figure 7.8. It does appear that total employment

grew substantially in four of the past seven years, averaging 2,6 per cent compound growth between 1994–2001. The same cannot be said about employment in the formal sector and commercial agriculture, which grew in only three of seven years. While there was substantial change (or both entry and exit) in net terms, there was no net growth in formal-sector employment over this period. According to these statistics, 2001 was a disastrous year.

Overall, the correlation to growth is difficult to ascertain, partly because of the restructuring over the 1990s. Informal employment is the only discernible source of job growth, and even that is now slowing and even falling. So in absolute terms it does seem that some jobs were created. Does it matter that they were informal?

From a policy perspective, the critical question is whether the growth trajectory can generate sufficient employment to meet some minimum expectation, thereby underpinning an upward growth cycle, in turn generating further employment, and so on.

Figure 7.8 *Employment and growth*



Sources: OHS (1995–1999) and LFS (Sept 2000, 2001)

Employment is important from a number of perspectives, including:

- Improved income distribution and household welfare *per se*.

- Sustainable growth path:
 - a growing productive sector to support less productive parts of the economy (via intra-household transfers, fiscal transfers and consumption linkages);
 - longer upswings in the business cycle (with household demand being the single most important contributor (see Laubscher 2002)).
- Non-economic considerations that arise from participation, well-being, social interaction, social cohesion, self respect, good health, and a feeling of making a contribution to family and community.

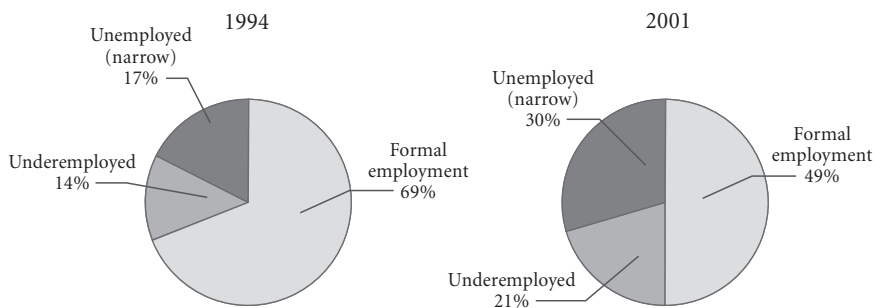
If government is tracking figures as one measure of improvement in these considerations, then aggregate employment figures can be very misleading. If the broadest brushstrokes are applied, the picture drawn in Figure 7.8 is one of stagnant formal employment and growing informal employment, within the context of a fast-growing labour force. At the same time, productivity is improving, so GDP growth is still higher than it was and more is squeezed out of fewer people. Some argue that this nevertheless means overall employment has increased in accordance with GDP growth. There are a number of concerns with this view. First, there is little reflection of the proportions required to uphold sustainable development – in other words, a certain minimum productive sector is required to support less productive parts of the economy. Unless Government plans to offer very substantial transfers as found in welfare economies, it is essential that economic growth be partly derived from broader economic participation. Instead, more people were unemployed than were working in the formal sector in 2001. Of a broad labour force of 18,5 million, 7,5 million were employed in the formal sector and commercial agriculture, 3,2 million were working in the informal sector, subsistence agriculture and domestic work, and 7,7 million workers were unemployed (of which 3,2 million were discouraged). At least one-fifth of formal sector workers were employed in ‘elementary’ occupations.

Dramatic expansions in the labour force from 1997 are the most noticeable trend. The distinction between formal, under- and un-employed is a loose one based on broad Stats SA definitions. Formal employment refers to those categorised as falling within formal sector employment including commercial agriculture. Underemployed refers to those in the informal sector, domestic service and subsistence agriculture. Unemployed refers to the official or narrow definition of unemployment. If further analysis were done, the ‘under-employed’ category would expand at the expense of formally employed, as

there are many other categories of worker (for example, cleaners, tea ladies, underemployed care givers).

