

**SOCIO-ECONOMIC IMPACT OF UNEMPLOYMENT**

By

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## DECLARATION

I declare this research as my own work and that all references used are accurately reported. It is being submitted in partial fulfilment of the requirement for the degree, *Master Philosophy in Labour Relations Management* at the University of Pretoria. It has not been submitted before for any degree or examination at any other University.

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## SUMMARY

Unemployment is a universal problem more especially for the developing countries. Unemployment has an impact on the individual and on the economic well-being of the country. This will however, have a very detrimental effect on the community life and community development at local levels. The political leadership of every county has to deal with an unemployment problem since unemployment leads to poverty, low quality of life, social, political and economic ills. Hence, the purpose of this research is to investigate the socio-economic impact of unemployment in South Africa.

Chapter two of this research deals with literature survey and it defines the unemployed person as the one who did not work during the seven days prior to the interview, wants to work and is available to start work within a week of interview and has taken active steps to look for work or start some form of self-employment in the four weeks prior to the interview.

Different types of unemployment, namely: frictional, cyclical, structural, and seasonal are used to address the problem of unemployment successfully. This provides some indication of the possible reasons for the cause of unemployment and some possible ideas on how the problem should be addressed. Meanwhile people voluntarily remain unemployed while seeking out and weighing up suitable job vacancies, cyclical unemployment results from both economic downswings and upswings of the business cycle such as retrenchments and Rand appreciation. Structural unemployment and seasonal unemployment refers to the overall inability of the economy to provide employment to the total labour force and normal expected changes in economic activities during the course of a single year.

Unemployment in South Africa is also said to be marginal in nature in that there is ample evidence of wage differential for apparently similar workers which could motivate some search unemployment. The candidates of low-wage are the informal sector and the subsistence sectors with the informal sector appearing to be for the most part of disguised unemployment.

Keynesian and Monetarists approaches are used to give the theoretical explanation of the causes of unemployment. Keynesian explain the causes of unemployment as insufficient aggregate demand and shocks from the supply side of the economy which could be either internal or external such as draught and economic sanctions. In contrary, Monetarists maintains that unemployment is caused by the forces of demand and supply and that the economy is self-stabilising in case there are no disturbances. Hence, the government should practice fiscal subsistence.

Research methodology is outlined in chapter three. This chapter talks about the measurement techniques, the necessity of a literature survey, and the nature of the study.

Chapter four presents some results and interpretations through the use of statistical figures or tables. Unemployment in South Africa and its socio-economic impact is also discussed in this chapter.

The fifth chapter is based on policy recommendations for the alleviation of unemployment in South Africa such as, RDP and GEAR etc.

The last chapter is conclusion and it focuses on the social and economic costs of unemployment to the society.

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# **CHAPTER 1: SOCIO-ECONOMIC IMPACT OF UNEMPLOYMENT IN SOUTH AFRICA**

## **1.1. Introduction**

Unemployment is a universal problem with which the political leadership of almost every country has to wrestle. Even the United States of America which has emerged as the dominant economy of the global village, is forced to invest considerable resources in job creation and economic development programmes aimed at reducing institutional unemployment. This matter has become so significant in the global economy that the guardian of the global economic system, the World Bank and the International Monetary Fund relies on the institutional unemployment figures as the indices of the socio-economic well-being of countries.

Whereas the question of institutional employment is a significant consideration in countries in the developed world, it must be considered as being of critical importance in emerging economies and underdeveloped countries. The rationale for this view is that there is clearly a very direct relationship between the well-being of the economy of a country and the levels of institutional unemployment because of the available jobs increase in a growing economy and, conversely, decrease in a declining and stagnant economy.

Relying on this indicator, the state of the South African economy must be a matter of grave concern as in the order of one million job opportunities have been lost in South Africa since the early 1980's. It is axiomatic however that a considerable number of these job losses occurred as a result of politically driven initiatives such as disinvestment. It is equally true that

the political transformation of South Africa occurred at a time when a world

wide economic downturn, some even refer to it as a "world wide economic recession", occurred. This recession, if this is what it was, was exacerbated by a world wide economic and political phenomenon referred to as "globalization", from which the highly developed and technologically advanced countries benefited greater as a result of their ability to produce consumer goods at very competitive prices and from which emerging nations lost economically due to their need to address socio-political issues such as racial and gender employment equity and their consequential inability to compete economically.

## **1.2. Problem Statement**

The problem we are faced with is that, not only does unemployment exist in South Africa, but it is so severe that it directly causes poverty. This brings various questions to mind:

- Does an individual's social well-being depend on employment status?;
- Can a country be expected to grow indefinitely if its economic growth continue to be jobless?;
- Do private individuals use the shortage of formal employment opportunities as an excuse for laziness so that they do not have to create jobs for themselves?;
- Is institutional employment the only solution to eradicating poverty?;
- Does unemployment cause poverty?;
- Does unemployment cause family conflict and domestic violence?;
- Can unemployment be seen as the cause of alcoholism and drug abuse?;
- Does unemployment cause depression in individuals?; and
- Does unemployment devalue an individual's self-worth?.

Given the possible consequences of unemployment, it is necessary to

determine the causal effect between unemployment and poverty. The question which remains, is a human being's quality of life and self-worth dependant on his employment status?.

From the problem statement we can deduce the null hypothesis as follows:

H1: There is no clear relationship or causality between an individual's self-worth or dignity, his quality of life and his employment status.

### **1.3. The Purpose of the Study**

The purpose of this study is to investigate and to provide at the end some findings and policy recommendation on how to improve the quality of life in unemployment by making use of available literature.

However, the specific aims of this study are:

- To examine the manner in which the unemployed, especially households, manage to maintain their livelihood, both materially and immaterially;
- To determine the social effects of unemployment such as: rejection and isolation, boredom, laziness, the humiliation suffered when being forced to beg or borrow, sense of frustration, domestic tensions, feeling of inferiority and desperation, the feeling of turning into alcoholic or criminal activities, fear of eviction and repossession of one's furniture, and the inability to advance your education;
- To trace the patterns of change in unemployment trends e.g. how unemployment is no longer a racial or educational phenomenon but a reflection of the government's inability to sustain the economy;
- To highlight the in/effectiveness of government policies, such as Affirmative Action, GEAR and On Job Creation; and
- To prove that a direct positive relationship exists between

unemployment, social degradation and the decline in economic growth leading to poverty.

## CHAPTER 2: LITERATURE STUDY

### 2.1. Introduction

Meanwhile large-scale unemployment has become the prime social and economic issue in South Africa and a number of developing countries, It is a colossal waste of human potential and national product; it is responsible for poverty and inequality; it erodes human capital; and it creates social and economic tensions wherever it strikes (Snower & De La Dehesa, 1997: 1). Hence, this chapter is based on both economic and social theories relating to unemployment in South Africa. The chapter focuses critically on the different definitions and types of unemployment; unemployment employment and marginalisation in South Africa; causes of unemployment as well as Structural unemployment in South Africa.

### 2.2. Definition of Unemployment

Barker (1999: 165) defines the ***unemployed person*** as the one who is without work, is currently available for work, and is seeking or wanting to work. The ***unemployment rate*** is defined as the number of unemployed persons taken as a percentage of the economically active population , which includes both the employed and the unemployed.

Human Science Research Council (1985) found that most definitions of unemployment requires that a person not only wants to work but also looks for it actively. This ignores the discouraged work-seekers who may want to work at the going wage, but has given up looking because he perceives the chance of getting it to be very slim. This type of unemployment is sometimes known as hidden unemployment. Although no market signals are generated by those in ***hidden unemployment***, it is not conceptually different from the open unemployment. In hidden unemployment, many people are

engaged in second-choice non-employment activities, such as education or housekeeping primarily because job opportunities are not available either at the level of education already attained or, for women, due to social mores (Todaro, 1994: 229). Educational institutions and households become employers of last resort. Moreover, many people enrolled for higher education may be among the less able as indicated by their inability to compete successfully for jobs before pursuing further education.

Also, presumably hidden unemployment cannot normally exist in a dynamic and growing economy without open unemployment, as it is usually the fact that there are too many people seeking the jobs on offer which discourages others from joining the seekers. Thus, market signals will normally be generated, but the full extent of the problem may not be realised. Hence, open unemployment is usually defined in relation to market clearing.

Although the notion of open unemployment is fairly clear, the concept of underemployment is considerably less so. Underemployment can be defined in a way consistent with open unemployment, i.e., a man who is working less than full-time but would like more work at the going wage rate is openly underemployed. Thus, underemployment is used to describe a whole variety of other phenomena covering the other types of labour market malfunctions and other forms of labour market underutilisation. The term underemployment is used to describe what may be called low-wage or low-productivity employment. A person is regarded as being underemployed if he does not earn adequate income. Adequacy is based on whether a person and his dependents are able to meet their basic needs, both long-term and short-term from income. An adequate income is therefore defined in a way that is totally unrelated to the market for wage labour, and is essentially a normative concept.

The Statistics South Africa, previously known as the Central Statistical Services, recently revised its definition of the official unemployment rate in line

with the main International Labour Organisation definition. The definition is used more than eighty percent of both developed and less developed countries, and in South Africa as a major trading partner.

On this new definition, the **unemployed** are those people within the economically active population who:

- (o) did not work during the seven days prior to the interview;
- (p) want to work and are available to start work within a week of interview ; and
- (q) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

The economically active population consists of both those who are employed and those who are unemployed. Its magnitude therefore differs according to the definition of unemployment used. Thus, the official unemployment rate is calculated as the percentage of the economically active population which is unemployed, according to the above definition.

The new official unemployment rate corresponds to what Statistics South Africa previously called the **strict unemployment rate**, i.e. using criterion (c) as well as (a) and (b), set out above. By contrast, the expanded unemployment rate does not require criterion (c), but only (a) and (b), and was the basis of the official definition until recently.

### **2.3. Different Types of Unemployment**

In order to address the problem of unemployment successfully, a distinction should be drawn between different types of unemployment. This gives an indication of the possible reasons for unemployment, and therefore some idea of how the problem should be addressed (McConnell and Brue,1995).

### **Frictional Unemployment**

In a world of scarce and costly information, there will be at any point of time an ever-changing pool of unemployed job seekers in search of better paid and more suitable jobs and employers in search of particular types of workers. Those engaged in search attempt to match the marginal costs and benefits of such activity. For the proper functioning of the market, search unemployment is both inevitable and useful. Search costs are generally accepted as one of the factors which make the natural unemployment greater than zero.

Frictional unemployment arises as a result of normal labour turnover that occurs in any dynamic economy and the time lags involved in the employment of labour. Because there are people moving between jobs and new entrants in the labour market, at any given time there are both unemployed persons and vacancies which can be filled by them, and usually takes time for those seeking work to find and fill these positions. Frictional unemployment can exist in a situation where there is no skill or location mismatch. Frictional unemployment also refers to an economically rational process of job search where people voluntarily remain unemployed while they seek out and weigh up suitable job vacancies.

In South Africa, search involves more physical effort and time on the part of job seekers who are less able to make use of modern communication facilities (e.g. telephones) than, say, American workers. Furthermore, the geographical and vertical mobility is limited by variety of labour market restrictions and the many urban dwellers who do not possess the required documents are deterred from seeking work through the normal channels.

Frictional unemployment is relatively of short duration, which can be reduced even further by improving labour market information and placement services, so that the employer and the work-seekers can find each other sooner and more effectively (Barker, 1999: 165).

Even when aggregate demand is sufficient to employ all the labour force and when those who are unemployed possess skills matching those required by firms with job openings, the nation's unemployment rate will remain positive. People will continuously quit present jobs to shop for new ones, look for new jobs after losing previous ones, enter the labour force to seek work for the first time, reenter the labour force after periods of absence, and move from one job to take another within the next 30 days.

Likewise, employers continuously search for replacements for the workers who quit or retire, discharge some employees in hopes of finding better ones, and seek new workers to fill jobs created by expansion of their firms (539).

### **Cyclical Unemployment (Demand Efficient Unemployment)**

Demand deficient inflation arises during recessionary periods, when aggregate demand and therefore also the demand for labour, is low. During recessionary periods few or no jobs are created for new entrants to the labour market, and even existing workers might lose their jobs through retrenchments. Once the economy recovers, however, the cyclically unemployed are taken up again. In South Africa cyclical unemployment has a dimension that makes it uneasy to address successfully: it is superimposed on large-scale structural unemployment. As a result, the unemployment problem is severe, complex and difficult to alleviate. The National Manpower Commission has addressed this topic in a special report (National Manpower Commission, 1994).

Meanwhile cyclical unemployment arises from periodic downswings in the business cycle, such downturns may be initiated, for, example, by autonomous decrease in consumption, investment, or exports, and reinforced by an attendant degree of wage rigidity. Whilst the issue of wage rigidity has attracted a good deal of attention in the current literature, it generally refers to the inability of wages to adjust in a downward direction. When this occurs, any decrease in the demand for labour must perforce give rise to an excess supply

of labour, or cyclical unemployment.

Cyclical unemployment occurs when output is below its full-employment level. In other words, cyclical unemployment is associated with an insufficient level of aggregate demand, and therefore also called demand-deficiency unemployment. When aggregate demand rises, firms increase their hiring. When aggregate demand falls, firms lay off workers.

However, it should be noted that the relationship between aggregate demand and the rate of unemployment is not unambiguous. For instance, an increase in the demand for labour increases quits at the same time as it reduces layoffs. A person thinking of leaving a job to search for another would be more likely to quit when the job market is good and the demand is high than when there is a heavy unemployment and the prospects of finding a good job quickly are low. In fact, quits and layoffs tend to move in opposite directions. Moreover, there are lags between changes in aggregate demand and changes in employment (or unemployment). When aggregate demand falls, firms do not immediately dismiss or lay off workers. Similarly, when aggregate demand increases, there is some delay before aggregate employment increases. There might be some idle capacity. Otherwise firms initially try to meet the increased demand by working overtime.

