

# 3

## Employment

The international economic crisis has seen tens of millions of workers retrenched over the past two years. In South Africa, employment fell by 870 000 during 2009, raising the jobless rate to 24.3 per cent – the highest level in five years. Young people and the less skilled have been worst affected. While the economy is beginning to recover, employment growth is likely to remain subdued over the short term.

Even before the global recession, South Africa faced the harsh reality that not enough people work. This is not just an economic problem: it is also about human development, dignity and social cohesion. As Nobel prize-winning economist Amartya Sen notes: “Unemployment ... is also a source of far-reaching debilitating effects on individual freedom, initiative and skills.”

Only two out of every five South Africans of working age have a job, and the country does not produce the skills desired to expand the economy and compete in the world market. Improving education is a long-term priority, but in the interim we need to take bold measures that will boost job creation and broaden economic participation. Creating jobs will contribute both to poverty reduction and income redistribution in an expanding economy. Yet there is no single short-term solution. The magnitude of the problem requires a comprehensive set of policies to expand long-term job growth, and a will to transform the way in which the state and its partners relate to employment creation.

### ■ Overview

Employment is central to human dignity, sustainable economic development and social cohesion. Creating jobs and increasing employment is South Africa’s most critical objective. We face a structural employment challenge, particularly for youth, and without much greater efforts to help young people into employment, millions of South Africans will not be able to play a productive role in society. Even before last

*Even before last year’s recession, only 44 per cent of the working-age population had jobs*

year's recession, only 44 per cent of the working-age population had a job, compared with an international rate of about 60 per cent.

Employment in South Africa fell dramatically in 2009, with 870 000 fewer jobs in the economy, as hiring slowed rapidly and many companies retrenched workers. Government stimulus measures and monetary policy adjustments have slowed job losses, but prospects for an immediate recovery in labour markets are weak.

*From 1994, labour force participation outstripped job growth, resulting in a sharp rise in unemployment*

The acute spike in unemployment is part of a structural problem that has been decades in the making. Between 1980 and 1995, unemployment grew from below 10 per cent to 17.7 per cent, and then accelerated to 27.1 per cent in 2003. The post-1994 increase in joblessness occurred as more people joined the labour force, many of them seeking work for the first time. The long-term decline of agriculture and mining, in combination with a widespread increase in pent-up demand for services as apartheid restrictions fell away, resulted in considerable changes in the structure of the economy. More than 6 million work-seekers have entered the labour force since 1994, yet the economy has only created some 4 million jobs. The result has been a growing pool of lower-skilled workers facing long-term unemployment.

***'The entrepreneurial energy of the business community is a vital component of our vision and a key source for jobs in our economy.'*** –  
Minister of Economic  
Development Ebrahim Patel

Given projections for a moderate economic recovery over the medium term, the employment trend will turn, but job growth is likely to be sluggish. The case for comprehensive policy reform is strong. This will require effective cooperation between government, business and labour to support accelerated, sustained economic growth, and more intensive job creation.

While there are many policy options to consider, emphasis should be placed on removing the structural impediments to faster job growth. This means aligning real wage growth with productivity, speeding up regulatory reform to ensure that young and less-skilled workers can access the job market, and ensuring that further education and training programmes provide the real-world skills needed by public- and private-sector employers. Public employment to support service delivery, and public works projects that draw in lower-skilled workers, will continue to play an important role. The issue of youth unemployment is imperative and needs to be confronted directly.

### What is the data telling us?

There are two principal sources of labour market data in South Africa. The first is household survey data, which began in 1995 with the October Household Survey (OHS) and has since evolved into the biannual Labour Force Survey (LFS) and, more recently, the Quarterly Labour Force Survey (QLFS) in 2008. The second source is from surveys of employers. The Survey of Employment and Earnings was discontinued in 2005 and replaced by the Quarterly Employment Survey (QES). Changing survey methodologies and sample frames make consistent analysis over longer time periods difficult.

Differences in employment outcomes between the QLFS and the QES, both produced quarterly by Statistics South Africa, also sometimes call the validity of labour data into question. Divergent findings can relate to the differences in survey objectives. The QES derives its data from the payroll records of businesses registered for VAT and tracks the demand for labour in the non-agricultural formal sector, while the QLFS is a survey undertaken at a household level with a focus on labour supply.