Figure 7.9 offers a clearer set of implications. Two pie charts are provided, comparing the proportion of productive, underemployed and officially unemployed in 1994 and 2001. As noted, ideally the aim of national policy is to raise incomes through employment opportunities, thereby promoting spread effects through the economy. These spread effects arise from a range of linkages, whether in the household, through increased expenditure, and via state revenues. Instead, the proportion of formal sector workers fell from 69 to 49 per cent. At the same time, those underemployed rose from 14 to 21 per cent, and unemployed from 17 to 30 per cent. In summary, the economy had previously been supported by more than two-thirds of the labour force, whereas it is now supported by only a half. This is unsustainable and poses a certain brake on long-term growth and human development. An economy needs a minimum proportion of its labour force sufficiently active to support less productive groups, with the exception of oil-exporting economies that have so much income that they support large welfare states.

Figure 7.9 *Proportion of productive and unproductive labour, 1994 and 2001 (percentages)*

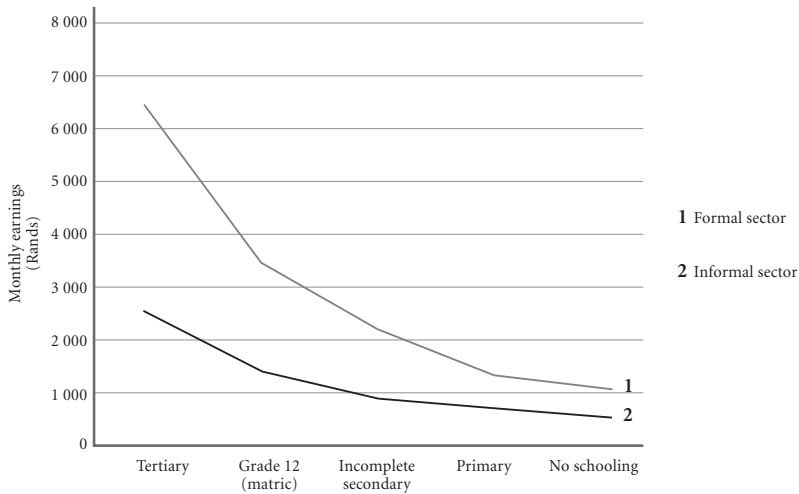


Sources: Calculated from OHS 1994, LFS Sept 2001.

In a context of rising household dependence on fewer wage earners, the proportion of workers in the formal vs. informal sector matters a great deal. Figure 7.10 shows returns to education in the formal and informal sector. Note the massive difference in earnings: workers in the informal sector with

primary or secondary education earn average monthly wages of between R535 and R1 392. Their counterparts in the formal sector earn about twice as much. Those with tertiary education earn 2,5 times as much in the formal sector.

Figure 7.10 *Earnings in the formal and informal sector by level of education, 2001*



Source: LFS 4, 2001

There are two main implications that can be drawn. First, the shift to informal sector employment has serious welfare implications at all levels of educational attainment. Second, there is much societal waste, where the large portion of net new opportunities available offers far lower returns to education.

This would not be a problem if employment were growing overall, with both formal and informal sectors expanding. However, there is a very serious problem if the shift is from productive to less productive labour, with the labour force contributing less and less to household incomes and to the economy in general.

It does appear that the South African economy has experienced 'jobless growth'. In other words, there does not seem to be a strong correlation between GDP and employment growth. Generally, the shift has been from formal to informal, with fewer returns to education, low wages, and fewer contractual obligations or benefits. If both the formal and informal sectors were growing and drawing in the unemployed, that could be a positive

scenario. Instead, the experience is the opposite. From the perspective of households, this would indicate that there is a vicious downward cycle, not an upward virtuous development cycle: this is not a sustainable growth path in a middle-income economy.

What explains persistent unemployment?

Rising unemployment is a serious concern, particularly in the context of improved growth, and expanded exports. Will this problem correct itself once the economy adjusts through all the regulatory and political changes, or is more dramatic intervention required?