### **Structural Unemployment**

This type of unemployment is more difficult to define, but generally refers to the overall inability of the economy, due to structural imbalances, to provide employment for the total labour force even at the peak of the

business cycle. This type of unemployment is not sensitive to changes in aggregate demand. Hence, structural unemployment is the unemployment that exists when the economy is at full employment.

Unemployment experienced in South Africa is largely structural rather than cyclical (Chadha, 1994: 23). Even during periods of high economic growth, job

opportunities do not increase fast enough to absorb those already unemployed and those newly entering the labour market. There are various reasons for this, for example the rapid growth of the labour force, the use of capital or skill-intensive technology, or an inflexible labour market.

Structural unemployment could also refer to a skill mismatch, i.e. between the skill that the employers require and those that employees offer, or a geographical mismatch, i.e. between the location of job vacancies and those of job-seekers. The major proportion of unemployment in South Africa is Structural. Structural unemployment is caused by changes in the composition of labour supply and demand.

Structural unemployment is part of the nation's natural rate of unemployment. However, this unemployment shares many of the same features as frictional unemployment but is differentiated by being long-lived. It therefore can involve considerable costs to those unemployed and substantial loss of forgone output to society (McConnell, R 1995: 547).

Improvements in agricultural technology over the past 100 years caused job losses for many farm operators and labourers who did not have readily transferable job skills in expanding areas of employment and who were not geographically mobile.

Unemployment resulting from job losses associated with the spate of merges in the United States over the last decade is another example of structural unemployment, as is unemployment resulting from the deregulation of trucking and airline industries (McConnell, R 1995:547).

### **Seasonal Unemployment**

Seasonal unemployment occurs due to normal and expected changes in economic activities during the course of a single year. It is found in many sectors, with agriculture probably the best example. Persons working during peak periods and unemployment in off-peak periods are described as seasonal workers or seasonally employed. This unemployment occurs on regular and

predictable basis.

#### **2.4. Unemployment and Marginalisation in South Africa**

The *sectoral model of labour* (Berry and Sabot, 1978) holds that much Third World unemployment is not involuntary. It is based on the following propositions: Labour is fairly mobile between the various sectors of the economy and as such it is fair to talk about a national labour market; The bottom end of the labour market (such as the modern informal sector and the traditional sector) is characterised by market clearing either because it has additional labour absorption capacity, or because it is driven by market clearing in the neoclassical sense; and that there is significant wage dispersion.

Unemployment in this model is voluntary in the sense that it represents rational search behaviour rather than an aggregate shortage of opportunities. People are pulled from relatively poorly paying bottom end opportunities into voluntary unemployment in order to search for better jobs. They are not pushed into involuntary unemployment by the absence of opportunities.

In South Africa, there is ample evidence of wage differentials for apparently similar workers. This is a crucial piece of evidence in itself. Relevant to the current discussion is that the differentials could motivate some search unemployment. However, although there is some debate as to whether this has always been the case, extreme oversupply seems to have been the case

for at least the last fifteen or twenty years. This conclusion is supported by direct household survey evidence, which uniformly shows that the South African unemployment have negligible unemployment prospects (for example, Moller, 1992; Borat and Leibbrandt, 1996), and by the consideration of low-wage, potential market clearing sectors of the economy.

The candidates for a low-wage sector are the informal and subsistence sectors.

Traditional agriculture has performed woefully. Second, despite claims to the contrary based on its fairly large size (perhaps 20% of the labour force), and rapid employment growth during 1993, the informal sector also appears to be unable to offer high rates of pay. In countries with vibrant informal sectors there is important manufacturing for niche markets (1985 & Amin, 1988). In South Africa, less than one-fifth of informal sector jobs involve production. Most work (about two-thirds) is driven by retailing (hawking and vending), mainly offered to low-income earners from a limited number of suitable locations in an extremely competitive environment. Much of this poor work is conducted by women (who outnumber men three to one in the informal sector as a whole). Earnings are very low: a Central Statistical Study showed that 80% of non-White persons involved in informal activities received a monthly income of less than R650 per month - an amount which could be regarded as a minimum living level (Ligthelm and Kritzinger Van Niekerk, 1990).

The informal sector appears to be for the most part “disguised unemployment”. In a study of perceptions of township dwellers, Moller (1992) found that 70% agreed that most unemployed people who open up their own businesses in the sector are barely able to scrape a living. The fact that women predominate is also telling: women also have the highest unemployment rate. That the informal sector does not for the most part provide an adequate living is supported by the finding that less than 40%

of informal sector workers in 1991 (Central Economic Advisory Service, 1993). Most informal sector participants were either students or housewives (42%) or were “moonlighting” from formal sector jobs (17%).

It is however interesting to observe that the search incidence from informal sector workers is very low: according to official statistics, only about 6% of informal sector workers were actively searching for formal sector jobs in 1989. In 1991 (when unemployment was higher) the figure was only about 4%.

Therefore, although there is evidence of significant wage dispersion, there appears to be a significant overall surplus of labour, particularly at the lower end of the wage spectrum. This surplus has had a considerable effect on the nature of labour supply in South Africa. Several strands of evidence suggest that the labour market is heavily segmented, to the extent that a large part of the labour surplus is marginalised. In the South African context, models based on unified labour markets - in other words markets where there is significant mobility between sectors are appropriate.

In fact, the argument can be made that the unemployed and the employed seem to be fairly distinct groups, with very limited turnover between the two. First, a very large proportion of the unemployed live in rural and non-metropolitan areas, from which search must be all but impossible. During the 1980s, unemployment rate in the Black homeland areas were consistently more than double those in the metropolitan areas. By 1987, still more than half of all unemployed were living in these national states (Ligthelm,1993). Although the claim that as many as three workers arrive in urban areas for every job being created (Ligthelm,1993) sounds impressive, and suggests that pull unemployment is important in a national labour market, the statistics does not in fact represent a great deal of population movement, given the rate of growth of employment. This is despite the breakdown of apartheid restrictions from the early 1980s and

the demise of the apartheid labour recruitment system, which was geared to hiring labour for urban purposes for rural areas. The result is that, by 1994, Black unemployment rates were still considerably higher in rural (41.8 %) areas (Bhorat & Leibbrandt,1996).

What Ligthelm's quotation does serve to illustrate, however, is one of the most important barriers to migration, namely high and involuntary urban unemployment. The evidence suggest that the concept of national labour market linking rural and urban areas may no longer be appropriate for South Africa. Considerable marginalisation has arisen.

The second piece of evidence to question the underlying assumption of the sectoral model is that of a considerable “discouraged worker” effect. About 70% of the South African unemployed have been out of work for a year or more or have never worked (Moller, 1993 & Ligthelm, 1993). Low re-employment probabilities are likely to discourage search activity. This is supported by 1991 census data, which indicate a near perfect inverse relationship between unemployment and labour force participation rates (defined in terms of search) by race and gender. The low participation rate of Black workers are startling when compared to 1960 figures (National Manpower Commission, 1991) - when unemployment was much lower, and confirm that low participation is not due to a low degree of class or race stigmatisation. Since then, Black male participation has declined by almost 20 %. For Black females, who have the highest unemployment rate, participation has barely risen (45.5% to 46.8%).

Further evidence of discouraged workers is provided by analyses of the occupations of individuals classified by the census as being outside the labour force. Nine per cent of the Black population between the ages of 20 and 64 were students. The next highest race group in this category is Whites, at 3%, followed by Indians at 2%. Black have higher population growth rate and therefore a larger school-age cohort, and there are several

factors suggesting that Black individuals take on average longer to attain any level of education (poorer pass rates, education deferred during the protests at the end of apartheid). Black individuals also have a much lower penetration into higher levels of secondary school and tertiary education. It would appear that many Black youngsters are staying at school because there are no jobs. This motive is supported by evidence that returns to education are very low for Black pupil up until completion of secondary education (Pillay, 1993). This phenomenon is particularly marked for females, and has resulted in what describe as the “peculiarly South African phenomenon” of Black women having on average higher education than Black males, yet experiencing far higher rates of unemployment.

The other non-labour force interesting category is that of people not working or seeking work, for unspecified reasons. For Black people this category is 11% of the working-age population. It is 5% for Coloured, 4% for Asians and only 1% for Whites. This follows exactly the same ranking as unemployment rates, indicating that many of the unspecified are probably discouraged workers.

## **2.5. Causes of Unemployment**

The theoretical explanations of unemployment follows from the essential thinking of different schools of thought, for example , the Keynesian approach and the Monetarist approach.

### **The Keynesian Approach**

Traditionally, the Keynesian focus has been on cyclical unemployment. The simple Keynesian explanation of unemployment points to insufficient expenditure, i.e. a demand deficiency. This causes the macroeconomic equilibrium to be below the full employment level.

In more modern Keynesian theory - the aggregate demand - aggregate supply framework - a similar story is told for an equilibrium point to the left (diagrammatically) of the long-run supply curve Aggregate Supply (Long-Run). Such an equilibrium emerges due to a decline in aggregate demand.

The modern theory also allows for an unemployment equilibrium that arises due to a curtailment in aggregate supply. This also pushes the economy to the left of Aggregate Supply (Long-Run) diagrammatically. The perpetuation of the supply-induced unemployment can still be ascribed to insufficient aggregate demand in the sense that an increase in demand (shifting Aggregate Demand right) would have pushed the equilibrium toward higher employment levels (i.e. the case where non-accommodation of a supply shock perpetuates unemployment).

However, cyclical fluctuations in employment (and hence in unemployment) are

explained in the Keynesian view by two kinds of causes: Fluctuations in aggregate expenditure, more especially in the inherent instability of private expenditure; and the shocks from the supply side of the economy which can be either internal or external.

In the Keynesian view periods of cyclical unemployment can be quite prolonged. It is true that one can show that, in theory, the supply adjustment process would move the economy back from an unemployment equilibrium to an equilibrium on the long-run supply curve Aggregate Supply (Long-Run). However, Keynesian maintains that in reality this process is likely to take very long (if it occurs at all). It requires prices and wages to adjust downwards, but in practice prices and wages are rigid downwards. Therefore, in the absence of policy steps, short-to medium term cyclical unemployment would be a reality (Frederick & Fourie, 1999: 362).

### **The Monetarist Approach**

As with the Keynesian approach, the Monetarist approach is concerned only with short-run or cyclical unemployment. Yet its concern is not the same from the Keynesian view. The Monetarist maintains that involuntary

unemployment is not a long-run problem - the economy is inherently stable and self-stabilising, and would spontaneously return to a full employment equilibrium following any disturbances. Thus, fluctuations in employment would be small and temporary. The normal operation of the market forces of demand and supply would soon eliminate unemployment.

In the Aggregate Demand-Aggregate Supply framework this means that the supply adjustment process occurs speedily. In actual fact, only the long-run supply relationship issues - the long-run movement back to full employment equilibrium is assured and decisive. Coupled with this is the Monetarist that the "long-run" occurs soon.

However, if large and sustained deviation from full employment do occur, they

can have only one cause which is government intervention. Such intervention could maybe stem from Keynesian thinking and doomed efforts at Keynesian “stabilisation” policy. Government intervention is the cause of, and not the solution for, sustained unemployment. The Monetarists maintains that the government does not stabilises but it destabilises.

Instead of pursuing “stabilisation” policy, government should practice fiscal abstinence. If this is complemented by monetary policy which reduces money supply growth to a fixed growth rate - a monetary rule - the problem of prolonged unemployment will disappear together with any inflation. The elimination of unemployment should therefore not be an active policy objective.

Meanwhile the two viewpoints differ fundamentally, they both appear to view unemployment as a relatively unimportant problem. In the long-run which could come either sooner (in the Monetarist view) or later (in the Keynesian view), unemployment should disappear by itself or can be eliminated by the policy (the Keynesian view).

## **2.6. Structural Unemployment in South Africa**

Unemployment data shows a sustained and, indeed, increasing unemployment rate in South Africa since 1975 - in spite of the business cycle upswings in the periods 1978 - 1981, 1983 - 1984, 1986 - 1989 and since the middle of 1993. Jobless growth appears to be the norm. This shows that the major part of the South African unemployment does not react much to cyclical changes in the level of economic activity (as measured in real Gross Domestic Product).

However, this means that the major part of the South African unemployment is of permanent nature. In other words, the largest part of unemployment in South Africa is structural unemployment. Cyclical fluctuations in production and

employment, explained in the Aggregate Demand-Aggregate Supply framework, actual amount to waves upon a sea of underlying, enduring unemployment. These fluctuations happen around a permanently high level of unemployment, previously indicated as the structural rate of unemployment which corresponds to the level of saturated market employment.

Since the standard macroeconomic theory, Keynesians as well as the Monetarists, mainly provide explanations for fluctuations along the long-run (underlying structural) unemployment rate, or at most for non-permanent unemployment, one has to consider beyond standard macroeconomic theory if one wishes to understand the causes of structural unemployment in South Africa and elsewhere. The existence of structural unemployment means that the employment opportunities brought about by the normal operations of the labour market are always less than the total labour force.

Only a limited portion of the labour force is absorbed into the market. The rest of the labour force is excluded from the operation, influence and benefits of the labour market.

