

**ECONOMIC AND SOCIAL EFFECTS OF UNEMPLOYMENT IN SOUTH  
AFRICA: PROSPECTS FOR THE FUTURE**

By

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## **DECLARATION BY CANDIDATE**

"I hereby declare that the thesis submitted for the degree M Tech: Joint Masters in Comparative Local Development at Tshwane University of Technology is my own original work and has not previously been submitted to any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged by means of a comprehensive list of references".

C.T. Malakwane (200069978)

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## **ABSTRACT**

The unemployment situation in South Africa has been well documented. Statistics from August 2011, indicate that South Africa's unemployment rate stood at 25, 7 per cent at the time. Although this is high, it actually plays down the scale of the challenges since it only includes individuals who are unemployed and are keenly seeking employment. Thus, the study examines the social and economic impact of unemployment in South Africa. The information suggests that there exists linkages between unemployment various aspects such as crime, health, education and skills.

Findings suggest that, a more enlightening figure 41 per cent of the population of working age (everyone aged 16 to 64) have any type of employment, either formal or informal. Also, the study establishes that since 1994 and subsequent development and adoption of various policies, unemployment continues to rise.

This study is based on both quantitative data acquired by the researcher through various sources. In addition, efforts have been made to use existing data on the subject, through sources such as libraries, the Internet and observations. The work examines the areas that require focus and policy interventions that can remedy the situation.

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## **CHAPTER 1**

### **1.1 INTRODUCTION**

Although South Africa's economy has performed well over the past decades, it has not adequately addressed the high rate of unemployment, which, according to Statistics South Africa (Stats SA), stood at 25, 7 per cent in July 2011. Even during the period before the recent recession, when South Africa's economy grew at the highest level for the longest sustained period since any time post-World War II, unemployment never dropped to below 23 per cent of the economically active population according to the strict definition of everyone aged 16 to 64.

Poverty continues to plague South Africa despite the economic gains experienced since 1994. The impact of poverty and unemployment is both social and economic. Even though South Africa is a middle-income country, its society remains one of the most unequal in the world. In addition, the high crime rate can also be linked to unemployment and poverty to some degree.

In its 2011 diagnostic overview, the National Planning Commission (NPC) cites the fact that numerous of out-of-school youth and adults are unemployed. Those in low-income households that are working support many dependants and earn very little relative to the cost of living. This is a central contributor to widespread poverty. Inactivity of broad sections of society reduces our potential for economic expansion.

By definition, inclusive growth must involve the participation of a broader section of working age people. Furthermore, the diagnostic overview indicates that unemployment was allowed to grow over many years, after years of economic stagnation and “separate development” policies. Over 25 years, there was no net job creation for a growing African population.

Bhorat (in Padayachee, 2005) suggests that between 1995 and 2002, using the expanded definition of unemployment, the economy created over 1,6 million jobs. While in 2007, the then Minister of Finance Mr Trevor Manuel indicated in his annual Budget Speech that about 500 000 jobs are created per year. However, with the current increase in the unemployment rate, this is not sufficient to deal with the vast number of people who are unemployed.

In the 2012 Budget Speech, the present Minister of Finance Pravin Gordhan (2012) indicated that although “there was a welcome recovery in job creation during 2011, employment has not yet returned to its 2008 peak and the unemployment rate remains high at 23,9 per cent”.

Despite the relative strength of the South African economy within Africa, the problem of unemployment still remains a critical social and economic issue. This situation needs to be addressed through public policy to revisit the distortions which emerged during the apartheid era that are contributing to the high unemployment rate in the modern South African labour market.

There is currently widespread debate among politicians, scholars and economists regarding the causes and effects of unemployment in South Africa. Present debates point to the labour market policies and how these should be amended, such as minimum wage laws, taxes and other regulations that may discourage the hiring of workers.

Unemployment affects the whole economy and not only the unemployed. While many unemployed people lack skills and training, many of them do have skills and experience that are not being productively utilised in the economy.

The high unemployment rate is aggravated by the unequal distribution of employment opportunities between the provinces and different population groups. There is a higher rate of unemployment among women, young people and unskilled workers. Apart from the obvious economic implications of South Africa's high unemployment rate, the social implications can be devastating, condemning a large section of the country's population to poverty and inequality.

From an economic perspective, a country's unemployment rate remains one of the key measures of economic performance. The economic and social implications of unemployment are broad and far-reaching.

## **1.2 PROBLEM STATEMENT**

It is an undeniable fact that the enormous challenge of unemployment currently afflicting South Africa needs to be addressed urgently. Related issues of poverty and inequality also continue to be a major concern. One of the best ways of getting people out of this

situation is through the creation of employment through, among other things, increasing economic activity. This raises a number of questions which include:

- Does a person's well-being depend on his or her employment status?
- Does the lack of employment opportunities contribute to family hardships and subsequently domestic violence?
- Is there a correlation between unemployment and other social ills in South Africa?
- Why did the recent surge in economic activity not significantly reduce the unemployment rate?

### **1.3 OBJECTIVE OF THE STUDY**

- to determine the economic and social impact of unemployment within the South African context and providing recommendations on how to improve the standard of living and alleviating poverty.
- to determine the effects and links between unemployment, inequality and poverty and explores the links between unemployment and crime.
- to assess the existing policies that address the surge of unemployment.

The main questions addressed in the study are:

1. What are the factors that cause escalating unemployment in South Africa, particularly in rural areas?
2. How can the knowledge of the various types of unemployment lead to the understanding and resolving of the problem?

3. What are the overall effects of policies affecting unemployment and have they made any inroads in addressing the problem?

The thesis is structured as follows:

- Chapter 1 introduces the nature of the problem of unemployment in South Africa. The chapter also deals with the research question, methods and purpose of the study.
- Chapter 2 briefly reviews the literature pertaining to unemployment and some key issues contributing it.
- Chapter 3 deals with the research method used and justification for the research.
- Chapter 4 entails an analysis of available and collected data to date with special attention to the regional differences in the levels and types of unemployment in South Africa. An effort is also made to compare this data with that of other developing countries to gain a qualified assessment of where South Africa stands in terms of unemployment in comparison with such countries.
- Chapter 5 summarises the findings and provides recommendations.

## **CHAPTER 2: LITERATURE REVIEW**

In 1994, when the African National Congress (ANC) came into power, they inherited an economy that had systematically adversely affected the majority of the population and led to widespread unemployment. The challenge of unemployment continues to plague South Africa. For almost a half century, black people had been subjected to a deliberate mediocre education, labour laws that prohibited their progression, business regulations that outlawed many forms of firm ownership, and laws that kept them from living in or doing business in the metropolitan areas that were at the centre of commerce. While many conditions have improved for the black population with significant changes taking place since 1994; unemployment has almost doubled and the same groups that struggled under apartheid now sadly bear the costs of the continuing increase in unemployment.

There have been many lively discussions on the extent and nature of unemployment and various solutions have been offered on how to curtail the surge of unemployment in South Africa, but the outcome has been rather inconclusive. This reflects the lack of good empirical evidence in the past.

### **2.1 INTRODUCTION**

Since the advent of democracy, great strides have been made in South Africa to improve conditions for the majority of the population. However, the broad unemployment issue remains a major social and economic challenge. Related issues such as inequality, poverty, and crime and alcohol abuse continue to plague many

South African communities. This chapter defines unemployment, assess the various causes of unemployment in South Africa and provide a literature overview of the unemployment situation in South Africa.

## **2.2 DEFINING UNEMPLOYMENT**

In South Africa, two different concepts of unemployment are used routinely: the strict (narrow) and the expanded (broad) definition. The broad definition accepts as unemployed those who did not search for work in a four-week reference period, but who report being available for work and say they would accept if a suitable job were offered. In 1998 the narrow concept was declared the 'official' definition of unemployment.

Stats SA continues to issue figures for narrow (official) and broad definitions of unemployment. However, the Department of Labour provides information on the narrow information more frequently. Most sources of information for unemployment use the narrow definition when publishing the figures.

Kingdon and Knight (2006), investigated the issue of unemployment using three new approaches to test whether, in conditions of high unemployment, the searching and non-searching unemployed states are distinct.

Firstly, they have concluded that within South Africa, those who are unemployed and not searching for employment are those who have less opportunities or access to opportunities than those who are actually searching for work. This also suggests that their lack of searching maybe a result of other aspects such as the cost associated with

looking for work and poverty, particularly those who live in deep rural community's where job opportunities are very limited.

Secondly, that those who are unemployed and not searching are not in any way more content than those who are unemployed and searching for work. Essentially, the two categories of the unemployed suffer the same kind of stress associated with unemployed people. This includes lack of confidence and self-esteem as a result of an inability to earn an income to support their families.

Thirdly, that the aspect of unemployment plays a key role in wage determination. The assessment by Kingdon and Knight (2006) indicates that both the unemployed, searching and non searching, experience similar stress levels due to their inability to earn an income and that the reasons why some are not searching for employment may be related to factors such as poverty and lack of opportunities and information, particularly in the rural areas.

Barker (2007; 174) defines an unemployed individual as an individual who does not have employment, is presently available to work, and is looking for employment. This definition differs from those offered by the Labour Force Survey (LFS) and the International Labour Organisation (ILO). The different definitions contribute to varying figures which indicate the rate of unemployment in South Africa, since different statistics are gazetted by a variety of institutions.

While the different bodies bring together the main users and experts of labour, such as the Department of Trade and Industry (dti), National Treasury, Stats SA, the Department of Labour and others, to produce the unemployment figures, the LFS is considered to be the key body that determines unemployment rates.

### **2.3 TYPES OF UNEMPLOYMENT**

Although there are various types of unemployment in the South African labour market, including for example frictional, cyclical and seasonal unemployment, structural unemployment is the form of unemployment affecting the labour market.

The cost of unemployment is divided into two, namely the economic and non-economic costs. The economic cost is the loss of output of workers who are unproductive and the non-economic cost leads to socio-economic issues such as the high level of crime and labour unrest. In South Africa the economic cost of unemployment can be noticed in the low level of the country's Gross Domestic Product (GDP) and the increases in government's transfer payments, for example child grants and the Unemployment Insurance Funds (UIF), which raises government expenditure.

In South Africa, unemployment is mainly structural in nature, but this has been compounded the cyclical unemployment. According to Terrablanch (2002:425), the fundamental solution to the problem of unemployment is restructuring the economy. He states that "the RDP that envisaged the restructuring of the economy should have been

entrusted to free market capitalism, neo liberalism, globalisation and a high rate of growth”.

To fully comprehend the nature of the unemployment problem in South Africa, it is essential to first be acquainted with the different types of unemployment and draw a distinction between these.

### **2.3.1 Frictional unemployment**

Unemployment that arises out of the transition of an individual from one job to another is known as frictional unemployment. Frictional unemployment can be attributed to the lack of information in the labour market. Frictional unemployment has a relatively short duration which can be reduced further by improving labour market information and placement services, so that the employer and the job-seekers can find each other sooner and more effectively (Baker, 1999:18).

### **2.3.2 Cyclical unemployment**

According to Maynard (2007), cyclical unemployment, happens when there is inadequate cumulative demand in the economy for employment for everyone who seeks work. Because the demand for most goods and services decline, less production is and fewer workers are required, remuneration is lower and mass unemployment occurs.

### **2.3.3 Structural unemployment**

This type of unemployment happens when there are not sufficient jobs to maintain the people who are trained in a particular sector of the economy. For example, many people studied basic computer technology in the 1990s as the World Wide Web grew in popularity. This led to an over-supply of graduates in basic computer technology and some college graduates found that there were many people competing for the same entry-level jobs, making it more difficult to find a desired position in the field.

## **2.4 UNEMPLOYMENT IN SOUTH AFRICA**

It is evidently clear that too many South Africans are unemployed. As of August 2011, South Africa's unemployment rate stood at 25, 7 per cent. However, this has not always been the case. In the 1970s, unemployment in South Africa was fairly low. Following the advent of democracy, unemployment was substantially lower than it is currently. According to Banerjee *et al.* (2007:2), "a nationally representative survey conducted just before the transition, indicated that unemployment stood at 13 percent. Another national representative survey in 1995 found unemployment to be around 15 percent. By the end of the decade, unemployment had jumped to 30 percent before declining slightly".

The National Planning Commission's (NPC) diagnostic overview of the South African economy indicates that between 1997 and 2008, both economic and employment growth accelerated. There has been much debate about whether South Africa experienced job-creating or jobless growth since the mid 1990s. Between 1997 and 2008, for every one per cent growth in GDP, employment expanded by 0, 6 to 0, 7 per cent. By comparison, the average ratio of employment to GDP growth in successful

emerging economies is generally about 0, 3 to 0, and 5 per cent. Job creating growth means that employment grew substantially in line with GDP growth, and that the unemployment rate did decrease as a result.

According to Stats SA (2012), the current (as of May 2012) unemployment rate stands at 25, 2 per cent, which is extremely high, particularly when compared with other developing economies such as Mexico (5 per cent), Argentina (9 per cent) and Brazil (9 per cent). From 2000 until 2009, South Africa's unemployment rate averaged 26, 38 per cent reaching an historical high of 31, 20 per cent in March 2003 and a record low of 23 per cent in September of 2007 (trading economics, 2011).