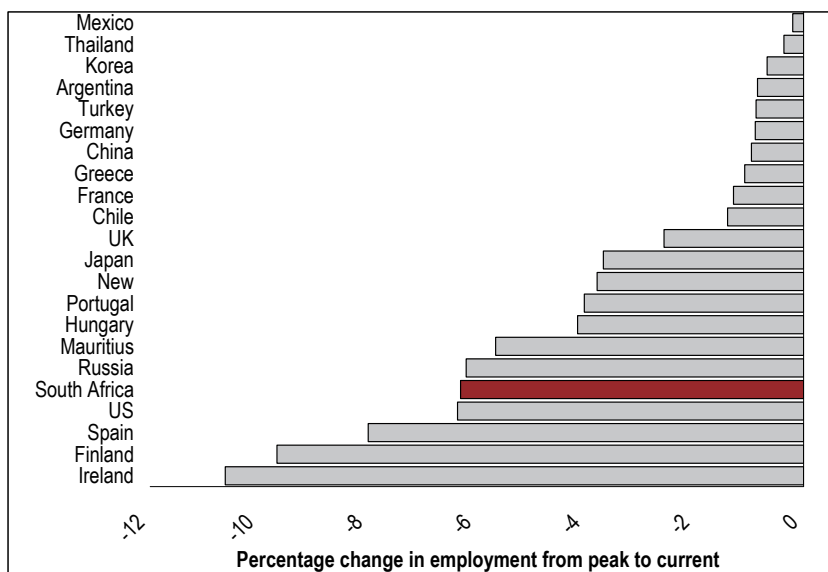
The *narrow* (official) definition of unemployment includes individuals who currently do not work, wanted to work and have taken active steps to find work or start a business. The *expanded* definition of unemployment includes those who wanted to work, but who have stopped trying to find a job.

## The global jobs crisis

Global unemployment has risen by about 34 million since 2007. In the United States, employment has fallen by 8 million, and 1 in 10 workers is unemployed, a 26-year high. In Spain, the unemployment rate has increased by 11.2 percentage points, with joblessness hovering near 20 per cent. These figures do not include those who are no longer seeking work. Prospects for an immediate recovery in many labour markets are weak. There are insufficient jobs available and, with abundant spare production capacity, employment in high-income countries is only expected to return to pre-crisis levels in 2013.

*Some 34 million jobs have been lost worldwide over the past three years*

**Figure 3.1** Falling employment in selected countries<sup>1</sup>



<sup>1</sup> International Labour Organisation

### The jobs crisis in South Africa

The deterioration in South Africa's labour market has been particularly sharp relative to the decline in economic growth. While there was an uptick in job creation in the fourth quarter, overall employment for 2009 fell by 870 000, and the unemployment rate has risen to 24.3 per cent. Agriculture, mining, manufacturing, construction, and trade have exhibited falling employment levels, eroding many of the jobs gains from the preceding years of economic growth. Job cuts and retrenchments have occurred, but the principal explanation for the fall in employment is the sharp slowdown in job creation. Gross job creation has nearly halved over the past 12 months as firms have cut back on hiring. Young, lower-skilled and male workers have been most affected:

*Slower job creation explains much of the fall in employment*

- Youth employment (15-24 years) has fallen by 13.6 per cent (219 000), with 48.3 per cent out of work.
- Employment of unskilled and semi-skilled workers has fallen by 527 000.
- Male employment has decreased by 7.1 per cent (550 000) while female employment is down 5.2 per cent (320 000), reflecting the relative composition of the hardest-hit sectors.

With fewer job opportunities and vacancies available, many have withdrawn from the labour force. The share of working age persons in the labour force has declined to 54.8 per cent, with the number of discouraged workers rising by 518 000 to 1.7 million. These numbers are captured in the expanded definition of unemployment, which stands at 31.1 per cent.

## ■ A long-term view of the labour market

*A fundamental skills mismatch has developed over the long term*

South Africa has not created enough jobs to absorb the rapid increase in the labour force after 1994. Unemployment remains very high and a fundamental skills mismatch hinders future job and productivity growth.

### An expanding labour force

The labour force participation rate (LFPR – the proportion of working age South Africans in jobs or searching for work) rose strongly from the mid-1990s, from 48 per cent in 1995 to 57.0 per cent in 2003, and 57.8 per cent in 2008. In the absence of sufficient employment growth, however, the 4.7 million additional people entering the labour market between 1995 and 2003 resulted in the unemployment rate rising 9.5 percentage points.

**Table 3.1 Labour force, employment and unemployment, 1995 – 2008**

Thousands	Labour force	Working age population	Employed	Unemployed	Absorption rate (%)	Unemployment rate (%)	LFPR (%)
1995	11 547	24 231	9 515	2 032	39.3	17.6	47.7
2003	16 207	28 456	11 812	4 395	41.5	27.1	57.0
2008	17 788	30 752	13 713	4 075	44.6	22.9	57.8

Source: Statistics South Africa

### Structural change in the economy

*In 1970, mining and agriculture accounted for nearly 30 per cent of jobs; in 2008, only 8 per cent*

The economy can be subdivided into a tradables sector (agriculture, mining and manufacturing), non-tradables (construction, wholesale and retail trade, transport and communication, and financial and business services), and government (utilities and community and personal services). Over the past four decades the South African economy has exhibited slower growth in the tradable sectors – particularly agriculture and mining, where output grew at just 0.3 per cent a year since 1970 – and stronger expansion in non-tradables.