The phenomenon of structural unemployment can be ascribed to structural rigidities, distortions and imperfections in markets and the way in which the general economy is organised. Structural unemployment arises from the nature, location and pattern of employment opportunities. A major portion of unemployment is due to intrinsic mismatches between worker skills and the skill requirements of available jobs. The type of products that are chosen for production, the kind of inputs used and especially the way in which they are combined in production determine what kinds of, and how much labour can be employed.

### **Causes of Structural Unemployment**

Being a complex phenomenon, the causes of structural unemployment covers a wide spectrum of factors. Some of these are common to all market economies, others are specific to South African economic and political order. The following is a list of possible causes: The labour market is not a single or united market. It is in reality a segmented market, comprising of a number of

relatively isolated sub-markets. Labour mobility between these market segments is limited. Employees who become redundant in one segment of the market will not necessarily find employment in another segment, even if there is a labour shortage in that segment, and even if the person is willing to work at a lower wage. These segments differ with respect to the required level of training, specialised skills, etc.

In addition, a simple example is the agricultural labour versus the industrial labour market, or even different agricultural labour markets. In the so-called white-collar jobs there are even more severe barriers to mobility between sectors or segments. A skilled and experienced worker who becomes unemployed in one segment does not necessarily possess the necessary skills to find employment in an entirely different section of the market, in any case, not immediately or without some retraining. Labour is simply not homogeneous and the demand for labour can be very skill-specific.

Democratic factors are also very important in South Africa. The rate of population growth causes the labour force to grow faster than the normal labour absorption of the market. Migration patterns in South Africa

contribute to this problem, and hence also population growth in neighbouring countries. Population growth has increased in momentum. Changes in the composition of the economically active population, e.g, the proportion that are young or very old, or the gender or racial composition, also contribute to the absorption problem. Changes in the age structure, as well as the participation rates, are particularly important in this regard. The level of education, training, skill and experience of the labour force is also important (Mohr and Rogers, 1988: 281).

Changes in the pattern of demand and output affect labour absorption in certain market segments. The pattern of activity in the South African economy has changed markedly in the past 50 years. This was part of the development process in the economy, which has stimulated the industrial and service sectors. Factors such as climate (in agriculture), and world

commodity prices, such as the gold price (which has dramatically affected the mining sector), have played an important role in permanently depressing employment in certain segments of the economy. Mohr and Rogers (1988: 280) maintains that the structure of aggregate demand is also equally important. Even if the level of aggregate demand remains constant there may be significant shifts in the structure of total demand sectors that might cause unemployment to increase. A structural slow-down in the growth of aggregate demand has also been mooted as a major cause of the increase in structural unemployment in South Africa.

A related factor is the apparent long-term decline in the growth performance of the South African economy since the 1960s. Many factors may have contributed to this in different periods: the post-war boom in international trade and commodity exports slowed down; the gold price stagnated after 1980; trade and financial sanctions, disinvestment and political disorder hampered economic growth; balance of payments constraints put a ceiling on the growth rate that could be sustained; the extent of underdevelopment limited the availability of suitable economic actors to drive growth in the modern sector of the economy.

The high rate of increase in nominal wages during the 1970s has been attributed to factors such as the growth of the trade union movement and the increased militancy of trade unions, widely-held notions of equity and fairness (supported by social pressure, international codes of conduct or legislation), and increases in minimum wages of unskilled, inexperienced workers. At the same time the monetary authorities pursued a low interest rate policy. The reluctant increase in the price of labour is often regarded as a major cause of the substitution of capital for labour and the concomitant increase in unemployment (Biggs, 1982). Others (such as Bell and Padayachee, 1984) argue, however, that the role of factor price distortions has been overplayed.

The introduction of labour-saving technology is often referred to as

technological unemployment. Although some economists argue that the many labour-saving innovations introduced in the 1970s and 1980s have not permanently replaced labour, their arguments tend to be based on a confusion between income and employment. The fact that no purchasing power is lost in the aggregate when a labour-saving machine is introduced does not imply that no employment is lost. The problem has been aggravated in South Africa by the fact that most of the labour-saving machines are imported. The increased capital intensity therefore contributes to the country's balance of payments problems which, in turn, limits the expansion of output and employment in the domestic economy.

Many economists argue that unemployment compensation adds to structural unemployment. The presence of benefits allows longer job search, since it is less urgent for the unemployed to obtain jobs. Furthermore, the fact that a laid-off worker will not suffer a larger loss from being unemployed makes it more attractive for an employer to lay off workers temporarily than to attempt to keep them on the job. The existence of unemployment compensation also increases the measured rate of unemployment since people have to register as unemployed to receive the benefits. Unemployment insurance in South Africa is, however, not nearly as generous as in most western countries and cannot therefore be regarded as a significant cause of structural unemployment.

The high intensity of production methods in South Africa is part of a broader pattern in the use of capital and labour which is typical of Western market economies. This pattern causes low growth in demand for labour, even in periods of economic upswing or high recovery.

Many possible causes of excessive capital intensity have been identified in South Africa, namely: Tax incentives, e.g, the accelerated write-off of capital goods for tax purposes, encourage the use of capital and machinery. Over the years the South African tax system has spawned a plethora of such incentives, supposedly to promote economic growth; the unqualified admiration of, an importation of, production methods and high technology from industrialised countries, designed for an entirely different production environment with a shortage of unskilled labour. The latter tendency has been aggravated by the

dominant role of foreign corporations in the investment decisions of local subsidiaries; capital intensity is also increased by an unqualified acceptance of high productivity methods of production, often defined as the ability to produce high output with fewer labourers; the pressure from international competition, which appears to force South African producers to adopt low cost production methods similar to foreign countries like Asia, even though our pattern of natural and human resources may be quite different.

The other causes are a lack of appropriate skilled workers such as workers equipped for the employment opportunities offered by a modern economy, also contribute to higher capital intensity. Meanwhile this is part of the developmental context, this problem is often ascribed to a discriminating education system which in the past did not provide education and training of the same standard for all South Africans. The earlier practice of job reservation also limited skills development among sections of the population. Another view is that there is surplus of skilled labour at the moment. Graduates often encounter difficulty in finding employment, and structural unemployment does occur only among the lower skilled; the development of consumer preferences which can be satisfied only with relatively capital-intensive methods of production. This often in limitations

of overseas trends and fads; the market domination of large capital intensive corporations excludes small labour-saving businesses or forces them to mechanise too; and the growth and belligerence of labour unions that forcefully claim a larger share of the profit share for the workers.

However, factors such as threatened minimum wage legislation may have contributed to the tendency to mechanise. High minimum wages and non-wage costs (employee benefits) may also make employers reluctant to expand their workforce in good times. Cumbersome dismissal procedures contribute to this. Hence, employers may choose to pay existing workers for overtime rather than take on new workers, since the former step can easily be reversed in bad conditions. This may explain part of the phenomenon of jobless growth in South Africa and in , for example, European Union. High wages may also prevent the creation of large numbers of low-level, low-skill service jobs in, for example

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hotel, retail, recreation, health care and service industries.

On the other hand, a factor that has been more important in South Africa than in most other countries, is the distortion of labour market caused by artificial restrictions on the geographical and occupational mobility of labour. Restrictions on labour mobility such as on the geographical or occupational mobility of people is important cause of structural unemployment. In this respect influx control and job reservation immediately come to mind.

A related category of possible causes of structural unemployment is the different institutional impediments to small businesses. We had in the earlier decades measures such as influx control, group areas, labour preference areas and job reservations. International and bureaucratic obstacles facing small businesses was also an important factor. Affirmative action and the national transformation of institutions have during the 1990s led to restrictions on the occupational mobility of certain groups (often leading to an important amount of unemployment of skilled workers).

Employment in agriculture has grown at a very slowly pace. Since the 1960s the growth rate of employment in agriculture was actually negative

(-0.5% per annum). The increasing implementation of large scale mechanised farming methods for reasons similar to those mentioned above has made a significant contribution to this trend. Furthermore, agriculture is also involved in another political economic cause of structural unemployment. This is evident in the historical interdependence of the state and, notably the mining sector in South Africa.

The mining sector (but also manufacturing and commerce) has at the turn of the century had a large need for cheap labour. The state's heavily dependent on tax revenue from mining was all too willing to introduce legislation to secure a stable supply of cheap black labour to the mines. The state and the private sector were in agreement on what had to be done. Taxation and legislation affecting the possession of land (eg the Land Act of 1913) effectively brought to an end the right of blacks to farm in large parts of the country. This forced to seek wage jobs in the mines and cities. This caused a structural labour surplus

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that could not be absorbed in the mining or other non-agricultural sector.

## **2.7. Conclusion**

Theory on literature survey gives guidance of policy formulation, strategic development and on finding the necessary measuring instruments that could yield meaningful results. Hence, different unemployment policies are generally based on different theories of unemployment, and our confidence in a policy should depend - at least in part - on the ability of the underlying theory to account for some prominent empirical regularities in unemployment behaviour. The Keynesian and the Monetarists theories have been used on what causes unemployment.

# **CHAPTER 3: RESEARCH METHODOLOGY**

## **3.1. Introduction**

There is a considerable amount of literature study that has been done to understand unemployment phenomenon in the world and South Africa is no exception. Understanding the kinds and trends of unemployment through literature survey is key to analysing the cost of unemployment, kinds of strategies designed and implemented to alleviate unemployment and its consequences.

## **3.2. Measurements of Unemployment**

Unemployment can be measured by either census, registration, difference or sample survey method.

Census method: the economic status of the whole population is determined by asking individuals what their economic status is; Difference method: the difference between the economically active population and those in employment is taken to be the number of unemployed. Persons without a formal job is equal to economically active population minus formal job opportunities.

The Bureau of Economic Research (1998) estimated that there were roughly 9 million workers without formal employment in 1998. Statistics on registered unemployment is obtained from returns submitted on a monthly basis by the different placement centres of the Department of Labour. These returns reflect the numbers of people who have registered at the offices of the Department of Labour as unemployed. Registration is voluntary and those who register do so for two reasons: they hope that the Department will be able to place them in employment, or they are eligible for unemployment benefits. The number of registered unemployed differs between 100 000 and 300 000, compared to at least 2 million unemployed according to the Official Household Survey of 1998.

The Central Statistical Survey and the Reserve Bank also publish registered unemployment figures. This uses a very strict definition, in particular that persons had to register as work seekers with the Department of Labour. Only a small number of the unemployed register formally - mainly those who are eligible for unemployment benefits and who happen to be in the vicinity of an unemployment office. This figure is therefore very low. For example, in October 1995 the total number of registered unemployed was only 244 000.

The level of the registered unemployed is therefore without much meaning as an indicator of the seriousness of the unemployment problem. It grossly underestimate unemployment (even compared to the strict definition figure). However, the fluctuation in the level of registered unemployment is a useful and important indicator of cyclical movements in the economy and even of longer-term trends (even though the registered figure also is under suspicion).

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For macroeconomic analysis this is important, since the Official Household Survey unemployment figure is measured only once a year (October), and it takes a considerable time to process the results. As a result, one often has to use the registered unemployment figure to analyse macroeconomic analysis.

Sample survey method: a survey is undertaken among a number of households to determine the economic status of the members of the household (the October Household Survey of Statistics South Africa is an example of such a survey). Statistics South Africa conducts an annual sample survey to provide certain insights into, and views on, the most significant elements of unemployment. The first survey was conducted in 1993, but it is not comparable with the later surveys as it excluded the former Transvaal, Bophuthatswana, Venda and Ciskei territories. These surveys probably give the most accurate picture of unemployment, although even their data are subject to criticism.

It should be noted that the comparison of the unemployment position for a number of countries might not always be the same for the following reasons: In countries without all-covering social security system, unemployed cannot rely on social security benefits during spells of unemployment. They unemployed have to find some means of support, and this is usually found in the informal sector. If employees are thus occupied they are not regarded as unemployed, although if social benefits are available, these workers would probably not be in the informal sector and would be counted among the unemployed. A comparison of unemployment information between counties with or without proper social security systems is therefore not always valid. Bepa (1980: 6) found that, in some countries, the registration with placement offices is a precondition for the receipt of unemployment benefits, whereas registration is entirely voluntary in other countries.

Some countries use registration system to measure unemployment while others use survey method. The two methods could result in a widely divergent conclusions on the unemployment position in a specific country. Countries using the same method may also not always be comparable, because the

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definition used by the different instruments might differ.

Meanwhile the registration method is used in Austria, Belgium, France, Germany, Holland and United Kingdom, the sample survey method is used in Australia, Canada, Italy, Japan and the United States of America (International Labour Office,1980).

It is however, impossible to estimate the extent of unemployment in South Africa before 1978. Until this time, a measure of some sort existed for Whites, Coloured and Asian workers insofar as they were registered as unemployed with the Department of Labour, while Africans were registered with the Department of Native Affairs. A very natural indicator of unemployment trends was the number of contributors who received benefits from the Unemployment Insurance Fund . Unemployment Insurance Fund was the only official source of unemployment. The figures were not accurate measure of actual unemployment for any group.

Measuring unemployment beyond the statistics generated by the Unemployment Insurance Fund system really started in the late 1970s. Standing et al (1996:105) found that two million Africans were unemployed in the mid-1970s, which implies an unemployment rate of over 20%. The Current Population Survey was the first one which intended to measure the level of unemployment. The Current Population Survey, was carried out on a monthly basis between 1978 and 1990 and was extended to Coloureds and Indians. The Current Population Survey suggested that in 1978 African unemployment was just over 10, which was based on a fairly restrictive definition of job seeking in a specified reference period and availability for work in the next week.