According to the NPC diagnostic overview (2011:7), "The continued social and economic exclusion of millions of South Africans, reflected in high levels of poverty and inequality, remains the biggest challenge". These high levels of poverty and inequality have a historical basis in apartheid and are driven principally by the fact that too few people work and that the quality of education for many black people remains poor. Central to addressing these challenges sustainably over time is our ability to create jobs for more people and to improve the quality of education, especially for poor black people.

Furthermore, unemployment was allowed to grow over many years, after many years of economic stagnation and "separate development policies". Over 25 years, there was no net job creation for the growing black population. Strict unemployment peaked in 2001 at 31 per cent. Broad unemployment among those people, who would like to work, but

have become discouraged, is also a critical challenge, mostly affecting young black women living outside urban areas.

The legacy of apartheid and the socio-political and socio-economical effect it had on South African society and consequently also the South African labour market has produced some structural imbalances that have resulted in the startlingly high rate of unemployment. After sixteen years following the end of apartheid, social and economic policy programmes to address the imbalances have not adequately made a dent in the unemployment rate. Some other exogenous factors also had an influence on the unemployment rate, such as the economic and financial crisis during the period 2008 to 2009, which exacerbated the situation in the labour market.

Although there has been a sustained period of growth in the South African economy, this has not made a significant dent in the unemployment rate. Trading Economics (2012) indicates that South Africa's GDP expanded 2,7 percent in the first quarter of 2012 over the previous quarter. Previously, from 1993 until 2011, South Africa's GDP growth rate averaged 3,3 per cent reaching an all time high of 7,6 percent in December 1994 and a record low of -6,3 percent in March 2009.

According to Hodge (2009), unemployment has risen even further from its already high levels in the early 1990s. Furthermore, he states, "Between 1995 and 2003, the unemployment rate rose from 17 to 28 per cent (based on the narrow definition of unemployment) and from 29 to 42 per cent (based on the broad definition of

unemployment), leading to a situation in which South Africa now has one of the highest rates of unemployment in the world”.

Following the advent of democracy, policy planners had a vision to develop and strengthen the export segment. Nonetheless, aspects such as the structural inflexibility due to the evolving global markets, declining productivity, lack of skills, and volatility within the rate of exchange became major impediments in efforts to tackle unemployment. Banerjee et al (2008: 724) confirm this by referring to the major problem being the structural nature of the South African economy and the persistent downturn in the mining sector and mineral reserves. Also, the lack of coordination in the policy development may have resulted in poor direction in policy.

The introduction of the Growth, Employment and Redistribution (GEAR) strategy in 1996 served to re-establish economic activity. The policy also aimed to ensure confidence for investors and the private sector by laying the basis for reducing government debt and increase growth. Also, the government reshaped trade policy to by open up markets with a view to increase South Africa’s exports. The negotiation of trade agreements with key partners led to the tariff reductions, particularly in key sectors of the economy, such as manufacturing, where tariffs were reduced from 23 per cent in 1994 to 8 per cent in 2004 (Edwards 2005; Edwards and Alves 2006).

Another key introduction was the proposed flexibility in the labour market with a view to protect employment. The labour policies introduced post-1994 led to an increase in the

cost of employment. The Basic Conditions of Employment Act ensures longer annual and family leave (thus increasing the indirect cost of employing labour) and reduced hours of work (thus increasing hourly fixed costs). The overtime payment was also increased, with the result that overtime labour costs rose to two and a half times that in comparable middle-income countries (Barker 1999: 19).

Kingdon and Knight (2001:7) have undertaken a great deal of work and research pertaining to unemployment in South Africa. With a view of shedding light on the nature of the unemployment in South Africa, they have examined two questions; the first centres on reasons for the unemployed not to be part of the informal sector. The second centres on why the unemployed do not enter the wage employment in a ready state. It is clear from the first question that it can be assumed that the low level of wages in the informal sector maybe a major deterrent to enter such a sector. Also, there might be some barriers or red tape associated with entering the informal sector, which may discourage many people from even considering this. On the other hand, the reason why the unemployed do not enter the wage employment more readily could also be a result of the high wage expectation which currently prevail. The observation may suggest that those without work are in a much more inferior position compared to those who choose to be in the informal sector.

Kingdon and Knight (2001:9) have further researched the extent of the prevalence of unemployment in South Africa and the fundamental differences between the black and white population groups. What emerges out of this indicates that more unemployed

people are located within the rural areas than in the urban areas. Also, that the majority of the unemployed have never been employed previously. The analysis also indicates that the young and uneducated black population in the rural areas are much more susceptible to unemployment due to limited opportunities in the rural areas. The fact that the majority of the black population located in the rural areas are uneducated and lack the required skills for the labour market, only exacerbates the situation further.

## **2.5 LABOUR FORCE PARTICIPATION**

According to the International Labour Organisation (IOL) (2008), as of 2008, the population of South Africa reached 48, 6 million people and had a labour force of 16, 7 million people. The labour force participation has gone up gradually in the period 1993 and 2005, dropping slightly between 2005 and 2008.

Leibbrandt et al. (2007:7) states that “Participation in the labour market is somewhat small by international standards, standing at 55 per cent in 2008”. The world labour force participation rate for 2008 reached 64,1per cent whereas for Sub-Saharan Africa it reached 70, 8 per cent (ILO, 2008). In comparison, data for OECD countries reached 70,8per cent in 2008, with 80, 5 per cent for men and 61, 3 per cent for women. The contrast advocates that the South African labour force participation rates are predominantly low for men.

On the other hand, labour force participation has increased by around 38 per cent, whereas it increased by 10 per cent between 1994 and 2008. Kingdon and Knight

(2008) perceive this as being a result of reduced number of male workers, increased education levels and the HIV/AIDS pandemic. IOL (2008) shows that globally, there has been an increase in female labour force participation, which is largely as a result of skills development and increased education levels. Regardless of higher female participation in the labour market, males are more likely to be offered job opportunities.

Banerjee et al. (2006), Burger and Woolard (2005), Branson and Wittenberg (2007), as quoted by Burger and von Fintel (2009:4), indicate that a number of studies focusing on the post-apartheid era have placed an emphasis on the rapid rise in the labour market participation in pushing unemployment upwards, instead of the demand for labour, which stayed moderately constant over the comparable period. This raises the key question of what are the aspects which fundamentally contributed to a high increase into the flooded labour market.

At the same time, a large number of critics such as economist Chris Hart (2011), argues that, "The main reason for the lack of job creation was that labour laws were too hostile to small business and very obstructive to creating jobs".

This is supported by Burger and Von Fintel (2009:2), who also argue that, "Labour laws to guard the interests of employees have had an in advertent impact on the eagerness and ability of companies to take up additional workers."

Throughout the apartheid period, many trade unions were deprived of access to better work opportunities and industrial councils, wherein negotiations took place at industrial

level. Budeli, (2007:71) found that in 1979, the Wiehahn Commission recommended full trade union rights for blacks. This resulted in it being implemented in the 1980s with African trade unions participating in industrial councils. However, this did not cover all the workers in the industrial council agreements.

Still, employment did not increase as had been anticipated during this phase. Recent labour market entrants are still more vulnerable to unemployment. Given the strong potential for persistence and labour market scarring for entrants, this trend is a major concern for the long-term prospects of the current generation.

During that period, labour market and industrial policy setting was to the advantage of companies and sectors with somewhat high levels of productivity (Natrass, 2003:1). Companies had an inducement to limit reliance on unskilled labour.

Within the labour market there are some stiff policies which tend to restrain employment creation and discourage Foreign Direct Investment (FDI). These include wage decentralisation as opposed to market related decentralised bargaining, which is being prescribed by the Basic Conditions of Employment Act and the Labour Relations Act. The process of centralised bargaining is encouraged during which wage resolutions are extended to all employees including non-parties to a particular bargaining council.

As a result, conditions of employment and wages are standardised from a central position wherein market related wage differentials within a particular industry are phased out. These procedures tend to be destructive and have major impacts on the job. They can also work against the small companies, while at the same time benefiting

the big companies. As such, it is clear that those countries which have flourishing job creating environments have opted for the decentralised system and market related wage bargaining measures. The centralised bargaining is embedded within the Employment Equity Act which places companies under the requirement to decrease unbalanced income differences. Market related wage differences are removed by regulation, which has a big potential to lower employment creation.

## **2.6 LINK BETWEEN EDUCATION, SKILLS AND UNEMPLOYMENT IN SOUTH AFRICA**

There is undoubtedly a link between education, skills and whether or not an individual has an opportunity to be employed. However, the level of education and skills does not necessarily translate into an automatic employment opportunity, particularly in a country such as South Africa with its high rate of unemployed graduates. Though on the other hand, South Africa currently experiences a serious skills shortage in key sectors of the economy, a challenge which has to some extent contributed to unemployment.

According to Terrablanch (2002:374), the separated system of education for different levels of schooling of the different population groups and the great quality difference between these different types of education, should be blamed for the scarcity of skills in certain categories and the abundance of skills in some other categories.

According to Arora and Ricci (2006:3), this chronic mismatch of skills is one of the main characteristics of the South African labour market where there is excess demand for

skilled labour and an oversupply of unskilled labour. The challenge is therefore how to reduce this mismatch over the coming years, as this could be a key solution in significantly reducing the unemployment rate.

The issue of skills mismatch manifested itself in the time of apartheid. The system of education for the black people significantly limited the ability to obtain skills. The existence and creation of townships and homelands segregated the black population in geographic areas with very limited or no employment opportunities, which led to a generation of many unskilled and thus unemployable people.

Education plays a key role in contributing to the capacity to obtain employment opportunities. The role of education is also supported by empirical evidence. As indicated by Arora and Ricci (2006:25), background work for Angelucci (2003) indicates that, if the percentage of the labour force with no schooling declined by 1 percentage point, unemployment would also decline by 1 percentage point, most likely because at least a minimal education is now essential for almost any job. Giuliano and Tsibouris (2001:31) have established that soaring levels of unemployment tends to decrease with the level of education.

This was the situation in South Africa when the black majority were excluded from acquiring the necessary education and skills to ensure that they keep up with structural changes in the economy, brought about by globalisation, competition and innovation of new technologies. Numerous experts are of the view that growth in unemployment

should reflect a structural change and an increasing capital intensity of production (Khemraj, Madrick and Semmleras quoted by Biyase and Bonga).

It is expected that the relationship between education and unemployment is to be influenced by market forces in labour markets. This is especially relevant in the South African context where the demand for skilled labour seem to be particularly relevant, as one of the constantly mentioned explanations for the growing rate of unemployment is lack of skills. This also relates to a change in the composition of demand for skilled labour and the framework of the inherited education system and backlog of apartheid.

Kingdon and Knight (2005:15), as part of their assessment of unemployment in South Africa, further explore changes in the relationship between education and unemployment with the twofold probability study of the 1995 October House Survey(OHS) and the 2003 (September) Labour Force Survey (LFS) data. Using an aggregate sample of all broad labour force participants, they estimated the probability that an individual would be unemployed in each year. They could then identify and compare the marginal effects of a range of individual characteristics including age and education, on this probability, thereby capturing "*ceteris paribus* changes in the incidence of unemployment over time" (Kingdon and Knight, 2005:15).

Kingdon and Knight found that in comparison to those individuals without education, labour force participants with primary, junior or secondary education had a better chance of being unemployed in 2003 than in 1995. Further, they established that the

relative benefits of higher education had reduced, however by significantly less, leading them to the conclusion that “those possessing tertiary education have been mostly protected from the unemployment increases” (2005:35). However, Kingdon and Knight did not explore how the relationship between education and the probability of employment by race or gender had changed over the period.

## **2.7 LINK BETWEEN GROWTH, UNEMPLOYMENT AND EMPLOYMENT IN SOUTH AFRICA**

It is clear that economic growth plays a fundamental role in job creation. Increased economic activity is largely associated with creating jobs and increasing the standard of living of many people. However, not all growth is necessarily job absorbing. Between the period 1994 to 1996 and 2004, GDP growth averaged 4, 4 per cent, but the number of jobs grew by only 1, 8 per cent a year. A study implies that, in the period 1990 to 2009, every percentage growth led to employment growth of merely 0, 35 per cent (Bernstein, 2011:13). Generally, an improvement in economic growth should be accompanied by an increase in employment and a subsequent decrease in unemployment. However, despite the relatively good growth performance of the South African economy since the mid 1990s, unemployment has, until recently, persistently increased. It is the stark increase in the numbers of unemployed that, perhaps more than anything else, has created the impression that the economy is experiencing a prolonged period of ‘jobless growth’.

Therefore, one can say that South Africa’s growth path has been incompatible as a raise in economic growth was accompanied by an increase in both unemployment and

employment. This clearly demonstrates that economic growth should be focused more closed on labour absorbing activities. However, in the late 1960s to the early 1990s, employment and economic growth moved together. Essentially, an upswing in economic growth resulted in an increase in employment, while a recession was associated with a decline in employment. In comparison, things looked different between 1994 and 2002, when higher growth resulted in a decline in employment.