Agriculture, mining, manufacturing, construction and trade are intensive in low-skilled labour compared with most services, as shown in Table 3.2. Stronger growth in construction and trade has supported considerable job creation in these sectors in recent years. However, where growth has been slow, less-skilled labour has become too costly and employment has declined. Mining and agriculture accounted for almost 30 per cent of jobs in 1970, but only 8 per cent in 2008.

These patterns contributed to slow employment growth because just as South Africa's supply of labour was expanding rapidly, the relative demand in some labour-intensive sectors was declining.

**Table 3.2 Share of employment that is unskilled and semi-skilled by industry, 1995 – 2008**

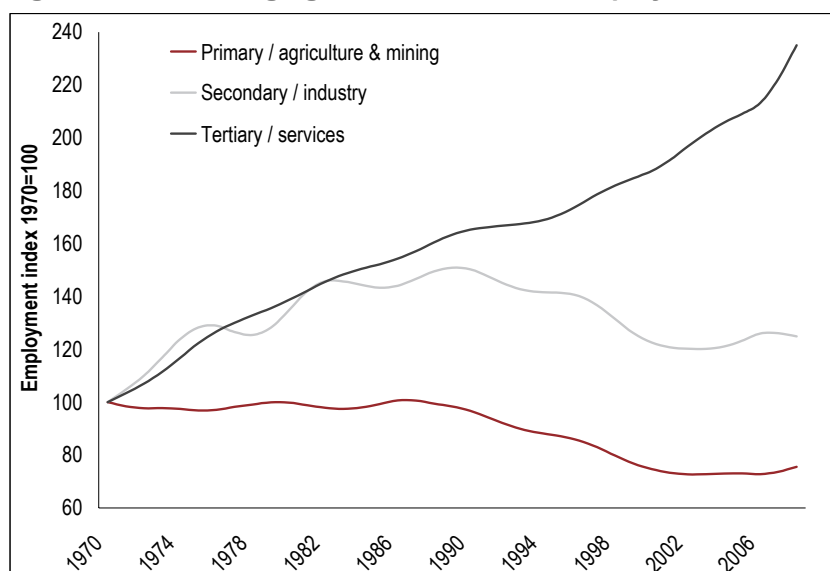
Percentage	1995	2008
Agriculture	99.0	94.1
Mining	92.0	87.9
Manufacturing	87.0	82.1
Utilities	80.0	68.8
Construction	90.0	88.3
Trade	84.0	84.2
Transport and communication	73.0	76.8
Finance	62.0	59.5
Community and personal services	54.0	49.8
<b>Total</b>	<b>78.2</b>	<b>73.8</b>

Source: Statistics South Africa

### Labour demand and skills mismatch

In tandem with the shift towards services, advances in production technologies that require higher skills have further reduced employment growth. The share of high-skilled jobs in total employment has risen strongly since 1995, with the share of semi-skilled and unskilled labour declining. This process accelerated between 2004 and 2008. Greater use of skilled labour brings many benefits, including higher productivity and real wages. However, declining or sluggish demand for agricultural, production and entry-level workers, alongside changes in production technology, has led to slow jobs growth for the lower skilled.

*Skilled labour accounts for a growing share of South Africa's workforce*

**Figure 3.2 The changing structure of formal employment****Table 3.3 Skills composition of employment, 1995 – 2008**

Percentage	Skilled	Semi-skilled	Unskilled
1995	21.8	53.1	25.1
2004	23.9	52.7	23.4
2008	26.1	51.0	22.8
Job growth ( 1995 – 2008)	1 380 000	1 780 000	680 000

Source: Statistics South Africa

## Real wages

Since 1994, rising labour supply and sluggish job creation have held back wages and earnings in some sectors and in the informal economy, but remuneration levels in the formal economy have continued to increase. In manufacturing, real wages rose by over 40 per cent between 1992 and 2008, and continued to rise in 2009 despite a marked decline in output and employment.

*The gap between wages and productivity for younger workers has contributed to youth unemployment*

Determinants of real wage trends are complex and include rising skills requirements associated with technology change, shortages of specific skills, collective bargaining trends and minimum-wage protection. The gap between real wages and productivity is particularly high for young and lower-skilled workers, and contributes to the problem of youth unemployment, because companies are reluctant to increase hiring when they cannot adequately assess workers' potential.

The legacy of apartheid spatial planning, which locates many residents of townships and rural areas far from workplaces and transport networks, results in high transport costs. Combined with poor information about work opportunities, this drives up labour supply costs.

## The characteristics of South Africa's labour market

The skewed pattern of unemployment reflects both historical patterns of social and economic development, as well as the present structure of the economy and labour market.

Unemployment in South Africa is highest among Africans, the young, the less educated, women and those from more rural provinces.

- Among those who do not have a matric qualification, fewer than one in three work.
- Only 29 per cent of working age adults in Limpopo and 31 per cent in the Eastern Cape have jobs.
- Those younger than 35 account for 73 per cent of the unemployed.