Several studies were undertaken in the 1980s and have highlighted the growth and mal-distribution of unemployment, as well as the difficulties of interpreting the available data. Using the Current Population Survey, it is suggested that total unemployment fluctuated between 1979 and 1986 as shown in table below. But, the basic problem of the Current Population Survey is that the same sample was used for many of the annual rounds of the Current Population Survey, so that it tended to result in a declining unemployment rate as respondents aged. As a result, the credibility of the Current Population

This research is based on a literature survey. The primary purpose of a literature survey is to assist the researcher in dealing with the research problem. Meanwhile the research problem is central in any research undertaking, everything that the researcher does, he does it because it assists him in attacking the research problem. When one knows what others have done, he is better prepared to attack the problem he has chosen to investigate with deeper insight and more complete knowledge.

A literature review provides the researcher with the following benefits:

- It can reveal investigations similar to his own, and it can show him the collateral researchers handled these situations;
- It can suggest a method of dealing with a problematic situation that may also suggest avenues of approach to the solution of similar difficulties he may be facing;
- It can reveal to him sources of data that he may not have known existed;
- A literature review can introduce the researcher to significant research personalities of whose research efforts and collateral writings he may have had no knowledge;
- It can help the researcher to see his own study in historical and associational perspective and in relation to earlier and more primitive attacks on the same problem;
- It can provide the researcher with new ideas and approaches that may not have occurred to him; and
- It can help the researcher in evaluating his own research efforts by comparing them with related efforts done by others.

The review of a related literature section is a discussion of studies, research reports, scholarly or broad spectrum writings that bear directly upon the researcher's effort. Viewing the literature section in this way will help the researcher develop the proper psychological perspective and will help him see his own effort in relation to the efforts of other researchers.

The research investigates on a literature survey the relationship between unemployment and the impoverished quality of life of the unemployed. This

relationship is fully exploited by looking at the economic, educational, and social life of the unemployed. The composition of the family life, gender as well as percentages of racial breakdown of the unemployed have also been taken into consideration.

The library and its resources, measurement techniques, statistics, the computer and its software and the facilitation with English language are the tools that have been used in this research to gather a mass data. These have been codified, arranged, and separated into segments. The data is also organised and presented logically into tables and statistical summaries. Hence, the study is based on both descriptive and analytical survey methods to describe and analyse the available qualitative and quantitative data.

## **CHAPTER 4: RESULTS AND INTERPRETATIONS**

### **4.1. Introduction**

Numerous official documents addressing the problem of unemployment such as Statistics South Africa have appeared, since the chapter is intended to presents some Statistical findings from different literature sources. Under the previous government, the most important of these were probably the White Paper on employment creation (Republic of South Africa, 1984) and the President Council's report on unemployment (1987). More recently the African National Congress alliance produced the Reconstruction and Development Programme (1994), and the Government of National Unity published a Reconstruction and Development Programme White Paper (1994), both of which relate directly to employment creation. In 1996 the African National Congress-led government released a Growth, Employment and Redistribution policy, which has job creation as one of its most important objectives (Republic of South Africa, 1996).

The most comprehensive document published on this issue by government is

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 its input to the 1998 job summit (Republic of South Africa, 1998b).

**Table 1. Projected Labour Force, Employment and Unemployment**

<b>GEAR</b>			
	<b>1996</b>	<b>2000</b>	<b>Average 1996 - 2000</b>
<i>1. Base Projections</i>			
Real Economic Growth (%)	3.3	3.3	2.8
Employment Growth (%)	0.9	1.3	1.0
New Jobs per Year ('000)	97	134	104
<i>2. Strategy Projections</i>			
Real Economic Growth (%)	3.5	6.1	4.2
Employment Growth (%)	1.3	4.3	2.9
New Jobs per Year ('000)	126	409	270

**Source: Republic of South Africa 1996; Bureau of Economic Research 1998**

**Table 2. Projected Labour Force, Employment and Unemployment**

<b>Bureau of Economic Research</b>			
	<b>1995</b>	<b>2003</b>	<b>Average 1995 - 2003</b>
Real Economic Growth (%)	3.4	4.4	3.1
Total Labour Force ('000)	15 186	18 794	
Annual Increase: ('000)	413	476	451
(%)	2.8	2.6	2.7
Formal Employment ('000)	7 723	8 017	
New Jobs per Year: ('000)	23	109	26
(%)	0.3	1.4	0.5
Persons Outside Formal Sector ('000)	7 463	10 777	
Annual Increase: ('000)	224	367	424
(%)	3.1	3.5	4.7

**Source: Bureau for Economic Research 1998**

There are two key components of the government's strategy. The first is to increase the demand for labour by raising both output and labour absorption

capacity through the strengthening special employment programmes; preservation of jobs in the private sector by encouraging work reorganisation, product innovation and technological change, and by targeted interventions in specific sectors such as agriculture, mining and construction; investment promotions programmes and improving the investment climate; fast-tracking movement into new labour absorbing industries such as tourism, exports and sectors producing goods for domestic markets; and through the promotion of Small, Micro and Medium-sized Enterprises.

The second component is to strengthen the employability of labour by improving the availability of skills, among others through improved education and training, improving the manufacturing of the labour market with an emphasis on a more appropriate regulatory framework, reduced discrimination and greater mobility, improving social security services and the implementation of the social plan and giving special attention to vulnerable groups such as women, young workers and the disabled.

Business organisations have also produced documents on economic growth and employment creation (South African Foundation, 1996; Business South Africa, 1998. The European Union (1997) held a job summit in 1997, which produced a number of valuable papers. In 1998 general concern about South Africa's unemployment problem culminated in the holding of a job summit.

### ***The Outcome of the 1998 Jobs Summit***

The declaration adopted at the conclusion of the Jobs Summit (Presidential Jobs Summit, 1998) identified a number of projects that would be launched to create jobs in the short and medium term. However, with a few exceptions, very little was said about more deep seated policies to create a more favourable climate for job creation by the private sector. There is a limit to the number of jobs that can be created through special projects, and their sustainability is also uncertain.

The parties to the summit (government, the community constituency, business and labour) indicated their agreement on the conditions needed to establish the credibility of the Growth and Employment and Redistribution programme, and that some adjustment to the Growth and Employment Redistribution projections

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would be required. Although not stated categorically, it appears that the basic premise of Growth and Employment and Redistribution remains untouched which seems important to retain investor confidence in the country.

Specific programmes on which the parties agreed are as follows: the encouragement of sectoral summit to facilitate the development of industrial strategies, and to avoid retrenchments while improving productivity; the promotion of demand for South African products and services that embody high standards of quality, and includes high labour standards; strengthening customs and excise to stem the inflow of illegal imported goods; a comprehensive consultation process with National Economic, Development and Labour Council parties to develop the next round of trade policy programmes; small business promotion by establishing a national mentorship scheme, launching new financing schemes and proving support services; a

new tourism drive, including aggressively marketing South Africa, funding new tourism ventures and building tourism capacity; launching a National Presidential Lead Project to build between 50 000 and 150 000 housing units for low income families; the introduction of Social Plan to avoid job losses wherever possible and to ameliorate the effects of unemployment on individuals and local economies; the focussing of efforts on areas of high social need and high economic potential through the so-called Integrated Provincial Projects; and the pledging of resources by business and labour toward the financing of job creating activities.

Other studies were undertaken in the 1980s and have highlighted the growth and mal-distribution of unemployment, as well as the difficulties of interpreting the available data. Using the Current Population Survey, it is suggested that total unemployment fluctuated between 1979 and 1986 as shown in table below. But, the basic problem of the Current Population Survey is that the same sample was used for many of the annual rounds of the Current Population Survey, so that it tended to result in a declining unemployment rate as respondents aged. As a result, the credibility of the Current Population Survey was undermined and abandoned.

**Table 3. Current Population Estimates of Unemployment**

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in RSA, June 1979 - 1986

Year	Coloureds		Africans		Asians	
	thousands	%	thousands	%	thousands	%
1979	80	9	475	8.9		
1980	56	6.3	456	8.3		
1981	41	4.5	426	7.8		
1982	48	5	427	7.7		
1983	75	7.6	483	8.5	20	7
1984	67	6.6	492	8.1	19	6.6
1985	84	8.1	495	7.8	23	7.7
1986	113	10.7	519	8	31	10.2
1986*			870	19.9		
1986			-1.401	-23.3		

Source: Central Statistical Services, South African Statistics (Pretoria, CSS, 1986).

Note: The CPS definition of unemployment was someone aged between 15 or older who (i) was not in paid employment or self employment, (ii) was available for employment or self-employment during the seven days preceding the interview, (iii) had a desire to take up employment or self-employment, and (iv) had taken action during the past two weeks to find employment or self employment.

\*This estimate is for July 1986, reflecting also a revised sampling method following the 1985 Population Census and use of a refined questionnaire. The figure in parenthesis arose from dropping condition (iv).

Although the Current Population Survey data were flawed, most analysts accept that unemployment rose sharply in the late 1970s, and continued to rise in the 1980s and the into the 1990s. Simkins estimated unemployment in “Full-time equivalents” for 1970 - 1981, which gave rise to much higher estimates than suggested by the Current Population Survey data. Simkins estimated that unemployment was on an upward trend in the 1970s, reaching 20.8 per cent during 1980, compared with 11.8 per cent in 1970.

Simkins attributed part of the differences between his estimates and those of the Current Population Survey to differences in the reported levels of unemployment.

The overall level (or rate) of unemployment is a stock concept, i.e. it is measured at a particular point in time. There are, however, continuous flows in and out of unemployment as people enter and leave the unemployment pool.

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A person may enter the unemployment pool for one of four reasons. First, the person may be a new entrant into the labour force, looking for work for the first time, or else be a re-entrant - someone returning to the labour force after not having looked for work for some time. Second, a person may leave a job in order to look for other employment and be counted as unemployed while searching. Third, the person may be laid off. A lay off means that the worker is not fired but will return to the old job if the demand for the firm's product recovers. Finally, a worker may lose a job to which there is no chance of returning, either because he is fired or because the firm closes down (Mohr and Rogers, 1988: 276).

Thus, the size of the labour force changes because of changes in participation rates (the number of employed and unemployed divided by the working age). In the short-run, participation rates may change due to changes in the availability of jobs. As jobs become more scarce, some

workers, such as women, young people and older men simply drop out of the labour force; they cease actively seeking work, only to return when employment picks up again. Apart from these short-run variations, the South African labour force increases steadily over time, because the number of young people entering the labour force exceeds the number of deaths and retirements.

It is important to bear in mind, therefore, that changes in unemployment rate (which is expressed as a percentage of the labour force) are affected not only by changes in employment but also, and sometimes even more, by changes in the size of the labour force. A decline in labour force participation rate, as may have happened in South Africa in recent years among the male population, may merely reflect a rise in secondary and tertiary school enrolment, which has happened. And a relatively low participation rate by international standards could reflect, in part, the prolonged schooling.

#### **4.2. Unemployment in South Africa**

According to the 1996 population census, some 4,7 million people were unemployed based on the expanded definition of unemployment, which represent an unemployment rate of 33,9%. The unemployment rate among

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Africans was 42,5% (Statistics South Africa, 1998:23).

According to table 4, 2,6 million people were officially unemployed (based on the strict definition of unemployment) in 1997 in South Africa. This gives an unemployment rate of 22,9%. According to the expanded definition of unemployment, there were 4,6 million unemployed at the rate of 37,6%. The problem of unemployment is much more severe among women than men. The official unemployment for women was 27,6% (1,2 million) while for men it was 18,9% (1 million). Among Africans, the unemployment rate was 29,3%.

**Table 4. Unemployment According to Official and Expanded Definition, Official Household Survey 1997**

<b>Unempl</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>Asians</b>	<b>African</b>	<b>Coloure</b>	<b>Whites</b>
Ofical definit.	2 238	1 007	<b>1 231</b>	52	1 895	229	62
Rate%	22.9	18.9	<b>27.6</b>	10.2	29.3	16	4.6
Expand ed defi.	4 551	1 902	<b>2 649</b>	71	4 028	358	94
Rate%	37.6	30.6	<b>45.1</b>	135	468	230	67

***Statistics South Africa, Statistical Release PO317.10***

The authors of the International Labour Organisation Review (1996: 108) state that because of the underestimation of employment, which is the denominator in the conventional measurement of the unemployment of the unemployment rate, the unemployment rate is overestimated. The authors of the International Labour Organisation Review estimate the unemployment rate according to the strict definition (which the contend is closer to the international norm) at below 20% in 1994. The “strict” rate according to the Official Household Survey was 20% in that year.

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It should be mentioned that the Official Household Survey excludes miners from the employment figures, because the data for miners are not always easily comparable (Statistics South Africa, Statistical Release PO317.10:10). This is due to the difficulty of gaining access to miners living in hostels. Their inclusion would have reduced the unemployment rate from 22,9% to 21%.

Schlemmer and Levitz (1998: 3) also argue that the unemployment rate in South Africa was overstated and give three reasons for their view. First, 5% of the unemployed were in fact unfit for work, and should not have included themselves as economically active. Second, the unemployed are more likely than others to be selected for interviewing. Finally, and most importantly, at least 20% of those who claimed to be unemployed were involved in various kinds of ad hoc, informal or casual unemployment. The authors

estimate a more realistic rate of unemployment of 23% in 1995, and 24% in 1996. Presumably this would be according to the so-called expanded definition of unemployment.

However, the similarity between the data from the Official Household Survey and data from another survey done at about the same time (The Project for Statistics on Living Standards and Development, 1994: 141) is remarkable. According to this survey, the total expanded unemployment rate was 30,1% (Official Household Survey in 1993: 29%), among Africans 38,5% (Official Household Survey: 37,1%) and among women 35,2% (Official Household Survey: 35,5%).