Moreover, an economy may experience unemployment even though the economy is performing well. "This may be the result of the challenges of matching those who are looking for work with what is available in the labour market or as a result of mismatches in job training, experience or education" (Grantas quoted by Koller 2005:7).

Koller (2005:7) attributes the increase in unemployment to a decline in economic growth. Koller (2005:7) also states that unemployment may exist even when the economy is at full sustainable capacity due to difficulties in matching job seekers and job vacancies. The rate of unemployment in South Africa can also be linked to a growing population and declining labour intensity (Baker 1999:7).

On the other hand, Hodge (2002:442) claims that if the unemployment and employment trends are mainly due to structural changes in the economy, it is possible that stimulatory policies could produce short-run increases in growth without any significant effect on unemployment. Short-run increases in growth can lead to an increase in

aggregate demand and total production, which can reduce the natural rate of unemployment.

## **2.8 UNEMPLOYMENT, INEQUALITY AND POVERTY**

South Africa's high levels of poverty and inequality can be directly linked to the country's unemployment crisis. Poverty is clearly prevalent and is evidenced by shacks, homelessness, unemployment, poor infrastructure and lack of access to basic services. The period of apartheid exacerbated the situation when black people were excluded from economic participation based on race and class.

The focus and endeavour of the ANC pre-1994, was focused largely in abolishing aspects of racial exclusion and attaining political freedom. Concerns around class, with its element of inequality, did not necessarily take centre stage or prominence. Nevertheless, following the advent of democracy, aspects of inequality, poverty alleviation and unemployment started to become more important.

Seekings and Nattrass (2005:6) found that the manner of distributing resources in the previous South African dispensation served to benefit a single segment of the population, while excluding the rest, with the composition of the privileged population having evolved over time. This uneven distribution of resources has to some extent resulted in high poverty levels for that segment of the population which was neglected. There is a common agreement about the degrees of poverty which have prevailed in South Africa over the years (Triegaart 2006:2).

Triegaart (2006:2) categorises the definitions of poverty as severe poverty; moderate poverty, and relative poverty.

- *Severe poverty* implies that households are incapable of meeting the basic needs to enable them to survive. They are constantly hungry, have no access to health, lack safe drinking water and hygiene, are unable to afford education for their children and lack shelter and essential items such as clothing.
- *Moderate poverty* indicates conditions where basic needs are met, however just barely.
- *Relative poverty* is supposed to be a household income below a given percentage of average national income. In terms of precisely where South Africa falls in these categories of poverty remains contentious.

The Development Bank of Southern Africa (DBSA) estimates that over twenty two million people in South Africa live in poverty (DBSA, 2005), while according to Adelzadeh (as quoted by Triegaart, 2006:2) “Almost half of the population continues to live under a poverty datum line” (Adelzadeh as quoted by Triegaart, 2006:2).

Within the South African context, poverty and inequality can be said to contain the spatial, gender and race dynamics. This being the case, poverty affects mostly black people, women and people in rural communities. In addition, the HIV/AIDS pandemic has adversely affected the labour force, with children and families also being affected. It is estimated that 11, 4 per cent of South Africa’s population was HIV positive in 2002

(HSRC, 2003). Women between the ages 20 and 29 are most affected and they have given up seeking employment (Vass, 2006).

## **2.9 UNEMPLOYMENT AND HEALTH**

Unemployment is a significant risk factor for a number of health indicators. The impact can be directly related to poverty and low income among the unemployed. Being unemployed can also result in other mental and emotional effects, particularly if one has been unemployed for long periods. According to Ncho, C.D. (2009), unemployed people are found to have:

- Lower levels of psychological well-being which may range from symptoms of depression and anxiety through to self harm and suicide.
- Higher rates of morbidity - such as limiting long-term illness.
- Higher rates of premature mortality, in particular for coronary heart disease and injuries and poisoning including suicide.

People with poorer health are also more likely to be unemployed; this is particularly true for people with long-term disabilities. However, this does not explain the finding of poorer health among the unemployed. Suggested ways in which unemployment could lead to poor health include:

- Effects of increased poverty and material deprivation. These can be particularly acute for people in manual occupations, who tend to be on lower incomes anyway.
- Social exclusion, isolation and stigma.

- Changes in health-related behaviour.
- Disruption to longer term careers.

According to Ferrie as quoted by Ncho (2009:167), people without employment are likely to experience a high risk of premature death as a result of a lack of income to address their health needs. This tends to lead to an increase in illnesses such as heart disease and stress due to unemployment. Ferrie (2001:649) further states that insecure re-employment and unemployment are both associated with increases in minor psychiatric morbidity and that being permanently out of paid work is associated with longstanding illness.

Living in a society in which people have both a sense of control over their own lives and social cohesion is associated with high levels of job security (Ncho, 2009:65). This view is supported by Marmot (1999:7) who established that this society will possibly have better health benefits. Uncertainty due to unemployment may turn into a level of lack of confidence upon the realisation that employment is hard to find. Thus, the actual job security plays a key role in protecting one's health.

Development and well-being are directly related aspects. It is well documented that people with low socio-economic levels tend to have a higher rate of illness and death. The connection between being poor and unhealthy has been analysed over time; it is clear that the lack of nutrition and the inability to acquire the best available health treatment due to a lack of income may ultimately result in poor health.

## **2.10 World Situation of Unemployment**

In October of 2008, the ILO indicated that the number of the unemployed reached nearly 20 million people. This figure of 2008 increased to more than 21 million in 2009, an increase from a rate of 5.5 per cent to 6.2 per cent. World unemployment is still at a rate of around 6.0 per cent, despite rapid economic growth of 5.1 per cent in 2010 and 4 per cent in 2011. According to the ILO, for four years running, global unemployment has remained high in 2011, with more than 197 million unemployed around the world.

In countries such as USA, Spain and Ireland for instance, unemployment has gone twofold between 2007 and 2009. On the other hand, there are countries wherein unemployment has gone up slightly, between 2008 and 2009, which is the case in a country such as Germany. Over the period, 2007 and 2011, unemployment seems to have had a more severe impact on Developed Economies and European Union (EU) region, which only accounts for 15 per cent of the world's labour force. In several developing countries, such as Brazil, Sri Lanka, Thailand and Uruguay, unemployment rates have actually fallen.

ILO has predicted that the world unemployment will go up to 204 million in 2012, with a further increase to 209 million in 2013. However, the largest impact is projected for the Developed Economies and European Union region in particular, which would have an additional 3 million unemployed in 2012 and an additional 4 million unemployed in 2013.

The ILO has projected that Unemployment would continue rising until it hits 210 million by the end of 2016. It further states that “It is unlikely that the world economy will grow at a sufficient pace over the next couple of years to both close the existing jobs deficit and provide employment for the over 80 million people expected to enter the labour market.”

### **2.11 The case of Brazil**

Just as is the case in South Africa, Brazil has experienced high unemployment rates previously; however it has made significant progress in addressing the challenge. The Brazilian labour market has changed in the last years in various different ways. The unemployment rate in Brazil dropped from more than 12 per cent in 2002 to a rate below 6 per cent in 2012. In comparison to Brazil, South Africa’s unemployment rate was 29.7 per cent and currently stands at 25. 5 per cent. In 2002 when Luiz Inácio “Lula” da Silva took over office, Brazil began to witness an improvement in their economy. Among other things, he sought to appease foreign investors, protect private property, assert fiscal discipline, and pay off debts. Also, he provided the Brazilian Central Bank with greater operational autonomy, ensuring that it would make policy choices based on what is in the best interest of the economy without political influence.

This led to Interest rates falling to 6 per cent, which made it cheaper for Brazilians to borrow money to expand businesses inside and outside Brazil. However, this was not done at the detriment of social development. Brazil also eliminated high dependence on the developed economies as a source of consumers of Brazil’s products. This was a

point in case when the developed economies such as USA and EU experienced financial crisis, whilst Brazil was not largely affected due to the reduced dependence on the developed economies. This is different in the case of South Africa which is largely dependent on countries such as USA and EU for both trade and development assistance. It became evident as the Global crisis resulted in a significant decline in the demand for exports and subsequent job losses in the key sectors of the economy.

As Williams (2011) indicates, four key policies have played fundamental role in ensuring that Brazil reduce unemployment and inequality. These are 1) building and upgrading the infrastructure necessary to support the economy, 2) a commitment to reducing poverty and inequality to ensure the maximum number of citizens can contribute to economic growth, 3) an increasing openness to the world, and 4) its movement to reform domestic institutions to foster efficiency.

### **2.11.1 Infrastructure**

Brazil had faced many years of ageing poor infrastructure, bad roads, insufficient sea ports and lack of technology. This is a similar point in case in South Africa. Brazil dedicated much of its new wealth improving infrastructure with a view to facilitate further economic growth.

### **2.11.2 Reducing Poverty and Inequality**

Just as is the case with South Africa has one of the highest rates of inequality and poverty. In an effort to address their inequality and poverty, Brazil embarked on what is called the “Family Scholarship” program. This programme was designed with technical

and financial support from the World Bank and as a way to reduce poverty and break the cycle of poverty. Through the program, poor families receive money each month (about \$35) on the condition that they keep their children in school and take them for regular health checkups, with the hope being that those children will grow up to be healthy, educated workers capable of independently supporting themselves and their families. Eleven million families (approximately 46 million people) benefit from the program. The program has raised income at the grass roots level, with 94 per cent of the funds going to the poorest 40 per cent of Brazilian society, most of who have never benefited from social programs before.

### **2.11.3 Increased Openness to the World**

Brazil has further facilitated its economic ascension by opening itself to the world through new international trade and foreign investment policies. Since the mid-1990s, Brazil has lowered its import tariffs while modernizing its overall import system (customs inspections, payments, etc.), making it cheaper and easier for foreign countries and companies to sell their products in Brazil. Due to these changes, Brazil's imports have steadily increased, helping to balance its current account surplus.

### **2.11.4 Institutional Reform**

As Brazil has grown, it has made efforts to improve government institutions to make them more efficient for both Brazilians and foreign investors. Most important among these reforms, at least as far as encouraging investment is concerned, has been reforming the judicial system. A 2006 constitutional amendment mandated judicial reform and made judicial expeditiousness a constitutional guarantee—an important step for Brazil's traditionally slow legal system. In 2007, the country passed a new law that

allows some decisions of the Federal Supreme Court (the highest constitutional court in Brazil) to have precedential value, meaning certain decisions will bind lower courts on the particular issue of a case whenever it arises in the future. A fast, efficient judiciary is cheaper and more reliable for enforcing property and contract rights—two things with which foreign investors are deeply concerned.

Due largely to these reforms, Brazil is currently experiencing possibly its greatest economic growth in its history, averaging GDP growth of 4.5 per cent per year since 2002. The country's GDP expanded by an estimated 7.5 per cent in 2010. Furthermore, joblessness is at an all-time low, foreign exchange reserves have soared (sixth-highest in the world). By any measure Brazil is in good economic shape. But by definition, emerging market economies are not yet fully developed or advanced economies.

## **2.12 OVERALL SOCIAL AND ECONOMIC CONSEQUENCES OF UNEMPLOYMENT**

The social impact of unemployment include severe financial difficulties, poverty, debt, homelessness, family tensions and breakdown, alienation and stigma, increased social isolation, crime, lack of confidence and self-esteem, the inability to attain skills and education, and ill-health. The majority of these tend to increase with the duration of unemployment.

The impact of unemployment on poverty is of particular concern, with the World Bank indicating that South Africa's poverty ratio stands at 22 per cent. The impact on education outcomes is also of particular concern with low educational outcomes at both basic and higher education levels. The fact that poor people are unable to attain the

best available education and skills at the top educational institutions has long-term implications in that it deprives them of employment opportunities.

Of great concern is the fact that the country's public health system is failing the people and is struggling to deal with the very high disease burden. This is largely due to high HIV/AIDS and TB prevalence, as well as a rapid increase in non-communicable diseases. Since unemployed people do not have the capacity or choice to use private health facilities, they often do not get proper or sustained treatment for such diseases.

In addition, there exists a correlation between unemployment and crime with unemployment being a major motivator in crimes such as theft, high jacking and burglary that can have a monetary motivation. According to a study on South Africa by Fedderke and Luiz (2008) (quoted by Baharom and Habibullah, 2008:3), increasing income reduces political instability and in turn reduces crime. Both concluded that there exists a positive correlation between income and crime. This is particularly the case in South Africa where unemployment can be directly linked to crime.

According to the 2011 South African Police Service (SAPS) crime report, during 2010/2011 approximately 2,1 million serious crime cases were registered in South Africa, compared to the 2 121 887 cases registered during 2009/2010. The report further states that crime, rapid population growth and urbanisation are commonly associated with unemployment, poverty and the growth of squatter areas, with accompanying challenges posed by social crime and difficulties to implement effective

policing. It suggests that one of the measures to reduce crime includes substantial economic development and a growth in the informal sector to create jobs and eliminate unemployment.