**Table 3.4 Unemployment, employment and labour force, 2009**

Percentage	Unemployment rate	Share of unemployment	Absorption rate <sup>1</sup>	LFPR
<b>By gender</b>				
Male	22.9	51.2	48.2	62.4
Female	26.0	48.8	35.4	47.9
<b>By population group</b>				
Black African	28.6	86.4	36.9	51.7
Coloured	20.8	9.7	51.5	65.1
Indian/Asian	11.1	1.3	50.1	56.3
White	4.9	2.5	65.6	69.0
<b>By age</b>				
15 – 24	48.3	31.4	13.8	26.8
25 – 34	28.5	41.5	52.2	73.0
35 – 44	17.1	17.8	63.0	76.0
45 – 54	10.8	7.4	60.3	67.5
55 – 64	6.7	1.9	37.6	40.3
<b>Total</b>	<b>24.3</b>		<b>41.5</b>	<b>54.8</b>

1. Absorption rate is the share of the working age population (15 to 64 years) that is employed.

Source: Statistics South Africa

## Sector trends in employment

Strong economic growth between 2004 and 2008 reversed the long-term trend of rising joblessness. The unemployment rate fell from 27.1 per cent in 2003 to 21.9 per cent in the fourth quarter of 2008 as 1.7 million net new jobs were created.

*Strong economic growth reduced unemployment between 2003 and 2008*

Over this period South Africa's employment coefficient (employment elasticity) – the ratio of employment growth to economic growth – was 0.66, indicating that employment increased by 0.66 per cent for every 1 per cent of economic growth. Data from the International Labour Organisation shows this rate compares favourably with global trends.

**Table 3.5 Employment growth, 2004 – 2009**

	2004 – 2008				2009	
	Average GDP growth (%)	Employment growth	Average employment growth (%)	Cumulative employment growth (%)	Employment	Employment (%)
Agriculture	2.8	-20 000	-0.6	-2.5	-149 000	-19.5
Mining	-1.3	-55 000	-3.8	-14.3	-25 000	-7.8
Manufacturing	5.1	121 000	1.6	6.6	-202 000	-10.4
Utilities	3.3	7 000	2.0	8.0	12 000	14.0
Construction	11.5	353 000	9.7	45.1	-106 000	-8.9
Trade	4.8	402 000	3.5	14.6	-291 000	-9.2
Transport and communication	5.1	88 000	3.1	13.0	-35 000	-4.5
Finance	7.8	428 000	7.8	34.9	123 000	7.5
Community and personal services	4.1	321 000	3.3	14.0	-33 000	-1.2
<b>Total<sup>1</sup></b>	<b>5.0</b>	<b>1 645 000</b>	<b>3.6</b>	<b>15.2</b>	<b>-706 000</b>	<b>-5.6</b>

1. Excludes employment by private households.

Source: Statistics South Africa

The finance, trade, construction and community services sectors recorded the largest employment gains. Skilled employment growth averaged 5.4 per cent over the period (611 000 jobs), twice as fast as semi- and unskilled job growth. The construction and trade sectors created many less-skilled jobs, while the complementary relationship between skilled and unskilled labour contributed to semi-skilled and unskilled jobs in non-trade related services rising by 476 000 over the period.

### Agriculture

Agriculture accounts for just 5 per cent of total employment in South Africa, absorbing a far lower share of labour supply than in other emerging markets and developing countries, where one in five work in agriculture. Employment has fallen by almost 45 per cent since 1995. Production has lagged behind economic growth, partly due to rising input costs and uncertainty concerning land reform. Job creation has also been hindered by more capital-intensive growth and low agricultural labour intensity, which reflects the dominance of commercial farming rather than small-scale production of cash crops or subsistence agriculture.

*Low agricultural labour intensity reflects the weight of commercial farming*

## Mining

*Mining employment fell from 593 000 in 1995 to 329 000 in 2008*

Largely as a result of the long-term decline in gold production, mining employment has declined by more than 40 per cent since the mid-1990s, from 593 000 in 1995 to 329 000 in 2008. As mining has moved ever deeper, production costs have risen dramatically, putting pressure on the profitability of mines even as the gold price has risen to all-time highs.

South Africa remains a significant contributor to global mining output and has well-established reserves in a wide range of minerals. Rising production in other commodities, particularly platinum group metals (which are capital intensive) and coal, have offset some of the job losses in gold mining and slowed the overall decline in mining employment. Yet the collapse of external demand and commodity prices during 2008 and 2009 resulted in mining production declining to a 34-year low and the elimination of 25 000 jobs. The recovery of demand for commodities in the period ahead will create some room for mining employment growth.