*Table 5* below indicates the estimated number of unemployed people in the country, and the unemployment rates on both the official and expanded definitions, as found in the 1995, 1996 and 1997 Official Household Survey (1994 is excluded, because confidence limits calculated for this particular year were not directly comparable with those calculated for the preceding years).

**Table 5. The Number of the Unemployed: 1995 - 1997**

Unemplo -yed	Estimate (000s)	Lower Limit* (000s)	Upper Limit* (000s)	Unemplo yment Rate (%)	Lower Limit* (%)	Upper Limit* (%)
1995 Official	1 698	1 553	1 735	16.9	16.1	17.7
1995 Expanded	3 321	3 193	3 450	29.2	28.3	30
1996 Official	2 019	1 843	2 196	21	19.4	22.6
1996 Expanded	4 197	3 958	4 437	35.6	33.9	37.3
1997 Official	2 238	2 149	2 328	22.9	22.1	23.7
1997 Expanded	4 551	4 426	4 677	37.6	36.8	38.5

*Table 5* also shows estimates on the lower and upper limits of the unemployed from 1995 to 1997. For example, using the new weights based on the preliminary results of the 1996 population census, one is 95% sure that, in 1996, there were 1,8 million and 2,2 million people who were unemployed (probably about 2,0 million), using the official definition. One is also 95% sure that the official unemployment rate was somewhere between 19,4% and 22,6% in 1996.

The table shows that there has been an increase in both the actual number and the proportion of unemployed between 1995 and 1997, using the official and the expanded definitions. When comparing 1996 and 1997, the difference in unemployment rates using the official definition is not statistically significant, since there is an overlap in the confidence interval of the 1996 and 1997 estimates (the number of unemployed in 1996 lies somewhere between 1,8 and 2,2 million, while the number of unemployed in 1997 lies somewhere between 2,1 and 2,3 million). It is also not statistically significant when using the expanded definition. This difference could thus be explained by sampling error. One is consequently not optimistic whether or not there was an actual increase in the rate of unemployment between 1996 and 1997. On the other hand, the increasing pattern suggest

there was one. On the other hand, it may be that the rise in the unemployment rate was levelling off in 1997 after the sharp increase in 1996.

**Table 6. Official Unemployment Rates by Population Group, and Gender (%)**

Group	Men	Women	Total
African	246	346	592
Coloured	136	190	326
Indian	88	127	217
White	33	62	95

***Statistics South Africa, Official Household Survey, 1997***

*Table 6* shows the official unemployment rates for the different population groups ranged between 3,3% for White people and 34,6% for African people. At the extreme of the spectrum, more than one in every three (35%) African women are unemployed. At the other extreme, about one in every thirty (3%) White men are unemployed. The unemployment rate was also approximately 50% higher for women than men within each population group, e.g. 25% for African men versus 35% for African women.

In addition, in South Africa like in other countries, women have tended to suffer from unemployment more than men. The Current Population Survey data for 1984 - 86, for instance, showed that even on the narrow job-seeking definition African, Coloured and Asian women had substantially higher unemployment than their male counterparts. If the discouraged workers (those available but not seeking work) were added, then for all groups the absolute difference between men and women increased substantially (rising to 27,2 %, as of July 1986), highlighting the well-known phenomenon of less intensive job-seeking among female unemployed, which is found in many other countries.

According to the 1991 Population Census, women comprised 53,4 per cent of the unemployed in the country. Using a restrictive definition of unemployment, the Official Household Survey for 1993 indicated that women's unemployment rate was 20,9 per cent compared with the male rate of 15,6 per cent; expanding the definition to include those available for but not seeking employment raised

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the female rate to 35,5 per cent and the male rate to 24.1 per cent. The latter measures are comparable to those calculated from the 1993 SALDRU Survey, whereas the more restrictive of the definitions used in the latter survey gave quite narrow differentials. In 1994, the Official Household Survey broadly defined unemployment rate for women to be 40,6% compared to 26,2% for men, whereas the restrictive “strict” rates were 24,9% and 17.1%.

**Table 7. Official Unemployment Rates by Location and Gender (%)**

Location	Male	Female
Urban	17.6	25.9
Non-Urban	22.3	33

*Statistics South Africa, Official Household Survey, 1997*

Table 7 shows that, in non-urban areas, 22% of economically active men are unemployed, compared with 33% of economically active women. The corresponding figures are 18% and 26% in urban areas.

**Table 8. Official Unemployment Rates by Education and Age (%)**

Education	15 - 30 Years	31 - 45 Years	46 - 65 Years
None	346	170	118
Less than Matric	388	233	120
Matric or More	293	85	49

There is a curvilinear relationship between education and unemployment: 19 of those with no education are unemployed, rising to 25% among those with some education, but less than matric, and then dropping to 18% among those with matric or higher qualifications.

It is however unusual to find those with incomplete schooling having higher unemployment rates than those with no schooling, or those with matric or higher qualifications. But this association has been found previously in South Africa in the World Bank/ SALDRU study of poverty. There is a large proportion of people in elementary occupations, which are probably most suitable for people with no education. There is also an increasing proportion of people in professional and managerial jobs, accounting for the lower unemployment rate

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among the more highly educated.

From the above table, unemployment falls with increasing age: from 35% in the youngest (15 - 30 years), through 19% in the intermediate (31 - 45 years) and 10% in the highest (46 - 65 years) age category. In addition, the table shows that those aged 15 to 30 years with at least some schooling were more likely to be unemployed (39%) than those with no education (35%), or those who had completed matric, and or tertiary education (29%). The same curvilinear pattern was found amongst those aged 31 to 45 years (23% for some education, as against 17% for no education and 9% for matric or higher qualifications). But this pattern was not found in the oldest age category, where the unemployment rates were the same (12%) for those with no education or with at least some schooling , but lower (5%) for those with matric or higher qualifications.

**Table 9. Official Unemployment Rates by Education and Location (%)**

Education	Urban	Non-Urban
None	20	18.5
Less than Matric	25.8	27.9
Matric or More	15.5	31.4

***Statistics South Africa, Official Household Survey, 1997***

In urban areas, a curvilinear pattern is found: the unemployment rates were higher for those with some schooling (26%) than those with no education (20%), or with matric and post-school qualifications (16%). In non-urban areas, there is a different pattern: the higher the education level, the higher the unemployment rates (19% for no education, increasing to 28% for some and to 31% for completed schooling and post-school qualifications). This unusual pattern may partially explained by the relatively few highly skilled jobs (managerial, professional and technical) in rural areas.

**Table 10. Distribution of the Employed in Economic Sectors: 1994 -1997**

Sector	1994		1995		1996		1997	
	N(000s)	%	N(000s)	%	N(000s)	%	N(000s)	%
Agriculture	1	18	965	12	606	8.5	637	9.6
Manufacturing	1 212	15	1 173	15	1 233	17	1 176	18
Electricity	75	1	77	1	109	1.5	97	1.5
Construction	349	4.4	396	5	385	5.4	370	5.6
Trade	1 369	17	1 547	20	1 207	17	1 083	16
Transport	362	4.6	395	5	396	5.6	384	5.8
Finance	388	4.9	470	6	614	8.7	503	7.6
Services	2 685	34	2 872	36	2 540	36	2 400	36
Unspecified	111		174		499		863	
<b>Total</b>	<b>7</b>	<b>100</b>	<b>8 069</b>	<b>100</b>	<b>7 590</b>	<b>100</b>	<b>7 548</b>	<b>100</b>

***Statistics South Africa, Official Household Survey, 1997***

Table 10 indicates the actual number and percentages of people employed in each sector in the various Official Household Survey from 1994 to 1997. Altogether, 8,0 million people were employed in 1994, decreasing to 7,5 million in 1997. The table also shows that the proportion of people working in the agricultural sector decreased appreciably over time, from 18% in 1994 to 9.6% in 1997. The proportion in manufacturing increased from 15% to 18% between 1994 and 1997, in finance, it increased from 5% to 8%.

**Table 11. Unemployment Rates by Province, South Africa, 1993, Broad Definition**

Region	Unemployment Rate
Western Cape	15.6
Northern Cape	37.8
Eastern Cape	47.3
Kwazulu-Natal	37.4
Free State	24.8
Mpumalanga	28.2
Northern Province	44.2
North West	30.8
Gauteng	20.2

<b>Total</b>	<b>30.1</b>
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**SALDRU Survey, 1993**

**Table 12. Unemployment by Province**

Province	Total		Male	Female
	('000)	Rate (%)	Rate (%)	Rate (%)
Western Cape	323	18.6	14.1	24.7
Eastern Cape	721	41.4	35.7	47.2
Northern Cape	77	27.2	18.1	41.0
Free State	274	26.1	18.9	35.1
Kwazulu-Natal	901	33.1	26.0	41.7
North West	376	32.8	25.3	44.1
Gauteng	750	20.9	17.0	26.8
Mpumalanga	325	33.4	23.9	47.6
Northern Porvince	459	41.0	29.6	51.7
<b>RSA Total</b>	<b>4 204</b>	<b>29.3</b>	<b>22.5</b>	<b>38.0</b>

*Statistics South Africa, Statistical Release P0317*

Nevertheless, the Official Household Survey and other figures might suggest that industrial and labour Market policy should be targeted at certain regions and types of areas. However, they should merely raise the familia debate over whether policy should try to take work to the workers or workers to the work. The persistent regional disparities point to the need to give that question high priority in policy deliberations.

The above unemployment by province refers 1995 data and to the expanded definition of unemployment. The lowest relative level of unemployment was in the Western Cape, where the rate was 18,6%. The Eastern Cape and the Northern Province experienced the highest relative level of unemployment: rates of 41,4% and 41% respectively. The rate among women in the Northern Province was high, 51,7%. The highest number of unemployed persons was in Kwazulu-Natal: 0.9 million.

**Table 13. Economically Active Population by Province Amongst**

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those Aged 15 - 65 Years

	EC	FS	GP	KZN	MP	NC	NP	NW	WS	RSA
Employed	786,818	701,175	2564,243	1570,573	605,925	215,523	570,129	725,287	1374,174	9 113,847
Unemployed	742,427	299,948	1007,766	1008,944	297,290	86,060	486,554	443,546	299,114	4 671,647
<b>Total</b>	<b>1,592,244</b>	<b>1,001,122</b>	<b>3,572,009</b>	<b>2,579,517</b>	<b>903,215</b>	<b>301,583</b>	<b>1,056,683</b>	<b>1,168,833</b>	<b>1,673,288</b>	<b>13,785,493</b>

***Statistics South Africa, Official Household Survey, 1996***

The highest relative unemployment is in Kwazulu-Natal at 1 008, 944 million and is followed by Gauteng province at 1 007, 766 million. Gauteng unemployment rate can be attributed to economic factors such as

rural-urban migration and immigration. In contrary, Gauteng province has the highest employed rate at 2 564, 243 million followed by the Kwazulu-Natal province at 1 570, 573 million. The Northern Cape is the lowest in both employment and unemployment rate.

More than half of the unemployed persons are younger than 30 years of age. It is very probable that the youngest persons have not worked before, which means that they would not qualify for unemployment insurance. Such persons therefore have no source of support other than their families, and may turn to crime or begging (Barker, 1999: 177).

By far the largest proportion of the unemployed have been searching for work for longer than a year. About 60% of unemployed persons, according to the expanded definition of unemployment, have been looking for work for more than 12 months. This has extremely serious implications for those involved, as unemployment insurance benefits are normally paid for six months only, and South Africa has no system of social security.

**Table 14** below shows the level of education of unemployed persons in 1995 (Barker, 1999: 178):

**Table14**

<b>Educational Level</b>	<b>% of Total Unemployed</b>
None and Unspecified	11.2
Grade 1 - Std 3	14.3
Std 4 - 5	16.1
Std 6 - 9	37.8
Std 10	18
Diploma/ Certificate/ Degree	2.6
<b>Total</b>	<b>100</b>

It is however a cause for concern that the proportion of the unemployed people with unsuccessful educational qualification (for example standard 6 and above) is relatively high - more than half. The number of people with standard 10 certificates is also gradually increasing. This implies a high cost

for the country in terms of expenditure on this persons' education , in addition to the hardship suffered by all unemployed persons. Moreover, persons with higher education qualifications become frustrated more easily if they do not find job, and this increases the potential for crime and civil unrest.

At the same time it should be stressed that a lack of schooling is not necessarily the reason for unemployment. Employers often use educational levels as a selection method, and if the average level of education rises, the selection criteria might also be raised.

About 70% of the unemployed never held a work. They would therefore not have contributed to an Unemployment Insurance Fund, and would not qualify for such benefits. In addition they would lack most of the basic world-of-work skills that many employers expect, and would be difficult to place in employment. However, the authors of the International Labour Organisation Review (1996: 124) question whether this high figure is realistic, and raise the possibility that many job-seekers may perceive the work they had been doing as not constituting a "proper job".

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**Table 15. Number in Unemployment by Level of Schooling**

Education/ Race	Asian	Coloured	White	African	Total
None	231	11.733	319	472.217	484.5
Gr.1 - Std5	5.477	105.038	1.642	1497.21	1 609.369
Std.6 - 9	35.077	178.054	71.734	1 481.026	1 765.892
Std.10/9 +Cert	26.817	48.945	58.575	566.488	700.825
Std.10 + Cert	1.776	3.808	18.653	32.97	57.208
University	617	763	8.198	7.275	16.854
Other	0	72	800	20.558	21.431
Total	69.995	348.413	159.921	4 077.745	4 656.079

***Central Statistical Service, Official Household Survey, 1994***

In South Africa, even in the 1990s, most of the unemployed have had below standard 10 schooling as seen on *table 15* above. This does not mean that lack of schooling causes unemployment, merely that the incidence of unemployment is skewed towards those with little formal education. To some extent this has been changing, for the number of unemployed Africans, for instance, with no schooling is now much smaller than the number with standard 10. Some may interpret that as the indictment of matriculation system, but it reflects the fact that it is younger cohorts who have more schooling than the older cohorts, and older workers tend to have lower rates of unemployment. Nearly half the Africans who were unemployed had between 5 and standard 10. However, the likely prospect is that in the last years of the 20<sup>th</sup> century unemployment will be concentrated among African school matriculants.