The economic impact of unemployment is also seen in the loss of productivity of unproductive employees. Within the South African context, the economic impact of unemployment can be seen in the declining GDP and the increases in transfer payments by government, for example social grants which are unsustainable and raises government expenditure.

In South Africa, unemployment is mainly structural in nature, but it has been compounded by cyclical unemployment. According to Terrablanch (2002:425), the fundamental solution to the problem of unemployment is restructuring of the economy. The RDP envisaged that the restructuring of the economy should have been entrusted to free market capitalism, neo liberalism, globalisation and high rate of growth.

It is anticipated that the problem of unemployment will remain a crucial social and economic issue that will face the South Africa labour market in the next years to come. To this end, government has set objectives to halve employment by 2014 from 26 per cent in 2004, to 13 per cent in 2014, but whether these will be achieved is difficult to say, particularly given the current fragile economic environment.

## **2.13 POVERTY ALLEVIATION AND UNEMPLOYMENT POLICIES IN SOUTH AFRICA**

When the ANC government came into power in 1994, it inherited a country which was besieged by unemployment, poverty and inequality. In their efforts to address these challenges, government introduced the following policies:

### **2.13.1 Reconstruction and Development Programme (RDP)**

Even before the first democratic elections in 1994 and subsequent political and social transition in South Africa, the ANC led efforts to develop a medium-term vision for the so-called “new” South Africa. This resulted in the Reconstruction and Development Programme (RDP) outlining a comprehensive plan to reduce poverty and inequality, emphasising economic growth, as well as efforts to improve service delivery and human resource development for previously disadvantaged groups.

In May 1994, the RDP was adopted by the new government as the centrepiece of its economic policy. Despite widespread support for its goals, the RDP implementation experience also provided an early indication of the difficult balancing act that would be demanded from the new government. The newly elected, representative government needed to pick a path through the increasingly vocal and rapidly growing demands of its core constituencies, while simultaneously striving to reassure domestic and foreign investors, as well as international donors.

The RDP was originally designed as a separate institutional structure, with a national RDP ministry (located within the President's office) initiating research and designing projects, which were then implemented by provincial RDP structures. However, introduction of this new separate institutional framework created confusion, especially in the context of even greater institutional upheaval (including the absorption of the "homelands" and creation of nine new provinces, extensive turnover in high-level civil service staff, etcetera.) lines of authority were muddled (for example, did the RDP have supervisory or approval authority over other departments) and financial accountability was unclear.

According to Lewis (2001:3) in 1996, "the RDP office was closed (although a separate RDP fund continued for some time afterwards), and since then, there has been no central agency at the national level responsible for the design, implementation, coordination, and monitoring of poverty-related programmes". In addition to objectives targeted by the RDP, the new government faced other problems as well, including high inflation, declining GDP growth, and a large fiscal deficit.

### **2.13.2 Growth, Employment and Redistribution (GEAR)**

The ANC Government introduced the Growth, Employment and Redistribution (GEAR) macro framework to restore confidence and enhance credibility. Lewis (2001:4) states, "The GEAR policy was built upon the strategic vision set out in the RDP by committing government to specific macro targets and including a phased fiscal deficit reduction plan that was deliberately more ambitious than its predecessor". GEAR was also an

endeavour to ensure more efficient coordination of policy. These efforts involved participants from all key government departments and was endorsed by Cabinet and introduced in Parliament by (then) Deputy President Thabo Mbeki as the “central compass” that would guide all other government programmes.

### **2.13.3 An integrated strategy of GEAR**

According to an integrated strategy of GEAR (Department of Finance, 1996:2), the core elements of the integrated strategy are:

- a renewed focus on budget reform to strengthen the redistributive thrust of expenditure;
- a faster fiscal deficit reduction programme to contain debt service obligations, counter inflation and free resources for investment;
- an exchange-rate policy to keep the real effective rate stable at a competitive level;
- a consistent monetary policy to prevent a resurgence of inflation;
- a further step in the gradual relaxation of exchange controls;
- a reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange-rate depreciation;
- tax incentives to stimulate new investment in competitive and labour absorbing projects;
- speeding up the restructuring of state assets to optimise investment resources;

- an expansionary infrastructure programme to address service deficiencies and backlogs;
- an appropriately structured flexibility within the collective bargaining system;
- a strengthened levy system to fund training on a scale commensurate with needs;
- an expansion of trade and investment flows in Southern Africa; and
- a commitment to the implementation of stable and coordinated policies.

#### **2.13.4 Black Economic Empowerment (BEE)**

BEE is another economic policy introduced by government with a view of creating employment. Levinsohn (2007:21) states that “BEE is a pragmatic growth strategy that aims to realise the country's full economic potential while helping to bring the black majority into the economic mainstream”. In the scheme of things, it is hard to make the case that BEE is quantitatively important in either causing or relieving unemployment.

It is envisaged that BEE would alleviate unemployment if it leads to the employment of blacks who would not have otherwise been employed. Also, it was expected that it would lead to the formation of new companies that might not have been formed had the policy not been in place. Unemployment tends to have an impact mainly on the youth, which is an area where BEE does not boost job creation.

Levinsohn (2007:21) further indicates that BEE might cause unemployment if its regulations were so onerous as to discourage the creation or growth of firms that,

absent BEE, would thrive and hire the otherwise unemployed". However, there is minute substantiation to conclude that BEE policy is quantitatively important in either encouraging or discouraging the birth of new firms or the expansion of existing ones. BEE can also be a regulatory burden on firms but it is less important, in terms of its employment impact.

#### **2.13.4.1 BEE objectives**

According to the BEE strategy (Department of Trade and Industry, 2003:12), government aims to achieve the following objectives with BEE:

- Empower more black people to own and manage enterprises; enterprises are regarded as black-owned if 51 per cent of the enterprise is owned by black people, and black people have substantial management control of the business;
- Achieve a substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises.
- Promote access to finance for Black Economic Empowerment.
- Empower rural and local communities by enabling their access to economic activities, land, infrastructure, ownership and skills.
- Promote human resource development of black people through, for example, mentorships, learnerships and internships.
- Increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises, and increase their access to economic activities, infrastructure and skills.

- Ensure that black-owned enterprises benefit from the government's preferential procurement policies.
- Assist in the development of the operational and financial capacity of BEE enterprises, especially small, medium and micro enterprises (SMMEs) and black-owned enterprises.
- Increase the extent to which black women own and manage existing and new enterprises, and facilitate their access to economic activities, infrastructure and skills training.

#### **2.13.5 SKILLS DEVELOPMENT ACT**

According to Kingdon and Knight (2005:21), skills training have become a key aspect in the government's labour market policy. In 1998, government passed the National Development Skills Act and subsequently in 1999, created Sector Education Training Authorities (SETAs) to charge a skills levy from firms to be repaid on the production of evidence by the firm that it is undertaking approved training for its workers. SETAs are also mandated to encourage Further Education and Training (FET) institutions in the provision of education and skills for work. These bodies encourage partnerships between the public and private sectors of the economy and help new entrants into the labour market to find work. The rationale for SETAs is to help alleviate skills shortages, which according to firm reports act as a constraint to employment and growth in South Africa. The National Skills Development Act also aims to improve the skills of workers by promoting education and training in the workplace. The Skills Development Amendment Act (37/2008) indicates that its purpose is to:

- (a) to develop the skills of the South African workforce –
  - (i) to improve the quality of life of workers, their prospects of work and labour mobility;
  - (ii) to improve productivity in the workplace and the competitiveness of employers;
  - (iii) to promote self-employment; and
  - (iv) to improve the delivery of social services;
- (b) to increase the levels of investment in education and training in the labour market and to improve the return on that investment;
- (c) to encourage employers –
  - (i) to use the workplace as an active learning environment;
  - (ii) to provide employees with the opportunities to acquire new skills;
  - (iii) to provide opportunities for new entrants to the labour market to gain work experience; and
  - (iv) to employ persons who find it difficult to be employed;

Despite this intervention policy, South Africa continues to experience a shortage of skills, which, as a number of studies have confirmed, is a major problem and a constraint to economic growth. A report titled *Skills Shortage in South Africa: Summary of facts per sector regarding this issue* (2008:2) lists the following as critical skills of which there is a shortage in South Africa:

#### **2.13.5.1 Architecture**

- According to the South African Institute of Architects, 80 per cent of the country's architectural practices are experiencing shortages of up to 40 per cent.

### **2.13.5.2 Artisans**

- Solidarity reported that South Africa has only 10 per cent of the artisans that it had 20 years ago, and estimated that the country has a 40 per cent shortage of artisans.
- Illustrative of the decline in skills is the fact that in 2006, there were 3 400 apprentices in training in the metals industry, compared to nearly 13 000 in 1982 (*figures from the Steel and Engineering Industries Federation of South Africa [Seifsa]*). This can largely be attributed to the abolition of the apprenticeship system, which was replaced by Sector Education and Training Authority (Seta) learnerships.

### **2.13.5.3 Draughts men**

- South Africa is currently producing 1 000 draughts men per year, but 5 000 are needed to meet demand, according to the South African Institute of Draughting.

### **2.13.5.4 Technicians and engineers**

- In 2006, the South African Institution of Civil Engineering reported that 79 of South Africa's 231 local municipalities did not have a single engineer, technologist or technician.
- South Africa has only one engineer for every 3 200 people, compared to one engineer for every 130 people in China, one engineer for between 250 and 300 people in Europe, and one engineer for 450 people in Australia, according to the South African Institution of Civil Engineering (SAICE).

- South Africa produces about 1 400 engineering graduates every year, but this will have to be expanded to at least 2 400 to meet the current skills deficit.
- The South African Association of Consulting Engineers (SAACE) has also added its voice to the skills debate. It conducted a survey in the second half of 2006, and over 90 per cent of firms surveyed revealed that they were looking for engineering personnel.

#### **2.13.6 EXPANDED PUBLIC WORKS PROGRAMME (EPWP)**

The EPWP is aimed at providing poverty and income relief through temporary work for the unemployed to carry out socially useful activities. It is a key component of government's social protection framework for the unemployed. Government attaches significant importance to the EPWP as a means to tackle unemployment. Kingdon and Knight (2005:20) found that despite the importance of this policy little is known about the success of the EPWP in meeting the employment and poverty reduction objectives. Although there is no national comprehensive assessment, McCord (2004:21) carried out a comprehensive study about the effect of the EPWP in South Africa. This is based on a 2003 survey of about 700 households that included current and recent participants in two different projects under the EPWP in Limpopo and KwaZulu-Natal respectively.

McCord's conclusions, which are based on the facts gathered in her own assessment, as well as on insights contained in current literature, indicate that the EPWP had inadequate potential to make an impact on unemployment at the time.

The study comes to the conclusion that:

- (1) employment opportunities in projects under the EPWP insufficient in view of the enormity of unemployment in South Africa;
- (2) the tools used for targeting people are insufficient
- (3) EPWP policy is based on the faulty hypothesis that unemployment among the low and unskilled is temporary rather than a persistent crisis; and
- (4) EPWP policy is erroneous in its assumption that supply-side intervention can have a major effect on unemployment when the causal problem is actually the inefficient employment growth.

There is a critical tension between policy expectation and reality regarding the EPWP. While policy (for example the EPWP document by the Department of Public Works, 2004) describe public works as a training programme to improve labour market access and performance, at the end of which employees will graduate to employment, other analysts maybe closer to the mark when they characterise the EPWP as a social protection response to the challenge of 'unemployable' working age persons with no skills and geographical isolation (Abedian, 2004:21).

#### **2.13.7 NATIONAL INDUSTRIAL POLICY FRAMEWORK (NIPF)**

to contribute towards the South African government's goals for 2014 and beyond the National Industrial Policy Framework (NIPF) vision for South Africa's industrialisation trajectory serves to facilitate diversification beyond the current reliance on traditional commodities and non-tradable services (Department of Trade and Industry, 2007:2).

This requires the promotion of increased value-addition per capita characterised particularly by movement into non-traditional tradable goods and services that compete in export markets, as well as against imports. This also involves the long-term intensification of South Africa's industrialisation process and movement towards a knowledge economy.

In addition, the policy serves to promote a more labour-absorbing industrialisation path with a particular emphasis on tradable labour-absorbing goods and services and economic linkages that catalyse employment creation. This process will contribute to the promotion of a broader-based industrialisation path characterised by greater levels of participation of historically disadvantaged people and marginalised regions in the mainstream of the industrial economy. It will also contribute to the industrial development on the African continent with a strong emphasis on building its productive capabilities.

To realise these objectives, the policy demonstrates that four complementary sets of policies are necessary for the successful implementation of an industrial policy: a supportive macroeconomic and regulatory environment; skills and education; traditional and modern infrastructure; and support for technological effort. The NIPF is not a new policy direction, but a logical evolution of government economic policy, all of which is inspired by the principles of the Reconstruction and Development Programme (RDP).

More specifically, the NIPF is based on the consensus that the economic fundamentals are largely in place at a macroeconomic level and that the strengthening of the

economy at the microeconomic level is the next frontier of economic policy and implementation.