## Manufacturing

*Industries that struggled to raise productivity have had a harder time adjusting to competition.*

Manufacturing job losses during the 1990s reflected stagnation in the sector. Growth averaged 0.3 per cent a year as high inflation resulted in rising interest rates that suppressed demand. Trade reform during the period led to better access to global markets as well as increased competition. Industries that struggled to raise productivity growth to retain market share have had a harder time adjusting to competition. Sectors that responded positively experienced a marked increase in capital investment, improved labour productivity and higher employment.

An improved growth performance between 2004 and 2008, averaging 5 per cent a year, saw manufacturing employment expand by a net 121 000 jobs. While large job losses occurred in food, clothing and textiles, and electrical machinery, there was strong employment growth in wood and paper, metals and machinery, motor vehicles and components, radio and TV, and other instruments. Job gains were strongest in export-oriented industries, though the recession may have reversed some of these gains.

## Construction

*Low inflation and interest rates resulted in a construction boom that fuelled job growth*

Historically low inflation and interest rates supported a boom in construction over the past decade. The sector grew at an average rate of 11.5 per cent a year over the period 2004-2008, supported by strong private investment growth. A high employment coefficient of 0.85 translated into employment growth of almost 10 per cent a year and 353 000 net new jobs, of which 31 per cent were unskilled and 51 per cent semi-skilled. A fall in private investment during the recession has reversed some of these gains, with employment declining by 8.9 per cent in 2009.

## Trade/retail

*The trade sector has considerable potential to create jobs rapidly*

The trade sector has benefited from low inflation and moderate interest rates, which supported a spending boom until households began to adjust for over-indebtedness and markets turned sharply negative in 2009. Strong growth in household consumption expenditure and the subsequent expansion of the retail sector resulted in employment increasing by



402 000 between 2004 and 2008, with 72 per cent of the new jobs being lower-skilled (285 000). The contraction in household spending during 2009 led to a large fall in employment. In contrast to the general pattern, job losses have been largest for skilled workers (18 per cent) and smallest for the unskilled (7 per cent). This sector has considerable potential to create jobs rapidly, supported by well-established training capacity and logistics.

### **Transport and communications**

Large-scale investment associated with government's capital infrastructure programme and the 2010 FIFA World Cup boosted employment in the transport and communication sector, creating a net 88 000 jobs between 2004 and 2008. Job losses have occurred during the recession. Investment in transport services in the run-up to the World Cup, and beyond, will contribute to future expansion in transport employment, while the adoption of new technologies and improved network infrastructure should broaden opportunities in information and communications technology over time.

### **Finance, insurance, real estate and business services**

Finance, insurance, real estate and business services (for example computer, legal, accounting and engineering activities) have been responsible for 30 per cent of South Africa's growth since 1994 and account for 21 per cent of GDP. This sector saw strong employment growth between 2004 and 2008, particularly in business services, with net job creation higher than any other sector. Although the sector is high-skill intensive (40 per cent of workers are skilled), there were almost 100 000 net unskilled and 144 000 net semi-skilled jobs created.

*Net job creation in financial and business services was higher than any other sector between 2004 and 2008*

While there were losses in some subsectors, financial services overall continued to create jobs during 2009.

### **Public sector employment**

#### *Public service employment*

Government's commitment to improved service delivery underpinned rising employment in community and social services, as state employment increased by 300 000 jobs between 2001 and 2008. Employment in education, health and policing has risen strongly.

*State employment in education, health and policing has risen strongly*

#### *Expanded public works programme*

The expanded public works programme created 1.6 million short-term jobs during its first phase from 2004 to 2009, exceeding its target of 1 million. These jobs were primarily in infrastructure (955 000 jobs), environmental (468 000) and social sector (174 000) projects and lasted on average 78 days. The second phase of the expanded public works programmes was launched in 2009 and includes an incentive grant to government departments and agencies that exceed their job targets. The second phase of the programme also aims to increase average job length.

## ■ Employment scenarios

*Employment scenarios highlight the importance of more rapid, jobs-intensive growth.*

Job creation is likely to be weak in the short term. Employment typically lags the business cycle, so the recovery is unlikely to translate into rapid net job growth. As the recovery gathers pace companies will become more confident and begin hiring again. There are now signs of improvement in the labour market, with net job creation in the fourth quarter of 2009.

Scenario planning shows that progress in reducing unemployment will require both stronger economic growth and a more labour-absorptive growth path. Using South Africa's long-term employment coefficient of 0.5, the National Treasury has developed employment scenarios over the next 10 years based on different trajectories for economic growth.

*A higher-growth scenario sees unemployment falling to 13.8 per cent by 2019*

The moderate recovery outlined in the budget forecast is projected to create just over 1 million jobs in the next five years, and would result in only a marginal decline in the number of unemployed and the unemployment rate by 2014.

There are two ways to raise employment, and they are related. The first is to grow faster and the second is to raise the absorptive capacity of the economy. Economic reforms aimed at addressing both are required to bring down our high levels of unemployment.