Schooling potentially has several effects on unemployment, one of which is that it is likely to raise an individual' aspiration wage and induce a higher probability of staying in labour force. The supply side has probably influenced unemployment in South Africa. For example, it seems as if schooling has long had an effect on the recognition of unemployment. Therefore, for 1985 it seemed that more of the registered unemployment had above standard 6

schooling than was the case for the total population. But this reflected a greater tendency of those with higher levels of schooling to register their unemployment.

The links between schooling and unemployment are more complex than those between education and schooling, and one has to be careful in drawing from the statistical correlations. For example, it is often claimed that there is “structural” unemployment because the skills and schooling of the workforce do not correspond to the needs of the labour market. Or it is claimed that since the average years of schooling of those in employment is, say, ten whereas the average of those outside employment is, say, eight, then the problem is lack of schooling. Above all, one must bear in mind that the demand side can also be changed to fit the supply side, and that the outcome of a selective process does not necessarily imply that a lack of schooling is the cause of unemployment.

However, none of these should be taken as questioning the fundamental need in South Africa of more and better schooling for the majority, who were neglected during the previous government. The argument is that “more schooling” and “more training” are not necessarily the only and the most appropriate responses to the labour market malaise of the country. There are many other reasons to favour more and better educational opportunities.

Related to the possible link between schooling and unemployment is the claim that unemployment is predominantly “structural”, allegedly because most of the unemployed are “unskilled”. For example, the unemployment statistics from the 1993 Official Household Survey led the International Monetary Fund to argue that “the bulk of unemployment at present is neither voluntary nor frictional” and the bulk is “structural”. The International Monetary Fund added that the unemployed are predominantly unskilled and that unskilled employment has stagnated, which indicate the roots of the problem are to be found in the structural feature of the market for unskilled labour. The structural features they attributed to impediments to downward real wage adjustment, and in particular to long-term wage rigidity.

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However, those with relatively low levels of schooling and those with relatively low levels of perceived skill are suffering, more from unemployment than their more schooled and more skilled contemporaries. But one cannot presume that if all those without secondary schooling were provided with it and if all those without a recognised skill were provided with one that unemployment would fall dramatically.

The international comparisons of unemployment rates are dangerous, given definitions and measurement practices in different countries. This is specifically so in the case of developing countries. Also, developed (First World) countries generally use the strict definition of unemployment. If one wishes to compare South Africa with developed countries, one should use an unemployment figure based on the strict definition (Republic of South Africa, 1994: 20,3%; 1995:16,5%).

**Table 16. 1995 Unemployment Figures (Frederick & Fourie,1999: 360)**

Country	Percentage
USA	5.4
Germany	8.1
Bulgaria	16.1
Switzerland	4.6
Britain	8.4
Spain	23.9
Poland	16
Japan	2.9

Both the official South African unemployment rate and the strictly defined unemployment rate are importantly higher than those of most underdeveloped nations in the world. It is without doubt that South Africa has a most serious unemployment problem.

While this indicates the seriousness of the problem, it also shows that unemployment of the kind experienced in South Africa is typical of countries

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with underdevelopment problems. South Africa is not to be compared with First World nations. It is however estimated that up to 30% of the world total labour force, or 820 million people, are unemployed or underemployed. Most of these are in developing countries. Approximately 120 million world-wide are officially unemployed.

Apart from the economic cost in terms of unused productive capacity, the cost in terms of human suffering and disappointment is immense. And million of people are concerned. While this may be part of a wider development problem, it does not detract from the fact that these conditions can lead to serious social problems - and also political problems for the South African government, especially given the huge expectations created by political transformation.

Unfortunately, the prospects for a dramatic improvement in the situation are bad. It is estimated that the real Gross Domestic Product would have to

grow at 4 to 5% yearly (given population growth rates) in order to prevent the increasing rate of unemployment. Economic growth has regularly since 1970 fallen far short of this target. Economic growth alone will therefore not solve the problem even though it has a significant contribution to make.

**Table 17** below illustrates the growth in the formal sector employment over time relative to the economic growth rate (Frederick and Fourie,1999:361):

**Table 17**

<b>Growth in GDP and Formal Sector Employment (Five-Year Average Growth Rates)</b>		
	<b>Economic Growth (%)</b>	<b>Employment Growth (%)</b>
1960 - 1964	6.33	3.1
1965 - 1969	5.33	2.5
1970 - 1974	4.37	2.6
1975 - 1979	2.13	1.5
1980 - 1984	2.97	0.7
1985 - 1989	1.5	0.7
1990 - 1994	-0.02	-1.4

Related to the assessment of the unemployment estimates is the link between

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unemployment and poverty. Although there may be a well close connection, one should not presume that it is largely the unemployed who are the poor, or that the poor make up the bulk of the unemployed. The incidence of unemployment does not necessarily make corresponds to the incidence of poverty.

The limited evidence suggests that there is a link but that the degree of overlap is far from complete. For instance, in a survey in Eastern Transvaal, discussed in detail in the chapter on the rural labour market, it seemed that the poorest households were actually more likely to have members in employment than those that were slightly higher on the income scale. But in the SALDRU Survey of 1993 unemployment rates were much higher in lower income households, declining for each successive income quintal, controlling for race, gender or location, although the age and schooling characteristics of the unemployed differs in the higher-income and lower-income households.

However, the SALDRU Survey as well as the rural survey in Eastern Transvaal can be used to show some unemployment patterns. For example, according to the SALDRU data, 36.5% of all the unemployed were in households that were receiving at least one form of grant income as seen on *table 16*. This does not necessarily imply anything about the relative well- being of those in households with grants or without grant incomes. More interesting in that respect is the distribution of the unemployed by household income and expenditure. This is also illustrated in *table 18*. Only 53% of all unemployed were in households without someone who was in the employment, and only 30.1% were in households in which there were no regular incomes at all. If the remittance income were included, the figure would be even lower.

**Table 18. Percentage of Unemployed Living in Households Receiving Grant Incomes, by Various Characteristics, South Africa, 1993 (percent of all those in the category specified)**

Characteristic	%
All Households	36.5
Old South Africa	30
Former Homelands	41.6
Rural	40.8

Urban	31.2
Metropolitan	31.6
Male "Headed"	33.6
Female "Headed"	77.7
African	37.1
Coloured	32.2
Indian	21.7
White	34

**Note:** *"Unemployed" was defined as someone who had no employment, who was either seeking employment or was wanting employment but was not looking due to a believe that no jobs were available.*

**Table 19. Percentage of Unemployed in Households with Expenditure Below or at Poverty Line, by Household Characteristics, South Africa, 1993 (per cent in households with monthly household expenditure per adult equal to or below poverty line)**

Characteristic	%
All Households	65.8
Old South Africa	51
Former Homelands	77.2
Rural	80.8
Urban	59
Metropolitan	38.9
Male "Headed"	63.1
Female "Headed"	72.3
African	69.6
Coloured	49.3
Indian	7.8
White	3.6

The long-run decline in economic Gross Domestic Product growth in South

Africa since the 1960s is reflected in a declining employment growth. Formal sector employment growth generally is at a much lower level than Gross Domestic Product growth.

**Table 20. Distribution of Unemployed by Number of Household Wage Earners and Incomes, by Selected Characteristics, South Africa, 1993 (per cent distribution within household group)**

	Wage Numbers of Regular Income Earners			Number of Regular Incomes*		
	0	1	2+	0	1	2+
All Households	53.8	32.4	13.8	30.1	41.3	28.6
All SA Territory	34.7	43.6	21.7	19.9	42.9	37.2
Former "Homelands"	68.5	32.7	7.8	37.8	40.2	22
Rural	65.5	24.9	9.6	35.6	40.5	23.9
Urban	44	38.5	17.5	23.4	45.4	31.2
Metropolitan	36.4	43.7	19.9	23.3	40	36.7
Male "Headed" Household	52	33.8	14.2	30.7	39.3	30
Female "Headed"	58	28.8	13.2	28.5	46.3	25.2
African	56	31.7	12.3	31.3	42	26.7
Coloured	35.6	37.1	27.3	20.1	36.6	43.3
Indian	24	43.9	32.1	18.1	36	45.9
White	33.5	38.4	28.1	18.5	31	50.5

**Note:** \* "Regular Income" is defined as income from regular employment or from old age pension, private pension, private provident fund, government civil servants, government disability grant, interest earnings, or unemployment fund insurance benefits.

It is time for bold new thinking if South Africa is ever to attain the goals laid down by the government's macroeconomic strategy for Growth, Employment and Redistribution. Without large doses of Foreign Direct Investment, South does not at present have sufficient internal capacity to generate anywhere close to the 400 000 new jobs needed per year, and has

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little chance of achieving, let alone maintaining, an annual economic growth rate of 6% in Gross Domestic Product on a sustained basis. Developing countries in Asia and Latin America which regularly achieve such high growth rates all rely on high inflows of foreign direct investment to supplement their already high levels of internal savings.

Given South Africa's high level of government debt and continued budgeted deficits coupled with few incentives to encourage South Africans to save, our level of internally available savings is only half of what it needs to be. As such we are more dependent than ever before on attracting long-term foreign capital to fund our economic growth and the creation of jobs.

While Growth Employment and Redistribution projected that 126 000 jobs would be created in 1996 and 252 000 jobs in 1997 (along with 1997 of 2.9%), reality has proven very different. South Africa lost more than 71 000 formal sector jobs in 1996 and some 116 000 jobs in 1997 (Ginsberg, 1998: 69). By late 1998, these figures put government about 700 000 jobs

behind its Growth Employment and Redistribution estimates. The figure would be even worse were it not for some 19 000 new jobs created in the government sector - at odds with the Growth Employment and Redistribution plan of reducing the size of the public sector.

#### **4.3. Socio-Economic Impact of Unemployment in South Africa**

Unemployment in South Africa has a socio-economic impact as follows:

Unemployment leads to criminal activities as the only means of survival for certain groups of the unemployed people. Currently, a serious crime is committed every 17 seconds in South Africa, a murder every half an hour, a house breaking every two minutes and an assault every three minutes. Ginsberg (1998: 39) maintains that 77 people are arrested for every 1 000 crimes committed and 22% of reported crimes are ever prosecuted. Our prisons cannot even cope with those who are convicted. With more than 4 in every 1 000 citizens in jail, South Africa qualifies as one of the nations with the highest proportion of the people in jail.

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Crime at this level generates high levels of fear and insecurity among our population. Needless to say foreign investors and tourists are put off South Africa by continued reports of Johannesburg, in particular, reporting the highest murder and rape rates per capita in the world. Over a million cases of serious crimes were reported in South Africa in just the first eight months of 1994, with 61 murders being reported for every 100 000 people during 1996 - nearly even times that the United States of America and more than 10 times the world wide average.

Millions of innocent South Africans now effectively live jailed inside their houses, surrounded by their own barbed-wire fences and walls. Meanwhile criminals rule the streets. This is however not healthy for our society to bringing up our children. During the past few years we have seen the Bosnian tragedy unfold before our eyes, and our hearts go out to the innocent victims. Many of our own neighbourhoods, townships and cities are mini-Sarajevos every night of the week. Lack of work and boredom among many young males is a direct cause of much of the violence. Lack

of economic opportunity must, be tackled - without improving prospects it will be exceedingly difficult to bring the crime wave down.

Crime in South Africa must be rewarding, as so many of our citizens appear to enjoy lengthy careers in this underworld. Police protection is not enough and the rate of prosecution of criminals is pathetically low. Hence, the continued increase in crime has led to a reward wave of emigration out of South Africa, made up primarily of those with skills necessary to be able to secure good employment prospects abroad. As such, South Africa continues to lose many of its best and brightest people on a daily basis. No country can survive such a brain drain, or at best it will take generations to overcome the loss. Many emigrants and potential emigrants fear that South Africa will over time become an ungovernable third world country.

Crime cost South Africa a staggering R31.3 bn in 1995, equivalent to more than 5% of 1996 gross domestic product and 18% of the government's national budget (Nedcore study as reported in The Citizen newspaper, 12 June, 1996). According to the Nedcore project on crime, this figure reflects the costs of

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goods stolen and includes white-collar crime such as embezzlement. It is believed that the annual cost of crime exceeds even the projected benefits from the Olympic Games, for which Cape Town submitted an unsuccessful bid. It has been projected that the 2004 Games might have earned South Africa R30 billion over a ten year period, which could have been wiped out by the cost of just one year's crime.

According to the study in 1995, a staggering 80% of homes in South Africa experienced some form of crime or violence costing R11 billion - Gauteng entire budgeted for 1996. Between January and June 1997 there were no less than 184 armed bank robberies, while in the province of Gauteng the Trauma Clinic which treats survivors of violent crime saw a 20% increase in the number of patients over the year to June 1997. The World Economic Forum recently ranked South Africa alongside Colombia and Russia as countries in the grip of organised crime. All this damages South Africa's reputation and good name.