#### **2.13.8 SOUTH AFRICA TRADE POLICY AND STRATEGY FRAMEWORK (TPSF)**

The Department of Trade and Industry (the dti) initiated a review of South Africa's trade policy in mid-2007 (Department of Trade and Industry, 2010:10). The policy served to better clarify and define the potential contribution of the South African trade policy on government's broad economic development strategy. The objectives of the strategy include, among others, inclusive economic growth and development, industrial upgrading, poverty reduction through sustainable employment and the provision of decent jobs.

In this context, the TPSF sets out the impact that trade policy should make to advance and upgrade industrial development, as well as promoting economic diversification, along a growth path that addresses structural constraints in the economy, including unemployment and poverty.

#### **2.13.9 THE NEW GROWTH PATH**

The New Growth Path Framework released by the Minister of Economic Development Ebrahim Patel in December 2010, has set job creation as a country priority, aimed at reducing unemployment by 10 percentage points and creating five million jobs by 2020.

The strategy sets out critical markers for employment creation and growth and identifies where viable changes in the structure and character of production can generate a more

inclusive and greener economy over the medium to long term. To this end, it combines macroeconomic and microeconomic interventions.

The New Growth Path Framework (2010:6) starts by identifying where employment creation is possible, both within economic sectors as conventionally defined and in cross-cutting activities. It then analyses the policies and institutional developments required to take advantage of these opportunities. In essence, the aim is to target the limited capital and capacity at activities that maximise the creation of decent work opportunities. To that end, the policy aims to use both macro- and microeconomic policies to create a favourable overall environment and to support more labour-absorbing activities. The main indicators of success will be jobs (the number and quality of jobs created), growth (the rate, labour intensity and composition of economic growth), equity (lower income inequality and poverty) and environmental outcomes.

#### **2.13.10 JOBS FUND**

On June 2011, the South African Government announced a new initiative called the Jobs Fund. The fund is a R9 billion employment creation program launched by the Minister of Finance. It is an initiative of government aimed at curbing the scourge of high unemployment in the country.

Managed by the Development Bank of Southern Africa (DBSA), South Africa's state-owned development bank, the primary mandate of the Jobs Fund is to create sustainable employment by assisting in the expansion of existing business enterprises (DBSA, 2011). The fund hopes to pilot innovative approaches to employment creation. It

operates on the basis of a competitive process, allocating funds to projects that show promise and speak to the fundamental mandate of the fund – sustainable job creation.

## **2.14 MOST NOTABLE CAUSES OF UNEMPLOYMENT IN SOUTH AFRICA**

During the apartheid era the majority of black people were uneducated as a result of the segregation system and lack of opportunities, thus lacking the necessary skills required by the labour market. This has resulted in the present situation where the majority are unable to get jobs due to the structural changes in the economy. The same people who were uneducated and poor back then are too poor now to afford a good education and a healthy lifestyle for their children who will consequently also struggle to find jobs. This is the result of a long-standing rise in unemployment that started in the 1970s (Seeking and Natrass, 2006), but which has swiftly gathered momentum in the post-apartheid era.

In view of the provocation of this disturbing trend, policymakers and researchers have centred their focus on clarifying the progression of the labour market at the advent of democracy. The recent high economic growth in South Africa, compared to the previous decade, higher levels of education and the reversal of discriminatory policies all created the expectation that the labour market prospects would have improved over this period for the majority of the population. However, unemployment has grown, which has prompted allegations that the economy had entered a period of “jobless growth”.

As indicated earlier, low skills levels have an impact on the absorption in a skills-based economy, which continues to evolve and is exposed to structural changes and globalisation. Fundamentally, this explains why unemployment impacts mainly on the youth in South Africa. Coupled with the increase in the size of the labour force, the relatively slow post-transition growth in employment opportunities contributed to the increase in unemployment. By and large, this standing has been attributed to changes in the structure of production and skill-biased technological change within the economy.

South Africa's labour market is characterised by extremely high rates of open unemployment and relatively limited informal employment. Other economies (such as Brazil and Singapore) with the same levels of per capita income in Latin America and Asia display patently dissimilar employment trajectories (Heintzand Posel, 2007:1).

Heintzand Posel, 2007:1 further states that "labour markets in low and middle-income economies are often portrayed as twofold". They see this as being composed of two distinct sectors, a formal sector and an informal sector. Dualist theories dispute that labour markets in the formal sector are characterised by income inflexibility wherein income stay above the market clearing level, as a result of regulatory intervention such as minimum wage laws or the market strength of workers.

The twofold premise has been raised to illustrate the structure of South African employment. For example, Kingdon and Knight as quoted by Heintzand Posel, 2007:2,

advocate that one means of recounting the South African labour market is in terms of formal “insiders” and informal/ unemployed “outsiders”.

Recent differences in variation on the dualism argument have extended the idea to the whole economy. According to this assessment, it is the historical basis upon which the South African economy remains divided into two economies. This means the division between a First Economy, which is globally integrated, and growing fast, and a Second Economy, which remains hindered by poverty, unemployment and underdevelopment and which is unable to self generate (Motlanthe, 2005). Within this perspective, one objective of economic policy would be to merge the two economies.

Although there are signs of global economic recovery, there are still concerns about a jobless recovery. South Africa’s employment indicators clearly show that the country’s employment and unemployment rates have simultaneously dropped since the second half of 2009, indicating that job creation in South Africa remains weak. The drop in the unemployment rate is closely related to the fact that the economic activity rate has further decreased as a result of an increase in the economic inactive population as more and more people have given up searching for jobs.

Using the United States as an example, it has been determined that the US experienced jobless economic recoveries in the economic recessions of 1991 and 2001. Throughout the early 1990s, the decrease in the job loss rate resulted in delaying the recovery of employment. On the other hand, during the early 2000s, there was already

a lack of jobs being created, a situation which was made even worse as the impact of the economic recession was felt.

Within the South African labour market, the GDP has recently picked up, but the unemployment rate remains very high (25, 2 per cent). South Africa's high unemployment rate could be associated with several factors such as swift growth of unskilled labour supply, long distances between places of residence and places of work, which raise the cost of job search. In addition, there is an increase in the number of discouraged job-seekers .Furthermore, unemployment is inequitably distributed and certain groups are more likely to be unemployed than others. This relates to the skills mismatch in the country where a high proportion of labour market participants are unskilled and better equipped to work in the now declining primary sectors than in the service sectors.

The birth of technological development also played a key role in a decline in labour absorbing activities in South Africa. When this surge of technology emerged, it required some level of skills and expertise, which was not in abundance in South Africa. The problem may have been compounded by the fact that most of the technology is imported. This tends to limit employment in particular sectors as technology has taken over the role of labour absorbing activities.

On the other hand, there existed a need to adapt to the changing global phenomenon and the surge of competition. Thus, it was to some degree necessary to introduce low-cost production methods to be able to compete abroad. The lack of a skilled labour

force in the modern economy also contributed to high capital intensive production methods. Therefore, demand for unskilled or semi-skilled labour has declined significantly over the years, while at the same time the demand for highly skilled workers has increased.

The origin for the slow growth in employment could also be attributed to the passing of stringent labour market legislation, which provided trade unions with improved bargaining influence and increased the issue of minimum wages.

While trade unions play a key role in South Africa's labour relations, they are expected to face declining membership due to decreasing employment. There are three major union federations in South Africa, whose affiliates represent a broad spectrum of industry. They are the Congress of South African Trade Unions (Cosatu), the Federation of Trade Unions of South Africa (Fedusa) and the National Council of Trade Unions (Nactu). These three federations form the labour constituency at the National Economic Development and Labour Council (Nedlac), together with members representing the state and business interests.

The key role played by the trade unions in the 1970s contributed to the soaring increase in nominal wages. This also led to an increase in the elements of equity and fairness within the work place. The increase in the price of labour is often regarded as a major cause of the substitution of capital for labour and the simultaneous increase in unemployment.

In his study of wage movement, Lewis (2001) has arrived at some interesting conclusions which indicate that the unskilled and semi-skilled workers have been priced out of the market as a result of the course of wage density resulting in their wages increasing in relation to the skilled employees.

Burger and Von Fintel, ( 2009:3) refer to research done by Burger and Yu, Woolard and Woolard (2004) and Banerjee et al., which has measured wage trends in the post-apartheid era, all of whom conclude that the rise in unemployment corresponds with a decline in the real wages of unskilled and semi-skilled workers. This being the case, it would be unlikely that the increases in wages could have led to the rise in unemployment. Nonetheless Banerjee et al. (2006: 4) are of the view that the labour market was characterised by “institutional constraints that kept wages from declining as much as they might have [in the face of a large surplus of unskilled workers].”

Discussions around this issue persist and point to factors for and against the labour legislation as being the result of unemployment in South Africa. It should also be taken into consideration that the high population growth continuously exceeds the expansion in employment demands. This is exacerbated by the continuous job losses in the formal sector as the evolving environment moves the country’s economy from labour-intensive to capital-intensive activities.

According to a report by the Centre for Development and Enterprise on a “fresh look at unemployment”, the number of people hired by firms is determined by their costs and productivity. Labour costs include the wage and non-wage costs of employment, such as the costs of dismissing and replacing unproductive or unsuitable workers. Low labour costs encourage firms to employ more people, while higher labour costs encourage them to adopt production methods relying on a smaller number of people, often with higher skills.

## **2.15 CONCLUSION**

The literature review provides some direction in terms of policy formulation on possible interventions which could be used to address the current challenge of unemployment. The different and potential causes of unemployment have been explored and the confidence in policy should necessarily take this into consideration. An attempt has been made to indicate the different policy interventions brought by government since 1994. However, it is difficult to gauge the exact impact of these policies relative to unemployment.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 INTRODUCTION**

This chapter defines the research methods used within the research. The researcher explains how the data was collected and analysed. There is currently enormous amount of literature about unemployment in South Africa. Thus, it is important to comprehend the unemployment trajectory through the various literature analyses and various types of policies that have been in place to deal with the existing challenge. Therefore, the process involves mainly data collection, gathering of historical information relevant to the topic and explanation and analysis of the tables.

The study utilises a descriptive form of research based on analysis of the observed data and tables. The descriptive form of research is also a fact-finding study that entails exact interpretation of the data and tables. Descriptive research describes a certain present condition. Essentially, the method is ideal for this study as it aims to explain the current state of unemployment in South Africa. The purpose of employing the descriptive method is to describe the nature of a condition, as it occurs during the time of the study and to explore the cause or causes of a particular condition.

### **3.2 RESEARCH DESIGN**

Heppner et al (1992:15) defines a research design as a plan or structure for an investigation or a list of specifications and procedure for conducting and controlling a research project. Essential, it can be described as a master plan which indicates the

strategies for conducting a research. Also, this entails specific ways to data collection and considerations on the importance of the obtained results.

### **3.2.1 The qualitative approach**

The qualitative research design is a process of systematic inquiry into the meanings which people use to make sense of their experience and guide their action (Mcleod, 1994:78). According to Mcleod (1994:32), 'the objective of qualitative research is to generate authentic descriptive accounts of certain experience. By using qualitative methods one is able to bring out data on experiences using flexible language. This enables a person to do studies comprehensively.

### **3.2.2 The quantitative approach**

This study is based on quantitative data acquired by the researcher through various sources. According to Fitz-Gibbon and Morris (1987:10), quantitative research requires the use of numbers, where one asks questions such as 'To what extent?' and 'How many?'. Also, the quantitative approach provides the researcher with an opportunity to handle large numbers of cases and patterns of interactions between variables and to verify the presence of cause and effect relationships between variables (Mcleod, 1994; 59).

As a result of using quantitative data, the researcher did not conduct the survey or used any other research technique to gather first-hand data. The literature review was also used for information gathering purposes as it reveals some previous work that has already been done in this area. Literature review also helps the researcher see the

study from various different perspectives, which is key and helpful in view of the nature of the topic.

Previously, many studies have been undertaken in South Africa which have indicated the rise in unemployment and also revealed some challenges in interpreting data, particularly pre-1994. For example, a population survey suggested that unemployment fluctuated between 1979 and 1986. However, the problem with this was that a similar model was used for many of the yearly rounds of the current population survey, thus it tended to result in a declining unemployment figures as the respondents grew older. On the other hand, some data suggested that the unemployment figures fluctuated during a similar time frame leading to more questions in terms of credibility of the data.

The quantitative information is be based on academic and scholarly journals and articles relating to unemployment patterns in South Africa compared to other developing countries of the world. In addition, efforts have been made to use existing data on the subject through sources such as libraries, Internet research and observations. All information gathered was used to arrive at appropriate conclusions on the matter and to provide recommendations and policy direction.

### **3.2.3 Data Analysis**

Data analysis is the process of examining raw data with the purpose and view of drawing conclusions about that information. This form of analysis is just one of the many steps that must be completed when conducting research. In this instance, Data from various sources is gathered, assessed, and then analysed in order to draw conclusions

and findings. For purposes of this research, data mainly gathered from Stats SA was used and analysed to draw conclusions.