The build-up of unemployment in South Africa over the past decades can most accurately be attributed to the demise of jobs in traditional resource-based industries in agriculture and mining, without a concomitant employment take-up in more advanced industrial sectors, as would be expected in a process of structural change and development.

Employment in major primary resource-based industries fell, primarily due to commodity price trends, technical conditions (in mining), domestic market deregulation and fear of potential land tenure claims and labour rights (in agriculture). The slow pace of land reform and the protectionist stance of the United States and the European Union further limit the expansion of new agricultural activity.

The dramatic fall in primary resource-based employment in the 1990s was not compensated for in other industries. Gross fixed capital formation fell by an average 1,5 per cent per year between 1990–1994, and subsequently grew by an average of only 4,7 per cent per year between 1995–1999. This latter growth was primarily driven by investment in public sector corporations. Growth rates of private capital formation fell over the 1990s, particularly with the demise in construction and mining sectors: gross fixed capital formation as a percentage of GDP has been below 17 per cent through the 1990s, as compared to rates of around 27 per cent in 1983 (SARB 2000). To offer perspective, in 1998 gross domestic investment as a percentage of GDP in South Africa was about half that in Malaysia or Thailand. Most economies that have sustained real growth rates of three per cent or more have had investment and savings levels in excess of 20 per cent of GDP. Ultimately, South Africa needs growth rates that are even higher.

The main investments prior to 1984 were largely directed to capital-intensive resource-based projects in basic chemicals and metals. Minerals revenues enabled the spending on defence and on capital-intensive projects that marked the inward focus of the former regime. For example, basic chemicals and basic metals accounted for 66,7 per cent of investment made between 1972 and 1990: by 1990, basic chemicals and metals sectors accounted for over half South Africa's capital stock. The politically-driven synthetic fuels projects, Moss gas and Sasol, alone accounted for more than half the growth in manufacturing investment over this period. The ANC's Macro-Economic Research Group recognised this and attributed growing unemployment to the crowding out by the capital intensive minerals-energy-complex (MERG 1993).

Employment growth depends on human and physical capital formation, the latter ideally applied to labour-absorbing investments. While labour-intensive industries such as clothing have been promoted in South Africa since the 1920s, this was done within a context that severely limited its growth: a closed economy with constrained domestic demand due to apartheid. So between 1972–1990, the capital stock in the clothing sector *fell* by 19 per cent. Similarly, there was only marginal investment in the four most labour-intensive industries over this 18-year period (Kaplinsky 1995). Between 1984–1990, the manufacturing capital stock actually diminished.

In the 1990s, the substantial restructuring that took place in manufacturing in response to globalisation leaned towards an ever more capital-using base. Manufactured exports rose from five to 20 per cent of total exports between 1988–1996. Yet the majority of manufactured exports are still material-intensive products such as beneficiated iron and steel, processed chemicals, processed foods, paper and paper products, and non-ferrous metals, which by 1996, constituted 62 per cent of manufactured exports.¹

Since the mid-1990s, substantial growth in exports of mechanical machinery, motor vehicles, electrical machinery, transport equipment and wine has taken place, although increasing from a small base and primarily destined for African markets (Black & Kahn 1998).² The restructuring and export expansion has not resulted in net employment gains.

To explain stagnant or falling employment it is necessary to look to the causes of weak human and physical capital formation. The historically slow growth in secondary and tertiary sectors can be attributed to the apartheid minerals economy that restricted international interaction, small business entry,

effective demand and labour market functions such as skilling, spatial and occupational mobility, affordable cost of job search, and circulation of market information. These conditions were created by the approach to import-substitution industrialisation, international sanctions, legal restrictions on ownership of assets and businesses by the black population, and controls over the labour market and access to education. One legacy is the severe gap in skills attainment: for example, less than a third of African men and women that work in the urban formal sector have completed high school. Generally less than ten per cent of informal and non-urban African workers have finished high school (Meth 2001; OHS 1999). The ‘human development indices’ such as life expectancy, infant mortality and calorie intake more closely resemble the quality of living in low-income economies.