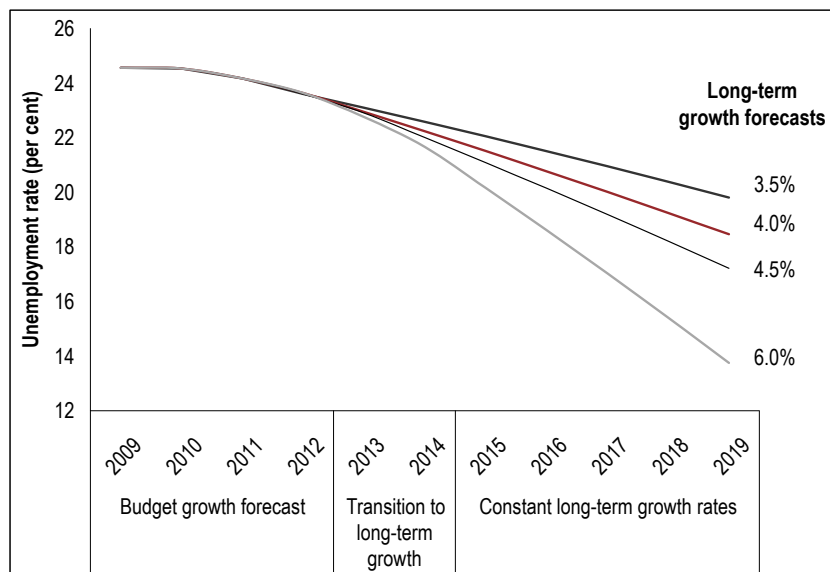
As Table 3.6 shows, variable rates of growth and job-creation intensity lead to different outcomes. For example, in scenario A, with growth averaging 3.5 per cent annually, South Africa would create 1.3 million jobs between 2015 and 2019, lowering the unemployment rate to 19.8 per cent. In contrast, scenario D, with growth reaching 6 per cent, would lead to the creation of a total of 2.3 million jobs over the same period, bringing unemployment to 13.8 per cent.

**Table 3.6 Employment scenarios<sup>1</sup>, 2010 – 2019**

	Growth (%)		Change in employment		Employment (thousands)		Change in unemployment (thousands)		Unemployment rate (%)	
	2010 – 2014	2015 – 2019	2010 – 2014	2015 – 2019	2014	2019	2014	2019	2014	2019
Scenario A	3.2	3.5	1 085	1 274	14 058	15 332	-122.7	-311.4	22.6	19.8
Scenario B	3.4	4.0	1 147	1 470	14 120	15 590	-184.9	-507.2	22.2	18.5
Scenario C	3.5	4.5	1 189	1 667	14 162	15 829	-226.5	-704.1	22.0	17.2
Scenario D	3.7	6.0	1 251	2 266	14 224	16 490	-288.9	-1 303.1	21.7	13.8

*1. The scenarios project growth of 1% per year for the working age population and hold the labour force participation rate constant at 55%.*

Figure 3.3 Unemployment scenarios, 2009-2019



## Addressing the employment challenge

To build a more inclusive and equal society, South Africa needs a marked expansion in employment. This is not only an economic objective: putting more people to work will contribute to human development, income redistribution and social cohesion. Broadening economic participation assists in curbing dependency, countering crime and reducing poverty, illness, alienation, mental stress and social exclusion.

*Putting more people to work is not only an economic goal: it is about human development*

The magnitude of the employment challenge demands a comprehensive policy framework, in which job creation is targeted across all sectors and several government programmes, rather than piecemeal policy reforms. Improving education is a key priority in the long term. In the interim, a multifaceted approach, driven by clear medium-term objectives, offers the best chance of success. This approach must be a shared priority of government, business and labour, adopted at the highest level, taking into account several complementary imperatives:

*Job creation needs to be the priority for government, business and labour*

- Job creation needs to be maximised.
- Wage growth needs to be aligned with productivity growth.
- Wage and non-wage costs need to be flexible enough to maintain jobs.
- Fair labour protection needs to be effectively enforced.
- Workers should not be intentionally or unintentionally discriminated against in their search for work by practices, regulations or laws.

The fiscal stimulus, rising public employment and the expanded public works programme have reduced the impact of the recession on employment. At the same time, many of those who have lost jobs have had the resulting fall in earnings cushioned by Unemployment Insurance Fund (UIF) payments. A training layoff scheme has been introduced as part of a framework agreement reached in the National Economic Development and Labour Council in response to the global crisis, but take-up has been low.

*Government's fiscal response to the crisis reduced the impact on employment*

Policies that promote low and stable inflation and higher growth have several complementary effects: they reduce interest rates, stimulate investment and capital accumulation, and in turn raise labour productivity and employment. Effective monetary policy that anchors inflation expectations reduces uncertainty. Alongside a sound macroeconomic framework, South Africa needs institutional and microeconomic reforms to remove the structural impediments to economic growth and job creation.