Stats SA is the central agency tasked with the role of publishing South Africa's labour statistics. While Stats SA uses a strict definition, figures on the expanded definition are also published. In addition, the Department of Labour has registered database of registered unemployed people. However, the accuracy of this is questioned as registration is voluntary since those who register do so with the hope that they would somehow be placed in employment or rather that they would be able to access unemployment benefits. Therefore, the labour force survey data was used to make comparisons and draw conclusions.

Also, the World Bank data has been used for the Labour force participation and unemployment rates of selected countries. This was done to make a comparison of several developing countries rates of unemployment and compare that with South Africa to draw a proper conclusion.

### **3.2.4 Primary Data**

Primary data refers to data collected for the first time in the field. Jewel (2001), defines it as data that has been collected for the purpose for which it is originally used. Primary data is usually collected using interviews and questioners. However, this research did not use primary data in the form of interviews or questioners.

### **3.2.5 Secondary Data**

According to Jewel (2001), secondary data is data that is collected for purposes other than the original use. It is an analysis of data that have already been collected for some other purpose. These may be contemporary or historical and the data may be qualitative or quantitative and usually needs adjustments and validation before being put to use. This data can include survey data and documentary data.

In this research secondary data was used. The motivation is that using secondary data saves time since the work has already been done to collect the data. It avoids the problems associated with the data collection process. As opposed to primary data, secondary data provides a source of data that is both permanent and available in a manner that may be checked relatively easily by others. The various published documents provide the researcher with additional information on the research problem. A number of tables were used and interpreted to draw and reach various conclusions in this instance.

### **3.3 CONCLUSION**

This chapter examined the importance of research methodology. As indicated earlier, for this paper, statistics such as those from Stats SA's Labour Force Survey and World Bank indicators have been used. There are, however, other institutions such as the Reserve Bank that also publish labour statistics. The Unemployment Insurance Fund (UIF) was also used as a source of unemployment, but this information did not

accurately reflect the reality of unemployment in South Africa. Other countries also use various methods of gathering data about their employment situation. The advantage of using the Stats SA data is that it categorises the different statistics into population group, age, gender, province and different sectors of the economy, which provides a comprehensive overview of the situation. This ensures that data is organised in a structured manner by assessing the spatial differences, population groups, gender and unemployment & employment in the different sectors. Also, an assessment of literature review would include data that is based on secondary data.

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

### **4.1 INTRODUCTION**

According to Stats SA, during 1995, 24, 2 million South Africans, representing 61, 2 per cent of the total population, were between the ages of 15 and 65 years and therefore eligible to form part of the labour force. This rose to 28, 1 million in 2002. Between 1995 and 2002, total employment in South Africa increased from 9, 5 million to over 11 million. According to the South African Institute of Race Relations (2010), 3, 7million of the 4, 3 million unemployed people in South Africa, were black. The only racial group with a drop in unemployment between 2009 and 2010 was the Indian group. Within the first quarter of 2010, unemployment was found to be 25 per cent. Unemployment was found to be highest among blacks (30 per cent) and lowest among Indians (5 per cent).

Whereas unemployment had risen by 126 000 from 2009 to 2010 and the unemployment rate rose from 24 per cent to 25 per cent within a similar period, the figure of discouraged job seekers, went up from 1, 2 million to 1, 8 million. The labour market participation rate dropped from 61 per cent in 2001 to 55 per cent in 2010.

According to statistics SA (2008), referring to the broad description of unemployment, which includes discouraged job seekers, the number of unemployed people grew from 5, 8 million in 2001 to 6, 1 million in 2010, with the unemployment rate rising from 31,7 per cent to 32,4 per cent.

In addition, South Africa's inequality was 0,62 in 1996 and reached 0,65 in 2009. White people had the lowest inequality rate with a measure of 0,45; while blacks had the highest rate, with a co-efficient of 0,60. Comparing the levels in the different provinces, it emerged that Gauteng was the province with the highest average personal income at R55 666 in 2009, while Limpopo was the province with the lowest income at R 23 000 per annum. In total, the average personal income in South Africa was R32 559. During the period under review, the per capita income of the white population was 10 times higher than that of the black population, and four times higher than that of Indian and coloured population.

The first Labour Force Survey (LFS) was performed in 2000 and it has since been performed every six months in March and September. However, it remains a challenge to get accurate figures on labour in South Africa. Figures collected after the apartheid era pose problems owing to the different sampling methods and non-coverage of the previous "homelands". Furthermore, comparison over time is compromised by varying discrepancies amid the different surveys and by changes in the approach towards employment and unemployment arrived at from the different surveys (Casale and Posel, 2002).

Since 2005, Stats SA has conducted a comprehensive review of the LFS. The review led to amendments to the survey method, the survey questionnaire, the rate of data collection and data releases. The change to the LFS led to the Quarterly Labour Force

Survey (QLFS), which is used for the collection of labour market information on a quarterly basis.

Official statistics in South Africa follow the international standard developed by the International Labour Organization (ILO). It classifies working-age individuals as being in the labour force if during a week of reference they were employed or wanted to work and were available to start working within a week but also had actively looked for work during the past four weeks.

Table 4.1 reflects the trends in the labour force participation of people from 16 to 64 years old. Numerous facts and aspects emerge from these. Firstly, that unemployment remains exceptionally high, and has risen significantly since the ANC took office after the advent of democracy.

**Table 4.1: The South African Labour Force ('000s)**

<b>Indicator</b>	<b>2001</b>	<b>2007</b>
Labour force	16 575	17 444
Employed	12 494	13 326
Unemployed	4081	4 119
Not economically active	10 690	12 763

*Source: Labour Force Survey (2008)*

Table 4.1 indicates the South African labour force participation for the periods 2001 and 2007. It is clear from the table that the labour force increased from 16, 5 million to 17, 4 million in 2007. Of the total labour force of 16, 5 million in 2001, 12, 4 million were employed, while almost 4 million were unemployed. On the other hand, during 2001, 10,

6 million were not economically active. In 2007, the labour force comprised 17, 4 million, of which 13, 3 million were employed, 4 million unemployed and 12, 7 million not economically active.

One of the important elements of government policy was to increase the demand for labour by increasing output and labour absorption capacity while introducing employment programmes, saving current jobs and targeted interventions in key sectors of the economy. This would include key interventions in research and development, technological developments and systems of innovation. Further interventions include incentives to the private sector to stimulate exports, encouraging tourism, strong promotion of Foreign Direct Investment (FDI) and providing a conducive environment to promote small business. Another aspect includes strengthening employability by improving skills development, improved productivity in the manufacturing sector, and improving the regulatory environment.

Mafiri (2002:35) found that the level of unemployment is a stock concept, for example, it is measured at a particular point in time. A person may enter the unemployment pool for one of four reasons:

- Firstly, the person may be a new entrant into the labour force, looking for work for the first time, or a re-entrant, who is returning to the labour force after not having looked for work for some time.
- Secondly, a person may leave a job in order to look for other employment and be counted as unemployed while searching.

- Thirdly, 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 was fired or because the firm closed down (Mohr and Rogers, 1998)

**Table 4.2: Employment and unemployment by province ('000s)**

<b>Indicator</b>	<b>2001</b>	<b>2007</b>
<b>Employed (Total)</b>	12 494	13 326
Western Cape	1545	1869
Eastern Cape	1219	1251
Northern Cape	334	317
Free State	865	818
KwaZulu-Natal	2573	2553
North West	817	860
Gauteng	3358	3890
Mpumalanga	915	904
Limpopo	868	864
<b>Unemployed (Total)</b>	4 081	4 119
Western Cape	409	413
Eastern Cape	538	509
Northern Cape	93	102
Free State	273	252
KwaZulu-Natal	629	745
North West	240	296
Gauteng	1301	1121
Mpumalanga	215	235
Limpopo	384	446

*Source: Labour Force Survey (2008)*

Table 4.2 above indicates the number of people employed and unemployed per province for 2001 and 2007. Of the 12, 4 million people employed in 2001, the majority were employed in Gauteng, followed by KwaZulu-Natal and the Western Cape. In 2007, this picture had not changed much except that the Western Cape had overtaken the Eastern Cape in third place in terms of the number of employed. In terms of the analysis

regarding the number of people unemployed per province, the table indicates that in 2001, Gauteng had the largest number of unemployed people, followed by KwaZulu-Natal, while in 2007; Gauteng still remained at the top in terms of people unemployed, followed again by KwaZulu-Natal.

This table further indicates and demonstrates that the poorest and least urbanised provinces, namely the Northern Province and the Eastern Cape, had the highest number of unemployed people, compared to the wealthier and more urbanised provinces of Gauteng and the Western Cape. This also shows the level of disparities between the provinces and strengthens the view that a large number of people move to Gauteng and the Western Cape to look for employment opportunities.

**Table 4.3: Population of working age by gender and population ('000s)**

Gender and population group	2001	2007
<b>Male</b>		
Black	9634	11016
Coloured	1240	1369
Indian/Asian	372	422
White	1602	1544
<b>Total</b>	<b>12 847</b>	<b>14352</b>
<b>Female</b>		
Black	10994	12312
Coloured	1371	1510
Indian/Asian	378	430
White	1675	1603
<b>Total</b>	<b>14418</b>	<b>15856</b>
<b>Both genders</b>		
Black	20 628	23328
Coloured	2611	2880
Indian/Asian	750	852
White	3276	3148
<b>Total</b>	<b>27 265</b>	<b>30208</b>

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Source: Labour Force Survey (2008)

Table 4.3 shows that the growth of the labour force has been the greatest among the black population group. The female participation rate also rose between 2001 and 2007. The increase in participation rates for both men and women is possibly due to the lifting of apartheid restrictions on movement to urban areas and the new possibilities of employment that this had presumably opened. The end of apartheid led to improved opportunities to find employment for non-white groups and women (partly due to employment equity legislation), which is likely to have raised returns to employment for a significant section of the population. Education levels have risen and participation rates typically increase with education level, particularly for women.

Lastly, the significantly higher increase in the female participation rate compared to that of the male participation rate, may be the result of a decline in women's access to male income owing to increased unemployment among males, the HIV pandemic and increased female headship due to changes in household structure

**Table 4.4: Economically active (workers and unemployed) ('000s)**

Gender and population group	2001	2007
<b>Male</b>		
Western Cape	1030	1171
Eastern Cape	850	861
Northern Cape	235	236
Free State	611	567
KwaZulu-Natal	1570	1721
Gauteng	592	662
Mpumalanga	2634	2813
Limpopo	571	596
	559	616
	8653	9243

<b>South Africa</b>		
<b>Female</b>		
Western Cape	923	1111
Eastern Cape	907	898
Northern cape	191	183
Free State	527	503
KwaZulu-Natal	1632	1577
Gauteng	465	494
Mpumalanga	2025	2199
Limpopo	559	543
<b>South Africa</b>	693	694
	7922	8201
<b>Both genders</b>		
Western Cape	1954	2282
Eastern Cape	1757	1760
Northern Cape	426	419
Free State	1137	1070
KwaZulu-Natal	3201	3298
Gauteng	1057	1156
Mpumalanga	4659	5012
Limpopo	1130	1139
<b>South Africa</b>	1253	1310
	16575	17444

Source: Labour Force Survey (2008)

**Table 4.5: Labour force absorption rate<sup>1</sup>, 2001–10<sup>2</sup>**

Year	Percentage %
2001	45.8%
<b>2002</b>	<b>43.1%</b>
2003	41.2%
<b>2004</b>	<b>41.0%</b>
2005	42.6%
<b>2006</b>	<b>44.4%</b>
<b>2007</b>	44.1%
<b>2008</b>	<b>44.5%</b>
<b>2009</b>	44.0%
<b>2010</b>	<b>40.8%</b>

Source: Stats SA, Labour Force Survey, Historical revision March series 2001 to 2007, Statistical release P0210,p8; Quarterly Labour Force Survey Quarter 1 2010, Statistical release P0211, 4 May 2010

<sup>1</sup>The labour force absorption rate measures the proportion of the working-age population that is employed — in other words, all those who do any work for pay, profit, or family gain

<sup>2</sup>All figures are for the first quarter of the relevant year.

The labour absorption rate provides an alternative indication to the unemployment rate regarding the lack of job opportunities in the labour market. The labour absorption rate is the proportion of the working-age population aged 15 to 65 years that is employed.

Table 4.5 indicates that labour absorption rates have been on the decline since 2001. For example; the labour force absorption rate was 45, 8 per cent in 2001 and reduced to 40, 8 per cent in 2010. There could be a number of factors contributing to this, including among others the economic and financial crisis which hit the global economy around the period 2007 to 2010. This has largely affected a large number of industries in South Africa including agriculture, mining and manufacturing, which are the largest employers in the South African economy.