The number of reported rapes almost doubled between 1998 and 1994 to more than 32 000, while reports of attempted murder rose by 31% between 1992 and 1995, to more than 20 000 cases. There were 51% more reported murders in 1994 than in 1998, and 25% more cases of serious assaults in the same period. The stories of crime that fill our newspapers like a daily weather forecast are detrimental to our international image. Sparingly unemployment fast approaching 40% has led to a dramatic increase in crime throughout South Africa.

The government's failure to act with any sense of urgency will only continue to reduce the likelihood of more direct investment taking place. The perception that crime is out of control and that government remains inept in dealing with the problem will continue to haunt job creation for some time to come, unless radical steps are taken. As citizens we would no longer accept a further deterioration in our living standards - being virtual prisoners in our own homes is untenable.

Crime harms all South Africans - it does not only leads to an increased brain

drain of our most talented, who are able to easily find jobs abroad, but also fewer tourists visit South Africa, bringing in less foreign exchange, and international investment perceptions remain negative, severely hampered job creation.

In many countries formal-sector employment has grown slowly or even declined, especially after the poor economic performances of the 1980s. It is the informal sector that has been absorbing the additional labour and, consequently, this sector is becoming increasingly important as an object of government policy. In the 1960s, when formal-sector employment was buoyant, the prevailing attitudes towards the informal sector was one of indifference or even hostility; in contrast, the impact of structural adjustment policies in the 1980s has caused many governments to turn, often over-optimistically, to the informal sector for viable alternative employment opportunities.

While the long-term solution to the employment problem is to restore higher rates of growth to modern sector employment, there are nevertheless several benefits in promoting the informal sector. Many of its activities are labour-intensive and use simple technology, and so provide a relatively easy way to create and expand employment. It also provides a form of “safety net” income for poor households, and is especially important as a source of subsistence income during recession.

The range of informal sector activities is vast. In rural areas cottage industries and home-workers produce traditional handicrafts and implements of simple design, such as basic furnishing and agricultural tools, which are aimed at low-income consumers. In urban areas the variety is greater, spanning from the archetypal shoe-shine boys and cigarette-sellers to innovative metalworking enterprises with hired labour and apprentices, formal-sector subcontracts and product design.

The informal sector typically consists dead-end survival activities and small-scale activities with the potential growth and technical upgrading. The main aim of policies should therefore be to increase the modernizing element of the sector. This requires both better supply conditions (capital, technology, skills, etc) and improved demand conditions, which depend not so much on the sector

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itself but on developments in the rest of the economy.

In general, a prosperous and dynamic formal sector is important condition, necessary but not sufficient, for the development of modernizing informal sector; a depressed formal sector may increase the number in the informal sector, but these are likely to be in the “sponge” sub-sector and not the modernizing one. Consequently while the informal sector may provide a safety net for workers who fall from the formal sector when the latter is depressed, it is unlikely to provide an alternative source of growth in that context.

At the time of the 1996 census, 65% of households lived in formal houses, flats or rooms, 18% lived in traditional dwellings and 17% in shacks. Only 45% of households had a tap inside their houses and 12% had no toilets at all. The total housing shortfall is estimated at 1.3 million units. This is due to past racist and gender discriminatory policies and planning deficiencies (Barker, 1999).

Housing received a 1.9 % share of the 1998/99 budget. The target of the Reconstruction and Development Programme was to build one million low-cost houses within five years. The capacity to deliver housing and the sustainability of housing (for example payment for interest and services where persons remain unemployed) are considerable problems facing the implementation of the Reconstruction and Development Programme and delivery has been far slow than expected. A housing subsidy scheme providing a R16 000 grant for first time indigent homeowners who qualify for the subsidy has nevertheless provided access to housing for thousands of previously homeless people.

Land invasions are also an increasing occurrence as urbanisation grows, squatting increases and shack settlements are established overnight.

Poor access to housing has severe consequences for labour relations, namely: Employees often live in overcrowded , small homes lacking basic amenities such as water, sanitation and electricity thus placing considerable pressure on their family and social lives; the transmission of contagious diseases such as tuberculosis, hepatitis B, sexually transmitted diseases and ,measles flourish in such circumstances affecting the health of employees and their children. Absenteeism is thus increased; and many employers have

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established housing loan schemes. However, even where loans are made available, 25% of workers who have bought new homes are seriously over-committed.

The job summit held in 1998 launched a massive National Housing Development project in an effort to overcome the backlogs and the crises in housing. Housing for about one million migrants in the mining industry as well as other employees in construction, municipal and other areas of manufacturing is currently provided in hostels. Although efforts have been made to upgrade hostels in recent years, many still are of extremely low standard. Many are overcrowded as other persons who cannot find their own accommodation, including students move in to live with the hostel dwellers.

Hostels result in the breakdown of family life and prostitution may thrive in such a situation. This would facilitate the spread of sexually transmitted diseases such as Acquired Immune Deficiency Syndrome. Many mines have been seriously affected in that normal medical on site services provided for employees cannot now cope with large numbers of employees with Human Immuno-deficiency Virus related diseases.

However, many of the mining companies have recognised the need to change their housing policies and encouraged their employees to move to their own accommodation in nearby areas. In 1996, Congress of South African Trade Unions called for the abolition of the migrant labour and hostel system, but it forgets that many hostel dwellers, for various reasons do not wish to bring their families with them in the areas where they work. Rural links play an important role in the life of migrant workers.

#### **4.4. Conclusion**

The findings in this chapter shows that there is still much to be done by the government on job creation for the unemployed. From the findings, the null hypothesis (**H1**), proves that there is a clear relationship or causality between an individual's self-worth or dignity, his quality of life and his employment status.

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The 4.4% projection increase in the *real economic growth* for the year 2003 as depicted on the Projected Labour Force in *table 2* is still not satisfactory. The private sector should also be induced to adapt its jobs promptly to changes in the market conditions. There should also be an avoidance of the need for large and expensive government provision of employment in order to take people off the unemployment register.

## **CHAPTER 5: RECOMMENDATIONS**

### **5.1. Introduction**

In most countries where unemployment is a major problem, it is a product of several simultaneous causes, each of which interact with the rest: small wonder that unemployment policies are difficult to design. Furthermore, many policies that could improve economic efficiency are not politically implementable. The political realities dictate that it is not enough to find policies that give more jobs for those currently unemployed than they take away from those currently employed (Snower & De La Dehesa, 1997: 1). The chapter presents on a critical basis some employment policies that have been put forward by the government for the purpose of alleviating unemployment.

### **5.2. Unemployment Policies in South Africa**

The following are the recommended government policies for alleviating unemployment problem in South Africa:

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**Economic Growth and Development**

One of the reason for South Africa' high unemployment is the relatively slow growth of the economy (National Economic Development and Labour Council, 1998: 44). In 1996 the government announced its Growth Employment and Redistribution policy which recognises higher economic growth and significant job creation as the key challenges of economic policy. Some of the core elements of the strategy are: the budget reform to reduce the fiscal deficits, while strengthening the redistributive effect of expenditure; a reduction on tariffs to contain input prices; the gradual relaxation of exchange controls; anti-inflationary monetary policy; tax incentives to stimulate new investment; Small and Medium-sized Enterprises development; restructuring of state assets (which among others include privatisation) which is currently disputed by the unions such as Congress of South African Trade Unions and others; expansionary infrastructure

investment; structured labour market flexibility within the collective bargaining system; enhanced human resource development; and a social agreement to facilitate wage and price moderation.

The government's employment strategy specifically proposes measures to promote investment and export. The Growth, Employment and Redistribution foresees employment in the formal economy increasing by 2.9% per annum, providing 400 000 jobs by the year 2000. Employment growth would come from three sources: The first one is that one-third of the increase in jobs would be counted for by economic growth, and economic growth should form the main component of an employment creation strategy. An economic growth rate of at least 5% is required to accommodate only new entrants to the labour market, without addressing existing unemployment. South Africa has been unable to achieve this rate during the period 1996 to 1998, and the rate that has been achieved has not created any jobs (the so-called *jobless growth*).

The second one is that special government programmes would add another quarter of the new jobs. The last one is that some 30% increase of employment is envisaged from institutional reforms in the labour market, employment-enhancing policy shifts and private sector wage moderation. Regarding the

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latter the policy emphasises that wage and salary increases should not rise faster than productivity growth. The policy sees real wage growth in the private sector averaging no more than 0.8% per annum. Yet it is not happening.

The policy emphasises the importance of various measures to increase productivity, including improved training and education, better management training, modernisation of work practices, appropriate job grading and better utilisation of working time. The financing of training has been specifically highlighted as a central part of the training strategy, and this finds application in the Skills Development Act.

It should also be noted that some pain usually accompanies the transition to a new growth strategy. The World Bank (1995: 6) points out that strategies

to change from protection to greater integration with international markets, and from massive state intervention to a market economy in which the state play a smaller role in allocating resources, have powerful labour market dimensions. There is an acceleration in the elimination of unviable jobs, while the creation of new jobs takes place more gradually, at least initially. This is probably one of the reasons for the period of jobless growth in South Africa - at least from 1994 - 1997. Moreover, wages can be expected to fall in the short-term because of the fall in the demand for labour. In such circumstances, good policy would require enhancing mobility, reducing income insecurity and equipping workers for change.

### **Reconstruction and Development Programme**

The Reconstruction and Development Programme remains government policy, although it has recently taken a back seat to Growth, Employment and Redistribution. The objective of the Reconstruction and Development Programme is to be an integrated and sustainable programme, bringing together various strategies to effectively address the problems of poverty and gross inequality evident in almost all aspects of South African society. The Reconstruction and Development Programme White Paper makes it clear that this can only be possible if the South African economy is firmly placed on a path to high and sustainable growth. The Reconstruction and Development Programme also aims to involve all groups, sectors and communities in the

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programme.

Employment creation is effected in different ways by the five key of the Reconstruction and Development Programmes. The first programme is to meet basic needs, which entails job creation and housing; and amongst others land reform, services, water and sanitation, energy, telecommunications, transport, and social security.

In addition, the White Paper states that people should be employed in the construction of such infrastructure. Such measure could stimulate the economy through increased demands for materials such as bricks and steel , appliances, and more efficient and cheap products to meet basic needs (Government of National Unity, 1994: 8). The second key programme of

Reconstruction and Development Programme is the development of human resources through education and training. The third key programme is building the economy. The last two programmes of the Reconstruction and Development Programme relate to democratising the state and the society, and implementing the Reconstruction and Development Programme.

### **Improving Labour Absorption**

Although economic growth is important for job creation, a country such as South Africa also needs to create more employment opportunities for every percentage point increase in real gross domestic product than is the case at present. Growth, Employment and Redistribution and Reconstruction and Development White Paper both have references to the importance of improving labour absorption. Unfortunately the opposite has happened over the past two decades. The Central Economic Advisory Service has illustrated that far fewer employment opportunities are created for every percentage point of economic growth now than was the case in the past. What is happening now is defined as *jobless growth*.

To arrest and reverse this trend, attention must be given among other things, to employment enhancing policy shifts and wage moderation. Appropriate technology that takes into account the relative shortage of capital and the comparative abundance of semi-skilled and unskilled labour in South Africa, can

play an important role in this regard. The government also emphasise the fast-tracking movement into new labour-absorbing industries such as tourism, exports and sectors producing goods for domestic markets (Republic of South Africa, 1998b: par. 3.5). Strategies such as improving access to information, and promoting competition, strategic inter-firm competition, the identification of strategic opportunities and improved managerial and production practices are emphasised.

The Bureau of Economic Policy and Analysis (1998) has found that increasing the emphasis on exports will lead to substantial increase in economic growth and employment opportunities. If exports were to increase by 10% in real terms over five years, 2 million job opportunities would be created, and if the trickle-down effect on other industries is taken into

account, new jobs created could rise to 5 million. The concomitant improvements in human resource development would have to form an important element of such a strategy, to ensure that the labour force adjust to only quantitatively to the needs of labour demand, but also qualitatively.

### ***Inward Industrialisation***

It refers to a process whereby the effective demand for locally produced basic goods and products increases because of various factors operating together. These factors include rising real income among lower-income categories, falling birth rates in such communities, higher urbanisation rates, and more government spending on less privileged communities.

The combination of these factors could unleash a meaningful demand for consumer basic goods such as clothing and food and other facilities. Most of these goods and services can be produced in a labour-intensive manner, they have a low import content and also require a low skilled labour component to produce. Relatively little additional pressure would be placed on the balance of payments or on the supply of highly skilled labour.

However, the preconditions for the success of inward industrialisation are that, real wages increases should not exceed productivity increases, so that there would be an increase both in real incomes and concomitantly in production. A

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further precondition is that small enterprise and informal sectors can be stimulated, so that the benefits of inward industrialisation process can be spread widely among the population. The process would probably also not be sustainable without active government involvement and targeted expenditure, as set out in the Reconstruction and Development Programme (African National Congress, 1994: chapter 2).

In its employment strategy, the government also refers to the importance of enhancing the labour absorption capacity of the economy. Traditional sectors should be revitalised, and new labour absorbing sectors (such as tourism, sectors that produce goods for the local market and information technology) should be encouraged to expand (Congress of South African Trade Unions, 1998).

### **Productivity and Labour Market Flexibility**

High labour costs can be neutralised by high productivity, but productivity performance in this country is unsatisfactory. Unit labour cost is thus increasing at a relatively high rate, and this is damaging to the country's international competitiveness and to the job creating capacity of the economy.