## **Wages, taxes and the regulatory environment**

### *Wages and productivity*

*Real wage growth needs to be linked to productivity*

To be sustainable, real wage growth needs to be linked to rising productivity. If not, rising wages will undermine competitiveness and ultimately lead to businesses cutting jobs or closing down. In pursuing decent work opportunities for all work-seekers, expanding entry-level job opportunities is essential. Given the importance of this issue for creating new jobs, there may be a role for government to work with business and labour to explore ways of aligning wage-setting with productivity growth.

### *Taxes*

The tax system can be used to encourage employment. The progressive structure of personal income tax, and taxable allowances of up to R30 000 at the start and completion of learnerships, already provide incentives that support job creation. A more direct approach would be for government to provide incentives for companies to hire new workers through a general wage subsidy that reduces the company's labour costs without influencing the wage rate. Targeted appropriately, such a subsidy would encourage labour-intensive and youth hiring. Exempting employers from making social security contributions for young or lower-skilled workers (with government providing these contributions directly) could also boost job creation.

### *The regulatory environment*

*Improved implementation of legislation and regulatory adjustment would contribute to better outcomes*

South Africa has a well-developed labour-market regulatory environment, including effective employment protection legislation. In its 2008 *Economic Assessment of South Africa*, the Organisation for Economic Cooperation and Development (OECD) indicates that employment protection is broadly in line with international standards and is "relatively flexible". The OECD suggests, however, that the resolution of labour disputes and dismissals is slow and cumbersome, raising the costs and perceived risks to employers. Such difficulties inhibit new hiring, since firms are reluctant to hire inexperienced workers when it is costly to dismiss poor performers. It seems likely that improved implementation of labour protection legislation, together with adjustments to regulations where required, would contribute to better outcomes for both employment and industrial development.

*Regulatory reform to help first-time work-seekers find employment is important*

Without work experience, for example, young people cannot signal their ability to potential employers, who in turn face considerable costs

associated with taking on new workers on a trial basis. Job creation for young work-seekers without experience would therefore respond positively to a relaxation of protective legislation during probation.

To promote job creation, the regulatory environment needs to support greater competition and encourage new businesses to get started and expand by reducing barriers to entrepreneurship, trade and investment. This includes cutting red tape and administrative burdens on small firms, and reviewing the scope of collective bargaining agreements. Such reforms would also improve the economy's resilience to shocks and allow a smoother reallocation of resources away from unproductive activities to more productive ones. The OECD indicates that there is greater room for competition policy to drive growth, investment and employment.

*More competition in the economy will increase employment.*

### **Social welfare and labour market policies**

Employee benefit funds and unemployment insurance are valued elements in the overall wage package, but they have cost implications and can indirectly influence labour participation. As discussed in Chapter 7, progress needs to be made in social security reform to achieve more cost-efficient and equitable income protection and retirement savings.

The UIF plays an important role in cushioning the fall in incomes as a result of retrenchments. The fund has experienced a sharp rise in the number of new claimants, from an average of 48 231 per month in 2008 to 77 635 in the third quarter of 2009. Total payments have risen by 50 per cent and averaged R455 million a month in 2009. The UIF, however, covers only a fraction of the unemployed.

*UIF plays an important role, but covers only a fraction of the unemployed*

### *Active labour market policies*

Networks (family and friends who have jobs) are an important part of finding work around the world, including in South Africa. Those without networks struggle to find employment. The Department of Labour, through its 125 labour centres, offers employment facilities that aim to provide local network information services, and is exploring ways to improve the effectiveness of these centres.

*More effective use of labour centres would improve job search*

Spatial factors also need to be addressed. Long distances and high transport costs deter job search and raise labour supply costs. Lowering costs through more effective and cheaper public transport, alongside improved urban planning, could alleviate this constraint. Transport subsidies can also be considered.

### **Skills development**

Investment in skills is coordinated through the National Skills Development Strategy, overseen by government, business and labour. It is financed through a skills levy that goes to the National Skills Fund and 23 Sector Education and Training Authorities (SETAs) for training and skills development programmes, and reimbursement of employer training costs. There are also tax incentives for learnership and apprenticeship programmes. In 2010/11, SETAs will receive about R6.7 billion for skills development, and the National Skills Fund R1.7 billion.

*Given significant public investment in the SETA system, challenges must be addressed*

SETA performance has been uneven. A 2008 review by the Development Policy Research Unit at the University of Cape Town found that the system suffers from weak reporting requirements, underdeveloped capacity, lack of effective management, and inadequate monitoring and evaluation, limiting the ability of SETAs to serve as primary vehicles for skills development. Given the significant investment of public funds in this area, these challenges must be addressed.