**Table 4.6: Workers (employers, employees, and self employed) aged 15-64 ('000s)**

<b>By sector and industry Male and female</b>	<b>2001</b>	<b>2007</b>
<b>Formal and informal</b>		
Agriculture, hunting, forestry and fishing	969	703
Mining and quarrying	488	411
Manufacturing	1843	1979
Electricity, gas and water supply	82	88
Construction	642	1010
Wholesale and retail trade	3363	3273
Transport, storage and communication	683	701
Financial intermediation, insurance, real estate and business services	1134	1470
Community, social and personal services	2102	2440
Private households	1188	1251
<b>Total</b>	<b>12494</b>	<b>13326</b>

<b>Formal</b>		
Agriculture, hunting, forestry and fishing	753	479
Mining and quarrying	485	407
Manufacturing	1462	1652
Electricity, gas and water supply	77	80
Construction	342	650
Wholesale and retail trade	1365	2089
Transport, storage and communication	493	531
Financial intermediation, insurance, real estate and business services	988	1404
Community, social and personal services	1772	2126
Private households	<b>7737</b>	<b>9419</b>
<b>Total</b>		
<b>Informal</b>		
Agriculture, hunting, forestry and fishing	215	225
Mining and quarrying	*	*
Manufacturing	382	326
Electricity, gas and water supply	*	*
Construction	299	360
Wholesale and retail trade	1998	1184
Transport, storage and communication	190	170
Financial intermediation, insurance, real estate and business services	146	67
Community, social and personal services	330	314
Private households		
<b>Total</b>	3568	2656

Source: Labour Force Survey (2008)

\*for all values of 10 000 or lower the sample size is too small for reliable estimate

**Table 4.7: The unemployed aged 15-64 years, by province and gender ('000s)**

Gender and Province	2001	2007
<b>Male</b>		
Western Cape	209	191
Eastern Cape	280	229
Northern Cape	40	44
Free State	120	98
KwaZulu-Natal	317	351
Gauteng	114	129
Mpumalanga	636	472
Limpopo	92	90
	178	181
<b>South Africa</b>	1986	1786

<b>Female</b>		
Western Cape	200	223
Eastern Cape	258	280
Northern Cape	53	57
Free State	152	154
KwaZulu-Natal	312	394
North west	126	167
Gauteng	665	649
Mpumalanga	123	144
Limpopo	206	265
<b>South Africa</b>	<b>2095</b>	<b>2333</b>
<b>Both genders</b>		
Western Cape	<b>409</b>	<b>413</b>
Eastern Cape	<b>538</b>	<b>509</b>
Northern Cape	<b>93</b>	<b>102</b>
Free State	<b>273</b>	<b>252</b>
KwaZulu-Natal	<b>629</b>	<b>745</b>
North West	<b>240</b>	<b>296</b>
Gauteng	<b>1301</b>	<b>1121</b>
Mpumalanga	<b>215</b>	<b>235</b>
Limpopo	<b>384</b>	<b>446</b>
<b>South Africa</b>	<b>4081</b>	<b>4119</b>

Source: Labour Force Survey (2008)

Table 4.7 indicates the unemployed between the ages of 15 and 64, according to province and gender. During the period under review, it is clear that the actual number of unemployed people has risen. Also, in terms of province comparison, Gauteng still remains the province with the highest number of unemployed people. This is followed by KwaZulu-Natal and the Eastern Cape.

**Table 4.8: The unemployed aged 15-64 years ('000s)**

Gender and population group	2001	2007
<b>Male</b>		
Black	1668	1524
Coloured	199	182
Indian/Asian	38	26
White	81	54
<b>Total</b>	1986	1786
<b>Female</b>		
Black	1779	2041
Coloured	196	225
Indian/Asian	32	26
White	89	41
<b>Total</b>	2095	2333
<b>Both genders</b>		
Black	3447	3565
Coloured	395	407
Indian/Asian	70	52
White	170	95
<b>Total</b>	4081	4119

*Source: Labour Force Survey (2008)*

Table 4.8 shows figures for the people unemployed for different race groups. Between 2001 and 2007, it is clear that the black population group remains the majority with the highest number of unemployed people. This has been consistently the case during the period under review. This is followed by the coloureds, Indians and white population group.

**Table 4.9: The discouraged work seekers, by province and gender 15-64 years ('000s)**

Gender and province	2001	2007
<b>Male</b>		
Western Cape	51	52
Eastern Cape	131	188
Northern Cape	13	22
Free State	29	42
KwaZulu-Natal	162	202
North west	68	73
Gauteng	84	183
Mpumalanga	33	70
Limpopo	90	124
<b>South Africa</b>	<b>660</b>	<b>957</b>
<b>Female</b>		
Western Cape	78	94
Eastern Cape	206	231
Northern Cape	29	41
Free State	48	100
KwaZulu-Natal	235	295
North West	110	127
Gauteng	142	260
Mpumalanga	56	145
Limpopo	161	261
<b>South Africa</b>	<b>1064</b>	<b>1554</b>
<b>Both genders</b>		
Western Cape	129	146
Eastern Cape	336	419
Northern Cape	42	63
Free State	77	142
KwaZulu-Natal	396	497
North West	177	200
Gauteng	226	443
Mpumalanga	89	215
Limpopo	251	385
<b>South Africa</b>	<b>1725</b>	<b>2511</b>

Source: Labour Force Survey (2008)

**Table 4.10: The discouraged work seekers aged 15-64 years ('000s)**

Gender and population group	2001	2007
<b>Male</b>		
Black	558	843
Coloured	62	70
Indian/Asian	*	12
White	33	32
<b>Total</b>	660	957
<b>Female</b>		
Black	909	1413
Coloured	88	100
Indian/Asian	12	16
White	55	24
<b>Total</b>	1064	1554
<b>Both genders</b>		
Black	1468	2256
Coloured	150	170
Indian/Asian	19	28
White	88	56
<b>Total</b>	1725	2511

Source: Labour Force Survey (2008)

\*for all values of 10 000 or lower the sample size is too small for reliable estimates

**Table 4.11: Official unemployment rates 15-64 years ('000s)**

By Gender and Province	2001	2007
<b>Male</b>		
Western Cape	20.3	16.3
Eastern Cape	33.0	26.6
Northern Cape	17.1	18.8
Free State	19.7	17.3
KwaZulu-Natal	20.2	20.4
North west	19.2	19.5
Gauteng	24.1	16.8
Mpumalanga	16.2	15.2
Limpopo	31.8	29.3
<b>South Africa</b>	23.0	19.3

<b>Female</b>		
Western Cape	21.7	20.0
Eastern Cape	28.4	31.1
Northern Cape	27.5	31.3
Free State	28.9	30.6
KwaZulu-Natal	19.1	25.0
North West	27.2	33.7
Gauteng	32.8	29.5
Mpumalanga	22.0	26.6
Limpopo	29.8	38.2
<b>South Africa</b>	26.4	28.4
<b>Both genders</b>		
Western Cape	20.9	18.1
Eastern Cape	30.6	28.9
Northern Cape	21.7	24.2
Free State	24.4	23.6
KwaZulu-Natal	19.6	22.6
North West	22.7	25.6
Gauteng	27.9	22.4
Mpumalanga	19.1	20.6
Limpopo	30.7	34.0
<b>South Africa</b>	24.6	23.6

*Source: Labour Force Survey (2008)*

Table 4.11 shows the official unemployment rates for the different provinces between 2001 and 2007. Mpumalanga, the Eastern Cape and KwaZulu-Natal still remain the provinces with the highest unemployment rate. This reinforces the fact that there continues to be limited opportunities in these provinces. Also, it shows that development still needs to occur in the former homelands, to ensure that more people are being brought into the economic mainstream of the economy. Gauteng and the Western Cape still remain the provinces with the lowest unemployment rates, which again explain the influx of people from the rural areas coming into these provinces to seek employment.

**Table 4.12: Unemployment rate<sup>3</sup> by race, 1994–2010<sup>4</sup>**  
**Official definition**

Official	Black	Coloured	Indian	White	Total
1994	24.7%	17.6%	10.2%	3.0%	20.0%
1995	20.7%	16.5%	8.3%	2.8%	16.9%
1996	27.4%	13.1%	12.1%	4.0%	21.0%
1997	29.3%	16.0%	10.2%	4.6%	22.9%
1998	32.0%	15.8%	14.7%	4.4%	25.2%
1999	29.2%	15.2%	15.6%	4.7%	23.3%
2000	31.6%	20.4%	19.9%	6.8%	26.7%
2001	31.1%	21.2%	16.7%	6.9%	26.4%
2002	35.2%	24.1%	20.1%	6.5%	29.7%
2003	37.3%	22.4%	22.4%	6.5%	31.2%
2004	34.2%	18.0%	16.5%	4.9%	27.9%
2005	31.6%	19.8%	18.0%	5.1%	26.5%
2006	30.7%	18.9%	11.2%	4.7%	25.6%
2007	30.2%	19.8%	13.8%	4.3%	25.5%
2008	27.7%	19.1%	11.8%	5.3%	23.5%
2009	27.7%	19.5%	12.7%	9.2%	23.5%
2010	29.7%	21.8%	4.6%	6.1%	25.2%
Change:	20.2%	23.9%	-54.9%	103.3%	26.0%

Source: Stats SA, *Stats in brief: Ten years of democratic governance; October Household Survey 1994–1997; October Household Survey 1999; Labour Force Survey (LFS) February 2000; LFS Historical Revision March Series 2001–2007*, Statistical release P0210, 23 March 2009, p20; *Quarterly Labour Force Survey Quarter 12009*, Statistical release P0211, 5 May 2009, p3; *Quarterly Labour Force Survey Quarter 1 2010*, Statistical release P0211, 4 May 2010, p9; email communication, 14 July 2010.

Table 4.12 shows the unemployment rates by race between 1994 and 2010. From the table it is clear that unemployment is high among the black population followed by the coloured, Indian and white population. Between 1994 and 2010, the total unemployment rate has increased from 20 per cent in 1994, to 26 per cent in 2010. Also, between 1994 and 2010, the number of the unemployed in the black, coloured and white population increased, while it decreased among Indians. Overall, the table reflects a concerning trend of unemployment figures from 1994 until 2010. It is evident from the table that

<sup>3</sup>Proportion of economically active population that is unemployed.

<sup>4</sup>From 1994–1999 data is based on *October Household Surveys*. For 2000 data is from February 2000 *LFS*. From 2001–2007 data is based on revised *LFS* March series. For 2008–2010 data is based on *QLFS*. The data for 2001–2010 is strictly comparable

unemployment rates have been on an upward pattern in the period under review. Over this period, the Indian population is the only race to have registered a decrease in unemployment rates, as compared to the black, coloured and white communities.

**Table 4.13: Labour force participation and unemployment rates, selected countries, 1990 and 2007**

<b>Country</b>	<b>Male</b>		<b>Female</b>		<b>Unemployment rate</b>
	<b>1990</b>	<b>2007</b>	<b>1990</b>	<b>2007</b>	<b>2010</b>
<b>Argentina</b>	<b>79%</b>	<b>76%</b>	<b>29%</b>	<b>50%</b>	<b>8.4%</b>
Australia	76%	72%	52%	57%	5.4%
Chile	77%	72%	32%	39%	9.0%
<b>China</b>	<b>85%</b>	<b>80%</b>	<b>73%</b>	<b>71%</b>	<b>9.6%</b>
Denmark	75%	71%	62%	61%	4.2%
<b>Egypt</b>	<b>74%</b>	<b>71%</b>	<b>24%</b>	<b>24%</b>	<b>9.4%</b>
France	65%	62%	46%	50%	10.1%
<b>Germany</b>	<b>73%</b>	<b>66%</b>	<b>46%</b>	<b>51%</b>	<b>7.8%</b>
Hungary	66%	59%	47%	44%	11.8%
<b>India</b>	<b>85%</b>	<b>82%</b>	<b>35%</b>	<b>34%</b>	<b>10.7%</b>
Indonesia	81%	86%	50%	50%	7.9%
<b>Italy</b>	<b>66%</b>	<b>61%</b>	<b>36%</b>	<b>39%</b>	<b>8.3%</b>
Japan	77%	72%	50%	48%	5.0%
<b>Mexico</b>	<b>84%</b>	<b>80%</b>	<b>34%</b>	<b>41%</b>	<b>4.8%</b>
Pakistan	86%	85%	11%	21%	5.2%
Poland	72%	61%	55%	47%	12.9%
<b>Russia</b>	<b>76%</b>	<b>69%</b>	<b>60%</b>	<b>57%</b>	<b>8.6%</b>
<b>South Africa</b>	<b>64%</b>	<b>60%</b>	<b>44%</b>	<b>47%</b>	<b>25.2%</b>
Spain	69%	68%	34%	47%	19.1%
<b>Switzerland</b>	<b>79%</b>	<b>75%</b>	<b>49%</b>	<b>60%</b>	<b>4.0%</b>
Turkey	81%	71%	34%	24%	14.5%
United Kingdom	75%	70%	53%	56%	8.0%
<b>United States</b>	<b>76%</b>	<b>72%</b>	<b>57%</b>	<b>59%</b>	<b>9.9%</b>

Source: World Bank, *World Development Indicators 2009*, Table 2.2; *Economist*, 15–21 May, p101a. The labour force participation rate is the proportion of the population 15 and older that is economically active: all people who supply labour for the production of goods and services during a specified period.