Productivity can be improved in many ways. Among significant of this is labour market flexibility, but attention should also be given to issues such as education and training, making a significant part of remuneration dependent on individual and team performance, and increasing managerial efficiency and enterprise innovation, among other through low trade barriers and enhanced product competition. Labour market flexibility does not only increase productivity, but also enhances labour absorption directly. This is because employers can adjust their labour force rapidly to changing circumstances and thus remain competitive. In addition, flexibility with regard to the utilisation of labour, among others encourages labour-intensive production techniques, whereas inflexibility would encourage higher capital intensity. In this regard, Business South Africa (1998) calls for free collective bargaining as the primary regulator of labour market rules.

### **Active Labour Market Policies**

An important element of active labour market policies is job creation initiatives

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at the local level, particularly those focussing on activities meeting the needs of the community (for example household, environment, culture, infrastructure and social care). In addition, a special dispensation should be introduced to make the employment of young workers and high unemployment groups more attractive.

In the government's employment strategy (RSA, 1998b: par.4.2.2), more efficient social security is called for in order to reduce dependency, promote human resource development and encourage labour market efficiency. Moreover, improved access to labour market information, the introduction of a social plan, improved housing and transport and special focus on youth unemployment (for example through young training subsidy) are emphasised.

### **A Strong Skill Base**

The availability of a strong skill base is an essential element of any strategy to relieve unemployment (Republic of South Africa, 1998b: Par.4). Efficient education and training does not only play a major role in supporting higher economic growth, but can also contribute to finding a better match between the availability of skills and the demands of the labour market. Cultivating a culture of learning should be a primary aim (Business South Africa, 1998: 7). Education and training could therefore reduce structural unemployment.

Training programmes in some countries are increasingly targeting the long-term unemployment, and are aimed at promoting their employability, as evidence has shown that the chances of getting a job fall significantly with the duration of unemployment (European Commission, 1997: 17-19). Initiatives in the educational field include adapting education to the needs of working life, and making the links between education, training and the workplace more direct and effective. These initiatives as well as improved training and apprenticeship systems, especially to persons who have left school prematurely, assist in the transition from school to work and have shown some success in addressing unemployment among young people (European Commission, 1997: 21;31).

### **A Judicious Population Policy**

South Africa is experiencing a very high population growth rate. It can only hope to address unemployment successfully if there is a significant drop over the

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long-term in the growth of labour force.

However, it should also be borne in mind that because of the high mobility of labour across the country's borders, any employment expansion would tend to suck in labour from neighbouring countries. This means that employment growth would have very little effect on the level of South African unemployment (International Labour Organisation Review, 1996: 62). The employment of foreign workers should be restricted to a maximum level if the required skills are available in the domestic market.

### **Public Works and Special Employment Programmes**

South Africa does not have a system of social security and therefore urgently requires a programme to assist unemployed persons who do not receive unemployment insurance. The Reconstruction and Development Programme states that the system to provide "hand-outs" to the unemployed should be avoided (African National Congress, 1994: 18). One method of giving unemployed persons the opportunity to participate in the economic life of the country is to launch special employment programmes which are usually labour intensive, for example public works programmes. Such programmes are also emphasised in the government employment's strategy to reduce unemployment in the short-term (Republic of South Africa, 1998b: par. 3.3). In 1995, for example, the South African Government allocated R280 million for a variety of public works programmes, particularly in the rural areas (Barker, 1986).

According to the Reconstruction and Development Programme, the key in which special measures to create jobs can lead to building the economy and meeting basic needs is in redressing infrastructure disparities. Amenities such as water supply, sanitation, clinics and childcare facilities should, according to the Reconstruction and Development Programme, receive special attention. The government's employment strategy refers to the following (Reconstruction and Development Programme, 1998b: par. 3.3):

- Clinics cities campaign (the delivery of waste services to poorly serviced areas);
- Working for water (clearing invasive alien vegetation);

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- Land care campaign (rehabilitation and conservation of natural resources);
- Municipal infrastructure programme (for low income areas);
- Welfare programmes (which offer training, education and other opportunities for destitutes); and
- Community-based public works programmes (primarily in rural areas).

Congress of South African Trade Unions (1998: 17) view such programmes as playing a key role in addressing unemployment in South Africa and they are also supported by Business South Africa (1998).

### **Unemployment Insurance**

Most countries provide some system of income maintenance for persons experiencing a period of unemployment. The Unemployment Insurance Fund in South Africa insures contributors against the risk of loss of earnings due to unemployment as a result of termination of employment, illness or maternity, or adoption of small children, and provides for payments to dependants of deceased contributors. The Unemployment Insurance Fund is thus an *insurance scheme* in the full sense of the word and not a charitable or welfare income support measure.

People excluded from the fund include some categories of civil servants, domestic workers, casual and seasonal workers, and persons earning more than a regularly adjusted “earnings ceiling”. Persons who have never contributed to the fund, such as new entrants to the labour market, and persons whose benefit period (normally 6 months, though in certain circumstances 12 months), has run out, do not enjoy benefits in terms of the Unemployment Insurance Act. Benefits are funded from the payroll levy of 1.0% on employers, and a basic levy of 1.0% on employee’s income. The state contribute a maximum of R7 million per annum to the fund.

Unemployment Insurance entails a benefit to persons experiencing hardship due to unemployment. It is also beneficial to the society in that the costs of unemployment, whether direct (higher taxes, welfare contributions or family support) or indirect (crime and increases unrest) are reduced. It may also be argued that labour mobility and flexibility are increased, because unemployment

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benefits reduce the pressure on employers to keep redundant workers in employment, and on unions to protect jobs. Any production adjustments required can therefore be effected more readily.

### **Wage Subsidies**

Wage subsidies have been used in some countries as a means of creating jobs. A wage subsidy reduce the price of labour relative to the price of capital or that of non-targeted workers, and in this way encourages enterprises to substitute targeted workers for unsubsidised capital or non-targeted workers. It also reduce the enterprise's costs, encouraging it to expand its output and demand for labour (McConnell and Brue,1989: 547).

However, the extent to which a wage subsidy increases the employment of targeted groups will depend on the elasticity of demand for such workers. If a reduced wage does not result in a greatly increased demand for workers, the employment effect of subsidies will be negligible. What is apparent is that a wage subsidy should not be a general subsidy aimed at reducing the wage bill of the entire workforce of an employer. This will not necessarily result in increased employment and might simply result in increased wage rates for existing workers or improved profits for the employer.

If wage subsidies are applied, they should be marginal, in the sense that they are paid only in respect of workers about to be retrenched, or in respect of new additions to the enterprise's labour force (the latter are called *incremental subsidies*). In addition to being very difficult to administer, the disadvantages of subsidies aimed specifically at adverting redundancies is that ailing industries or unsuccessful undertakings might be kept going and structural adjustment that are required may not be effected. In this sense subsidies might impede structural change. Incremental subsidies also have a disadvantage that the funds might be wasted if paid to enterprises which would have employed additional workers anyway (this is called *dead-weight loss*). In South Africa, subsidies can be targeted, i.e. limited to certain areas or aimed at certain unemployed groups such as youths or long-term unemployed.

### **Formal and Informal Small Enterprise Sector**

The Informal sector in South Africa has shown significant growth in recent years.

It is particularly important source of income for those without a formal job, as there is no developed system of social security in this country (Barker,1999: 97). In many parts of the world it has been found that small enterprises and the informal sector represent a significant part of total employment, or have been responsible for a major portion of the total increase in employment opportunities in recent years. The Reconstruction and Development Programme White Paper also refers to small and medium-sized enterprises enhancing employment growth (Government of National Unity,1994: 33). Until recently, the small enterprise sector in South Africa

had not shown great employment creation potential (Republic of South Africa,1996: 13). According to Ntsika Enterprise Promotion Agency (1997: 14) the small enterprise sector absorbs nearly 30% of total formal employment.

Because of active steps taken since the early 1980s to stimulate the small enterprise sector, this might be changing slowly. In the latter half of the 1990s the institutional network to drive the small enterprise strategy consisted of the Centre for Small Business Promotion, Khula Enterprise Finance for the financing of small enterprise, Ntsika Enterprise Promotion Agency to provide non-financial assistance, and the National Small Business Council. The Reconstruction and Development Programme White Paper refers to various other programmes to support and to encourage small and medium-sized enterprises.

According to the Growth, Employment and Redistribution the Small, Micro and Medium Enterprise sector is severely underdeveloped. However, in terms of value added, the informal sector's contribution to the gross domestic product in 1995 was estimated at R2.7 billion per month, which amounts to 6.7% of the estimated official gross domestic product for 1995.

The promotion of this sector is a key element of the government strategy for employment creation (Republic of South Africa,1998b: par. 2.4.2.3) and strategies such as improved access to land, finance and support services are proposed. Linkages between enterprises, an appropriate regulatory framework and improved access to managerial support and capital are highlighted as

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important for the development of this sector. Tourism is identified as an important sector where small enterprise development should be encouraged. Barriers to entry are identified as poor market information, a weak skill base and poor access to finance.

Business South Africa (1998) also sees a special role for small enterprises and the informal sector and states that such enterprises require a high degree of flexibility to ensure their survival. In practice, they are hardest hit by labour market rigidities.

### **5.3. Conclusion**

Unemployment could be acceptable in South Africa if new employment opportunities could be created without reducing the existing ones. Extra effort should be put on the promotion of more equal employment opportunities for those out of work: the short-term versus the long-term unemployed, the youth entering the labour force versus older employees who have been laid off (Snower & De La Dehesa, 1997: 2). Emphasis should also be on the creation of more skilled, relatively well-paid jobs and to promote education and training necessary for these jobs.

## **CHAPTER 6: CONCLUSION**

### **6.1. Conclusion**

It can be concluded that the society as a whole loses as a result of unemployment because total output is below its potential level. The unemployed suffer as individuals, both from their income loss while unemployed and from the low level of self-esteem that long periods of unemployment cause. Substantial unemployment also generates (or creates conditions for) social unrest and political instability.

As far as the macroeconomic costs of cyclical unemployment is concerned, no attempt has been made in South Africa to quantify the costs to society of the output forgone because the economy is not operating at full employment. In the United States, however, Arthur Okun established the relationship, now called Okun's law, which quantifies the link between the unemployment rate and the deviation of output from full employment, or gross national product gap. Okun's law (Baily & Okun, 1983) states that for every one percentage point reduction in unemployment rate, the real gross national product will rise by 2.5%.

The benefits of reducing structural unemployment are even more difficult to estimate. Okun's law is not appropriate here. The reason is that the increase in output associated with cyclical changes in unemployment results in part from the fact that the labour put back to work in the short-run is able to use capital that was not fully utilised when unemployment was high. In the case of structural unemployment, however, it would be necessary to expand investment to provide

for the capital with which the newly employed would work. Nevertheless, unemployment involves a loss of a valuable national economic resource.

On the personal level unemployment can give rise to disappointment, hardship, suffering, loss of life savings, loss of physical and mental health. In this regard it has been established in South Africa and elsewhere (Office

of the Economic Adviser, 1979) that despite the substantial flows in and out of unemployment, much of aggregate unemployment is accounted for by people who remain unemployed for a significant period. Thus, if one believes that unemployment is a more serious problem when it affects only a few people intensely rather than many people a little, this data suggest that unemployment is a more severe problem than the aggregate unemployment rate indicates.

The costs of unemployment to the individual can be lowered by unemployment compensation. However, as we have noted, it is often argued that unemployment benefits can add to structural unemployment because they reduce the incentive to seek work. In those countries with established and generous unemployment insurance schemes, the compensation also involves a heavy cost to the Treasury. In South Africa the social security system is relatively underdeveloped and as a result of the personal costs of unemployment are generally much higher here than in the industrialised countries of the West.

Apart from creating personal suffering and hardship, unemployment can also give rise to severe social and political problems. In South Africa the widespread unrest in 1976 and from the late 1984 onwards occurred at times when unemployment was high and increasing. In June 1976 the economy had been in the contractionary phase of the business cycle for 22 months. Economic growth was at its lowest level since the Second World War and cyclical unemployment was increasing.

However, although the weak economic performance at the time cannot be regarded as the underlying source of the Soweto riots and the subsequent long and widespread unrest, it undoubtedly created the conditions for triggering and sustaining such unrest. By 1985 the South African economy had again been

suffering from low growth, high unemployment and high inflation for a number of years. There had been a short boom between March 1983 and June 1984 which had some positive effects on employment. But from August 1984 onwards unemployment increased rapidly in the wake of severe monetary restrictions (imposed to correct the deficit on the current

account of the balance of payments and to combat inflation). The resultant deep recession and rapid increase in unemployment were important factors in the events that eventually led to the declaration of a State of Emergency in July 1985.

It is therefore recommended that South Africa must strive to achieve better on both demand-management and supply side employment policies to strengthen the other unemployment policies which are discussed in chapter four of this research in order to guard against the problem of increasing unemployment. Demand-management policies to reduce unemployment fall into two broad categories: (i) government employment policies, whereby the government stimulates employment directly by hiring people into the public sector, and (ii) product demand policies, which stimulate employment by raising aggregate product demand (e.g. through tax reductions, increases in government spending on goods and services). The supply side policies ranges from government infrastructure investment to policies that raise the rate of capital utilisation, stimulate the entry of firms or promote physical capital formation by reducing the user cost of capital. The rate of capital services provided in the economy is therefore raised, and if labour and capital are complementary in the production process, increase the marginal product of labour.

There should be policies that focuses on human capital formation such as training programmes, training subsidies to firms or workers and more broadly, also policies that reduce the rate of interest and thereby reduce the rate at which future returns to human capital formation are discounted.

Job search support and information dissemination is also important. This covers such measures as counselling the unemployed, assisting them with personal problems such as alcoholism and drug addiction, and alerting them to available training opportunities. It also involve disseminating information about available

labour services to firms and about available vacancies to workers (Snower and De La Dehesa, 1997).

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