*Government will work to strengthen linkages between skills development and FET colleges*

The SETAs now fall under the authority of the Department of Higher Education and Training, which is preparing reforms to make the system more effective and accountable. Government will also work to strengthen linkages between skills development and FET colleges, which are best placed to address specific workplace needs. Now that the recapitalisation of FET colleges has been completed, a review of the curriculum in consultation with business and labour may be required to ensure a better match between training and skills. Recapitalisation of 200 technical schools through a new conditional grant in 2010/11 is also aimed at deepening technical skills linked to the needs of the modern workplace.

*Encouraging skilled immigration will increase employment*

The immigration of highly skilled individuals can boost employment directly – because highly skilled and less-skilled workers complement one another – and indirectly by increasing economic growth. South Africa's immigration policy recognises the problem of scarce skills, but implementation has been cumbersome. Job creation would benefit from improved implementation of existing policies to attract skilled labour.

### **Public-sector employment**

Public-sector employment has scope to expand in education, health, policing and local government to respond to service delivery priorities, but its pace will depend on moderation in real remuneration trends. Similarly, government's infrastructure programme, particularly its emphasis on housing, water and sanitation, and roads infrastructure, is supportive of employment and generally labour intensive. The large-scale Eskom and Transnet infrastructure programmes will also contribute to both higher private investment and employment.

*For a more effective and efficient government, public-sector productivity needs to improve*

Given that South Africa requires a more efficient and effective government, public-sector productivity needs to increase. Public-service reform, aligned with the new focus on outcomes and accountability for service delivery, is also necessary to ensure that salary increases are affordable in the long term.

### **Expanded public works**

Public works schemes have the potential to improve welfare and reduce poverty by providing mass employment for lower-skilled workers. In its first phase, the expanded public works programme created 1.6 million short-term jobs. The success of the programme was, however, diluted by the limited duration of work, lack of training and low labour intensity (except for social sector projects), which increased the cost per job created. The second phase of the programme is designed to increase both job duration and the labour intensity of projects, and will continue to be a valuable short-term measure to mitigate unemployment.

Phase 2 aims to create 4.5 million short-term jobs that last 100 days on average. An estimated total of R52 billion will be spent on the activities of this programme over the next three years. Modifications include:

- The inclusion of a community works programme and a non-governmental organisation pilot programme, with initial results suggesting that these can help expand employment.
- Performance-based incentives to encourage provinces, municipalities and NGOs to undertake more labour-intensive projects.
- Improved accountability arrangements and formal targets.

*Public works programme aims to create 4.5 million short-term jobs that last 100 days on average*

Between April and September 2009, 223 568 short-term jobs were created, primarily in infrastructure projects. This is 40 per cent of the 2009/10 target and an encouraging start. However, an apparent decline in the labour intensity of infrastructure projects, despite the introduction of the new incentive system, is of concern.

### **Sector opportunities for job creation**

Addressing structural impediments offers wide-ranging opportunities to accelerate employment growth, but there is also significant scope for improved approaches to specific sectors that create jobs. Government provides various forms of support to the clothing and textiles industry, and services such as call centres, business process outsourcing and tourism. Other sectors with potential for rapid growth include:

*Agriculture, clothing, call centres, tourism and other sectors offer important job-creation opportunities*

- Agriculture, where continued improvements in infrastructure and access to markets will complement rural development and land reform.
- Labour-intensive industrial development and export zones, where regulatory reform and employment incentives could make the cost of labour more competitive, leading to job creation.
- Small business services and trade associated with housing and local economic development programmes.
- Services such as security and maintenance of education and health facilities.

### **The challenge of youth unemployment**

Youth unemployment is extremely high. More than 3 million young people do not work, translating into a youth unemployment rate of nearly 35 per cent. Young people tend to stay unemployed for a long time before finding a job. Such long periods of joblessness can produce permanent scars, for being unable to find a job at a young age raises the probability of being unemployed later in life and involves a wage penalty.

*Youth unemployment is the most pressing challenge*

The case for intervening in the youth labour market is strong and could include:

- Providing a wage subsidy or hiring voucher to lower the cost of labour and compensate employers for the perceived risks of hiring inexperienced workers.
- Regulatory reform covering the probationary period to reduce the costs associated with determining a young worker's productive potential.

- Assessing existing measures, such as the learnership allowance, so that they provide incentives to hire younger, inexperienced workers.
- Minimum wage reform to align productivity and wages for young workers. Argentina, Chile, the Czech Republic and Turkey, for example, have lower minimum wages for youth.

Lowering the cost of hiring young workers and regulatory reform during the probationary period will provide additional incentives for firms to formalise, reducing the extent of unregulated labour and bringing more young workers into the formal economy.

Youth employment will also benefit disproportionately from sustained and accelerated economic growth because young people have a higher employment coefficient than older workers.

## **■ Conclusion**

Falling employment during the recession has made a solution to South Africa's jobs crisis even more challenging. A comprehensive package of measures to boost long-term employment growth, supported by more rapid private-sector job creation, is needed. Policy should address the structural and microeconomic impediments to job creation, exploit sector opportunities for labour-intensive growth, and pay particular attention to youth employment.