Table 4.13 indicates labour force participation and unemployment rates of selected countries. Countries selected include both developed and developing. From the table

below, it is evident that South Africa falls significantly behind with regard to having the highest rate of unemployment. This signifies the severity of the current challenge and reinforces the view that efforts need to be accelerated to ensure that this number is reduced.

#### **4.2 IMPACT OF UNEMPLOYMENT IN SOUTH AFRICA**

Various studies have clearly indicated that unemployment has a major impact on individuals in many different forms. The social and economic impact cuts across many spectrums. The unemployed lose their self esteem, purpose, sense of achievement and, of course, income. However, it is not only the individuals themselves that are affected, but their families also suffer with them.

To compound the problems, the longer a person is unemployed the harder it becomes to find a job, particularly in the current economic climate. The long-term unemployed are often discriminated against as employers are often unwilling to take a chance on someone that no one else was willing to hire.

The main impact of unemployment on society and the economy is the productive power that it withholds— any person who is unemployed could be doing something productive and thus contributing to the economy as a whole.

In addition, unemployment is a major contributor to crime, as many people resort to criminal activities to survive and support their families. According to Calvo-Armengoland Zenout (2003), it is commonly observed for most countries that the unemployment and crime rates are positively related. Unemployment leads to a lack of income and in the

absence of income people are more likely to commit crimes to survive. Income inequality among people also further exacerbates poverty and crime. With an estimated 4 in every 1000 people in jail, South Africa remains one of the countries with the highest proportion of people in jail. The high crime rate ultimately has a negative impact on the country's reputation as this puts off potential investors and tourists.

Ncho's (2009) research on the impact of unemployment on the well-being of individuals indicates that a person's socio-economic status has a profound influence on health, with higher rates of morbidity and mortality for individuals with lower socio-economic status across multiple health conditions. The components of socio-economic status include poverty, educational level, occupation, employment, housing, nutrition and socio-cultural factors of a person. Due to the increased burden of disease, research to explore the relationship between socio-economic status and health status is an urgent priority. Also, poverty is seen as the major determinant of health, and has a profound effect on well-being.

#### **4.3 CONCLUSION**

The data presented in this chapter clearly indicates that the problem of unemployment persists and that more should be done to address the issue. The fact that South Africa has the highest rate of unemployment among major developing countries such as Argentina, Brazil and Mexico, is also a major cause for concern. Furthermore, although the unemployment has slightly increased since 1994, the reality is that this is not

sufficient to address the high poverty levels, suggesting that there is a need for a more radical change in policy to address the issue.

The issue of spatial differences in South Africa suggests that a lot more should be done to ensure intensified efforts to develop the former homelands and increase economic activity to ensure that more employment opportunities are created. This will ensure a level of equality between the different provinces instead of large numbers of people flocking to Gauteng and the Western Cape to seek employment.

## **CHAPTER 5:**

### **RECOMMENDATIONS AND CONCLUSION**

#### **5.1 INTRODUCTION**

The problem of unemployment in South Africa may be ascribed to a combination of various factors, including the legacy of apartheid, lack of skills and the structural changes in the economy. Government has made various efforts to address the problem through various policy interventions, but this has not had the desired effect of significantly reducing unemployment. As indicated in the earlier chapters, these policies include the Accelerated and Shared Growth Initiative of South Africa (ASGISA), the Expanded Public Works Programme (EPWP), industrial policy, Black Economic Empowerment (BEE), the New Growth Path, and review of the trade policy among others.

#### **5.2 CONCLUSIONS AND RECOMMENDATIONS**

Overall, the effectiveness and efficiency of all the above-mentioned policy instruments and interventions is difficult to gauge. However, from GEAR to the new Growth Path, it is apparent that government efforts to address the problem of employment through these policy interventions is intensifying and indicates the seriousness of the challenges at hand.

Nonetheless, it does seem that a more radical approach is required if real progress is to be made. The legacy of apartheid continues to have long-term effects on the labour

market. Sluggish economic performance in the two decades before democracy, the severe inequality and the development of a powerful trade union movement, all continue to have an impact. Major challenges such as a lack of skills caused largely by a poor education system, rural underdevelopment, crime, HIV/AIDS, etcetera have all adversely affected employment prospects and continue to do so. As a result, these aspects need to be addressed at the core and will require fundamental and radical policy shift and intervention.

When the ANC came into power in 1994, it resisted calls of populism and has emphasised effectiveness and the long-term impact in many parts of economic policy. Nonetheless, the labour market outcomes of this set of policies have clearly had very little effect.

Currently, it is difficult to gauge the impact of the current policy interventions such as the New Growth Path and the industrial and trade policy. It is hoped that these will have a more positive impact on the unemployment rate. However, these policies come at a very challenging time, at the back of the global economic crisis, which will most certainly curtail any progress.

For government to take the process forward, it would be crucial to pursue a set of policies that promote South Africa's rate of economic growth. Government should take cognisance of the implications for economic growth prospects of all its policies; whether these are general economic policies, SMME development or labour market policies, or even policies on international relations, crime or health (for example on HIV/AIDS).

Thus policy direction should make an in-depth assessment and consideration of the following:

### **5.2.1 SMME sector development**

The SMME sector plays a key role in employment creation and economic growth. Although there has been an increase in SMME activity, the sector remains relatively underdeveloped. Also, the SMME sector continues to face challenges such as access to finance and persistent problems with the regulatory environment. Moreover, interventions such as the introduction of procurement programmes and addressing of skills shortages should be seriously considered for the SMME sector. Government should begin to take an aggressive role in ensuring that the SMME sector flourishes to enable it to create employment opportunities.

### **5.2.2 Labour market flexibility**

As outlined before, the emergence and influence of the labour unions has played a key role in shaping labour policy in South Africa, particularly over the past two decades. In an article in the daily newspaper, *Business Day*, Minister of Finance Pravin Gordon was quoted as saying, "Labour market reforms can directly improve employment by providing flexibility and the right incentives to work, to hire workers, develop skills, and become more productive," (SAPA, 2010). He suggests that the current labour legislation makes it very difficult to dismiss non-performing employees, while contributing to poor productivity.

South Africa's current labour laws are also blamed for the high minimum wage regulation, which does not correspond with the required level of productivity and remains a highly contentious issue. Efforts to introduce modest changes in labour legislation to counteract the inadvertent unemployment consequences, have also proven contentious and underline the challenges associated with reforming labour market institutions and practices.

The key issue is whether the productivity levels and the actual cost of labour go hand in hand. The effect of labour costs on employment will depend on how they correlate to employee's productivity levels. If labour costs increase and they are not subsequently met by increased productivity, employers tend to cut back on those workers whose productivity does not match their costs. This is a normal excise of business. Many experts are of the view that wages have risen faster than productivity levels. Whether this is accurate remains an issue, thus making it difficult to explicitly understand the actual impact. To fully understand the impact, the labour legislation should be further reviewed to assess its validity in relation to the current evolving global environment. Again, whether the labour legislation and role of unions has had a direct adverse effect in limiting employment creation remains difficult to gauge. Any attempts to address this would undoubtedly result in a revolt from the labour unions such as Cosatu and would have much deeper political implications for the ANC government.

### **5.2.3 Reshaping international policy**

International policy is also vital in shaping South Africa's development path and indeed that of the African continent. These policies, whether at a political or a trade level,

should be clearly defined and shaped in a way that creates confidence for potential investors and encourages Foreign Direct Investment (FDI), both of which are essentially developmental. A clear and integrated FDI strategy should be in place to ensure more focus of targeted or potential investors. This will enable government to focus efforts and derive the best out of this strategy. FDI should enable the South African economy to access expertise and technological development which come with the required levels of FDI. This step should commence by assessing some key impediments to FDI and any other concerns raised by the international community, such as crime, corruption, cost of doing business, skills shortage and the HIV/AIDS pandemic.

#### **5.2.4 Rural development**

Developing rural communities, which would undoubtedly make a significant contribution to employment creation, remains a major challenge. From the statistics provided earlier, it is evident that South Africa's rural areas continue to be the most affected by unemployment, poverty and inequality. It is therefore essential to have some form of increased economic activity in these areas. Policy development should take careful cognisance of the prevailing challenges and align any policy intervention with these. The continued service delivery protests, mainly in rural communities, should signal the severity of the problems that plague rural communities.

The majority of black people did not foresee that after 17 years of democracy, they would still be without basic services such as water and sanitation. Additionally, the challenges go hand-in-hand with the issue of land reform and agriculture. The South

African Government has conceded that the land reform policy has not yielded the anticipated results, hence on November 2011; the Department of Rural Development and Land Reform released a Draft Green Paper on Land Reform, which is aimed at addressing the persisting challenges.

On the other hand, agriculture in South Africa has faced some fundamental structural changes. The proposed Green Paper aims to create conditions for the expansion of the agricultural sector with the expectation of contributing to growth and employment in the sector. The sector also continues to face other comparative challenges caused by globalisation and increased competition from European Union (EU), the United States (USA) and other regions. These make it extremely difficult for South Africa to expand its export base as a result of these regions receiving large subsidies from their respective governments. The agricultural sector is a key contributor to the economy in terms of employment creation. Thus, if the sector experiences challenges, this erodes the gains from employment.

The process of trade liberalisation which took place since 1994, seemed to have been conducted rather drastically, considering the current tough unfair competition South Africa faces in an effort to expand its agricultural exports. Despite the global trade negotiations currently taking place within the World Trade Organisation (WTO) platform, this is not guaranteed. However, the conclusion of these agreements would certainly play a key role in ensuring the competitiveness of the sector.

### **5.2.5 Addressing the skills shortage**

As indicated earlier, a good skills base is essential to grow the economy. This is also critical in view of changes brought about by globalisation and the ever increasing competition from other economies. This in effect means that the structure of the economy changes constantly as a result of various factors, which include new technological innovations. The situation has also been aggravated by the fact that after 1994, the new government inherited an economy plagued by unemployment and other challenges such as the majority of the black population being denied an opportunity for quality education. This has resulted in a situation where even though some unemployed people do possess skills, these skills do not match the current dynamics and employers' needs, thereby curtailing their potential and opportunities to find jobs.

Critical skills of which there is a shortage, include professional skills such as scientists and engineers; managerial skills, such as financial managers; personal and project managers; and skilled technical workers, such as artisans and information technology specialists. Thus, there is a need for a concerted effort to address these shortages. This would require reforming the education system at both primary and higher education levels since the current system still caters for the past, while the environment has since changed considerably.

A particular effort should be made with South Africa's higher education system, which still produces graduates who are either not properly qualified to meet the needs of the labour market or who are not required by the labour market. Policy development should

therefore be aligned with the needs of the industry and labour market to ensure that there is a clear correlation between demand and supply. This also means that the entire higher education system should be revised and improved to ensure alignment with the current industry requirements.

At the primary and secondary levels, there should be clear career guidance programmes to ensure that learners' career aspirations and training are channelled in a direction which is relevant to the economy and aligned to industry requirements. Since scarce skills are still associated with Maths and Science, programmes should be intensified to ensure that more learners are enrolled for these subjects and that these subjects are taught by appropriately qualified teachers. This, in turn, would require proper teacher training at tertiary institutions. The introduction of targeted exchange teacher and student programmes with other countries could play an important role in boosting skills development.

#### **5.2.6 Wage subsidies**

Wage subsidies could also be introduced to create employment. Such subsidies essentially reduce the cost of hiring and encourage companies to employ people while receiving a subsidy for the remuneration paid. However, it should be clearly targeted to ensure that critical sectors requiring employment are addressed. Such subsidies could also target certain unemployed groups such as youth, which are among those most affected by unemployment.

### 5.3 CONCLUSION

The gravity of the unemployment problem in South Africa cannot be over-emphasised. President Jacob Zuma called attention to the seriousness of the situation in his 2011 State of the Nation Address when he declared 2011 as “*the year of job creation*”. It was also reaffirmed by the NPC diagnostic overview of the country, which indicates that employment creation and education are the key focus areas for the South African Government going forward.

The South African Government is clearly intensifying its efforts to create jobs, through various recent policy interventions such as the New Growth Path and Industrial Policy Framework focusing on labour-absorbing activities to create jobs. However, in these efforts, government has faced a challenging global environment, namely the recent financial crisis, which has significantly hampered job creation.

The statistics paint a gloomy picture and indicate that over the past decade unemployment has remained relatively high, particularly in the rural areas. This is despite the fact that during this same period, South Africa has experienced one of its highest growth rates. The actual impact of policies such as BEE and GEAR have proved challenging. The fact that the unemployed continue to suffer other effects remain a major concern. These include low self esteem, turning to crime and alcohol abuse and ill health due to an inability to access proper healthcare.

A far more radical approach and policy intervention is required to address these challenges effectively. Aspects such as a comprehensive and clear rural development

strategy, reform in the education system, providing a beneficial business environment for the private and SMME business sectors and addressing the crucial skills shortages remain critical if government is to make an improvement in employment creation. As far as the prospects for the future are concerned, these remain difficult to envisage. The unique nature of South Africa and its economy suggests that there are tougher times ahead, particularly given the prevailing global economic and financial crisis which has put the breaks in government efforts to address the prevailing challenge of unemployment.

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