The separate development strategy entailed that the black population would be kept out of the central urban areas, and that production became increasingly capital intensive to reduce dependence on black workers. The black population would be moved to outlying (and generally uneconomic) areas, where labour-intensive industries were encouraged to move. So, most legislation was aimed at saving economic opportunity for the white population. Examples of these controls included job reservation, the bantu education system, severe limits by race on access to occupation, certification and education, the *Group Areas Act* and influx control, and racial applications of labour law. Since the black population could own neither a business nor property, large parts of the population now lack assets to put forward as collateral.

So, in the South African context, severe distortions are related to the distribution of asset ownership, spatial dislocation, skills gaps, and the attraction of investment into more profitable, spatially determinist, capital-intensive resource-based projects. Explaining high unemployment as the result of factor price distortions, particularly emphasising wages and low savings rates, is quite simplistic (Fallon & Pereira da Silva 1994; Fallon & Lucas 1998; Fedderke, Henderson & Kayemba 1999). Falling wages and rising savings rates would not in themselves solve such a severe experience of high and growing levels of unemployment.

Most of the elements that underpin growth and the efficient co-ordination of factor and product markets were purposefully undermined by the apartheid government. The minerals base made this possible on a sustained basis, with the misallocation of mineral rents, particularly in the context of dramatic increases in the gold price in the early 1970s.

The *misallocation* of resource rents has left South Africa as a highly distorted middle-income economy, with a cost structure and domestic market-oriented production sectors that reflect this middle-income status, but a human development index, skills level and export profile that is more reflective of a less developed country (Black & Kahn 1998; Klasen & Woolard 2000).

Some implications for future policy directions

There are two complementary variables that will impact on future employment trends – economic growth and the capacity of the economy to absorb labour.

Growth and employment

With rapid technological and productivity improvements, diminishing links between employment and output are not uncommon in many countries. However, this link seems to be even weaker in minerals economies. Within this context, what is the relationship between growth and employment? What if government were to set a minimum expectation or policy target at stabilising unemployment rates at current levels? What rate and type of growth would be required?

As at 2001, the economy would need to generate about 450 000 net new jobs each year, compared with an average 240 000 net new jobs created annually since 1994, almost all in the informal sector. To achieve the higher rate of job creation, employment would need to grow by 3,9 to 4,4 per cent annually. What rate of GDP growth would be needed in the current environment to achieve this minimum target? It is difficult to pinpoint a precise relationship between employment and growth in South Africa, particularly in the context of such dramatic structural change. However, it is possible to look at the experience of other countries, and of sectors that have transformed less dramatically.

In the high-performing Asian economies, employment growth rates of 2,5 to four per cent would normally be associated with GNP growth rates around five to eight per cent or more (Mazumdar & Basu 1997). In these south-east Asian countries, employment and growth depended on the rapid expansion of low-cost manufactured exports, made possible by a low cost structure.

Developed economies that have overcome high unemployment have relied substantially on the expansion of high-value market services (such as business and professional services) and low-value social and personal services, such as

health, education and child care. Ireland is one example, where in this way employment growth rates averaged 2,6 per cent between 1991–1997, but GDP grew by more than eight per cent per annum (O’Connell 1999).

It seems quite unlikely that more than four per cent employment growth could be achieved within the current policy framework, particularly at projected GDP growth rates of around 2,5–3,5 per cent. South Africa has a capital-intensive structure of production, with many supply constraints limiting employment and investment multiplier effects. This is reinforced by globalisation, where it is the high-skill, capital-intensive export industries that are mostly benefiting. At the same time, services industries are expanding and entry is easier for small- and medium-sized formal and informal firms. The comparison to Ireland above is offered to show what ratio of employment to GDP growth might be expected in a context of high rates of labour absorption per rand invested. What could we expect where the economy has a low capacity to absorb labour? The South African economy is likely to generate less than one per cent annual growth in ‘market-based’ employment in the short-to-medium term (Altman 2001b; Lewis 2001).

Increasing the capacity of the economy to absorb labour

There is much value in building such labour-intensive market-based sectors, promoting industrial diversification and deepening domestic linkages, but the impact on employment will be at best moderate for some time to come. A mix of approaches aimed at raising employment-output ratios without undermining competitiveness and long-run formal sector growth, must be pursued. It is clear that the pursuit of higher GDP growth rates is essential, but equally important is the question of how to squeeze more employment out at each rate of growth, investment and output.

Ultimately, the drivers from the demand side by which the South African economy can become more labour-absorbing depend on a number of interconnected legs, involving:

- The expansion of low productivity non-traded goods and services, such as construction, and social and personal services.
- The stimulation of investment linkages arising from key investments and export opportunities. This entails the promotion of small business with more strategic use of procurement by government and business.

- Active labour-market policy – some of the central functions of any market would include: signalling, response, mobility and reproduction. It could be argued that labour markets in South Africa are not well developed from a perspective of information provision, skills response, occupational and geographic mobility, nor even in supporting the reproduction of labour. For example, learning institutions may be getting a signal that certain skills are increasingly in demand, but they may not respond due to inappropriate institutional incentives. Poorly developed labour markets with weak information flows, substantial exclusion, rigidities in spatial and occupational mobility, and weak skills development are a legacy of the apartheid regime.
- Household expenditure is the single most important contributor to upswings in the business cycle (Laubscher 2002). In South Africa, weak household consumption expenditure has therefore resulted in shorter upswings and longer downswings. Are there ways that government could more forcefully stimulate or even emulate household expenditure, whether directly or indirectly? Examples include financial transfers, food vouchers, and food grants. Alternatively, employment expansion (eg. in construction and personal services) and reduced forms of inefficient household indebtedness (eg. multiple insurance policies, high interest costs, defaults) could contribute to household consumption.
- The inflation-unemployment relationship is not well understood, but nevertheless has a substantial impact on policy decisions. Given current knowhow, government is limited in its capability to stimulate the economy for fear of inducing self-defeating inflationary pressures. It may be that low-level inflation under current circumstances requires strict unemployment rates of around 30 per cent. This is explained by path dependence in the economy, where the institutions underpin a continued link between inflation and unemployment. Some examples include: wage-setting institutions, administered prices and the extent to which markets are competitive. How can the inflation-unemployment relationship be unbound? The concept of ‘hysteresis’ or path dependence requires investigation. One would look at underlying market and institutional structures to see where institutional reform could help to unlock the relationship between unemployment and inflation. The line of inquiry is this: if government seeks to stimulate demand for say food, with the aim of eradicating child malnutrition, would it be inflationary and could these pressures be avoided through market restructuring or voluntary price restraints?

Conclusions

In employment terms, the economy has shifted to a smaller productive base that supports a larger under- and un-productive base. Fewer people at higher-skill levels are producing more output. Larger parts of the labour force are in very low or zero productivity activities. This is unsustainable since although output has grown, lower rates of employment (and income derived from employment) means higher household dependency ratios, weaker 'spread effects' and distribution of income, thereby undermining any sustainable growth trajectory.

The most critical problem lies in the very slow uptake of young entrants. It is one thing to have a 'lost generation' as a result of apartheid. It is quite another to generate a *new* generation of people who have little link into the economic and social participation offered by the world of work.

The policy solutions are varied and complex, but there are two complementary interventions: the one entails active stimulation of low-productivity labour-absorbing non-traded goods and services to increase the number of opportunities in the market. This is one measure, in combination with active labour market policy, that raises employment created at any rate of national growth.

Notes

- 1 For example, in 2000 merchandise exports increased by ten per cent (and imports increased by nine per cent), but most of this growth can be explained by the R2 billion in capital exports by SA contractors during the construction of the Mozal smelter in Mozambique (Budget Review 2001).
- 2 Opening up to the rest of Africa has been important in this regard, where two-thirds of manufactured exports are destined. The share of exports excluding gold destined for Western Europe has fallen from 50 to 41 per cent, while Africa's share has grown from nine to 18 per cent between 1998–1996.

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