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Committee Report No 5

Social Protection: Employment and Unemployment

5.1 Introduction

This chapter is intended to inform policy to address the hardships caused by unemployment and very low-income employment. The sufferings caused by unemployment, along with the social devastation wrought by poverty and chronic illnesses such as AIDS, constitute South Africa's most pressing social security concerns. Not far behind them, however, is the misery of the poverty associated with low-wage, precarious employment, like much of that in the informal sector. Those among the unemployed who are destitute must be a priority as well as the working poor.

Specifically the chapter aims to:

- Present, using the most recently available information, a picture of the unemployed in South Africa.
- Show the extent, using this information, to which government programmes to foster employment creation fall short of what is required to address the unemployment problem.
- Identify, tentatively, the approximate numbers who could be 'reached' by active labour market policies, including supply-side measures such as skills training of one sort or another.
- Identify, tentatively, the 'difficult-to-place' among the unemployed.
- Spell out the dimensions of the 'youth' and the 'graduate' unemployment problems.
- Raise the question of refining measures of the severity of unemployment by pointing to the need for research into the question of unemployment due to lack of skills as opposed to a shortage of 'suitable' jobs.
- Reveal the extent of poverty in households containing adults of working age, in which there are no employed persons present (workerless households).
- Examine the nature of employment in the informal sector.
- Consider the extent of poverty in households containing informal sector workers.
- Consider the extent to which the welfare of vulnerable households could be improved by various social grants.
- Estimate the extent to which 'informal social security' arrangements are capable of addressing the problems faced by workerless households.
- Consider various aspects of the provision of social insurance, amongst them, maternity benefits, and the possibility of the incorporation of variously currently excluded groups such as domestic and government workers.
- Locate the concept of 'workfare' in the context within which it has emerged.

- Examine alternatives such as ‘workfare’ or public works programmes to address the problem of unemployment in South Africa.
- Consider the feasibility in South Africa (i.e., spell out the structural preconditions for), of linking preventive social measures (active labour market policies) to the conventional measures of social insurance and assistance.
- Consider various groups whom it may be desirable to single out for special labour market programmes, e.g., the youth.
- Offer recommendations on the various fields of inquiry.
- Spell out the required forms of social security policy for dealing with the unemployment problem, viz., social insurance, social assistance, public work programmes and preventive social security measures such as active labour market policies,

5.1.1 An overview of the problem

Chapter 2 on the Socio-economic Context for Social Protection offers a broad brush survey of the reasons why so many South Africans find themselves either unemployed, or working in occupations that provide little more than survivalist incomes. Ultimately, the welfare of most of the poor will only be significantly improved by their insertion into a labour market that delivers ‘good’ jobs. How this is to be achieved in South Africa is a question that poses continuing challenges.

Unfortunately, job-creating growth remains elusive—instead, unemployment continues to rise as shown in section 5.2 of this chapter. Formal sector employment is either static, shrinking slowly or growing slowly (it is not possible to tell which). Informal employment is probably growing, but from the estimates it is difficult to tell what is happening. Policy must concern itself with bringing about the conditions in which rapid job growth takes place. At the same time, however, relief has to be provided for those who, in the words of the Bill of Rights, ‘are unable to provide for themselves and their dependants’.

Government’s macro policy framework (GEAR) recognises that economic growth and employment have to be supported by measures to address poverty. Furthermore the need for an effective social protection system was reinforced with the recommendation that poverty alleviation could not be addressed solely through the provision of a safety net. A variety of measures to stimulate job creation, direct and indirect, (including measures to improve workforce skills and employability) were introduced, or where they were already existing, improvements were recommended.

Government’s focus, however, was and remains on job creation as the primary means of rescuing the poor and the unemployed from their destitution. For a variety of reasons, some of them complex and not adequately researched or understood, this strategy has resulted thus far in only limited success.

As early as August 1998, it was known that the number of unemployed started rising in 1995, increasing by 1,2 million in just two years. In July 2000, the October Household Survey (OHS)

revealed that the number of unemployed had risen from 4,6 million in 1996 to 5,9 million in 1999. The latest figures from the Labour Force Survey (LFS), although not strictly comparable, suggest that there may have been about 6,7 million unemployed by February 2001. Analysis by the Committee indicates that by mid-1999 reasonably reliable data, on which to chart the impact of economic policy, poverty and unemployment was available.

Despite Gear's success in achieving its goals of stabilisation of the macro-economy, rising unemployment as a result of a combination of factors has had a predictable effect on the millions not covered by social security. Among these factors, the impacts of economic globalisation on the South African economy also have to be considered.

International evidence, supported by World Bank¹ studies, suggests that the ameliorating effects of labour market policies on inequality associated with globalisation is negligible. The studies find, however that, "social protection mechanisms could be an important complement for policies aimed at further integrating developing countries with the rest of the world".²

The Committee's review of government-sponsored programmes to alleviate poverty through job creation and other strategies reveal mixed outcomes. Exactly how many new jobs have been created under the auspices of the poverty alleviation programmes (sustainable or otherwise) is difficult to say—the total numbers vary between 200 000 to 300 000. An overriding finding has been the inability to cope with the sheer mass of people requiring assistance through waged work and other forms of income support.

Policy to deal with unemployment (which spills over into policy to deal with the working poor) takes three standard forms—social insurance, social assistance and 'preventive social policy' (otherwise known as active labour market policy). There are two other areas in which policy recommendations are apposite. The first of these is concerned with the instruments to measure the success (or otherwise) of social protection policy. Related to this is a need to develop instruments and techniques (and to improve these where they already exist) for policy and programme evaluation on a continuous basis. Moreover instruments must be able to measure the severity of unemployment and not only the numbers of unemployed. These instruments have to be developed as a priority in South Africa. The field is large, ranging from the quality of statistics collected by the various departments and institutions concerned with social policy, to the 'official statistics' compiled chiefly by Statistics South Africa, and to a lesser extent by the South African Reserve Bank.

Government's current policy to address the problem of poverty and inequality has to be distilled out of a wide range of public statements as well as reports. An example is that of former Minister of Welfare and Population Development, Ms Geraldine Fraser-Moleketi, giving government's response to report called Poverty and Inequality in South Africa (PIRSA).³ Government's response to the PIRSA notes that the report is strong on poverty and weak on inequality (pp.1-2). In this regard, it was noted that:

... much work still needs to be done to develop the appropriate poverty measurement tools by Government. (p.2)

It was also critical of PIRSA's failure to reflect government's many achievements. The third criticism was of PIRSA's failure to provide a strategic vision.⁴ A little further on it was observed that:⁵

It is conceded in the concluding paragraphs of the chapter [in the PIRSA] that an employment strategy is indeed not developed. In the view of government this is a serious omission—at the very least the PIR should have provided a framework for developing the most viable strategy for the country at this point in time.

The Committee of Inquiry into Comprehensive Social Security takes a two-pronged approach to the relationship between social security and labour market and employment policy.

First, comprehensive social security has the potential to provide an income support mechanism for all South Africans, including those disenfranchised from the labour market. This functions to mitigate the most adverse consequences of unemployment. Second, comprehensive social security supports a developmental approach to labour market reform. Protecting workers from destitution is a proactive first step in addressing the intractable problem of structural unemployment. A guaranteed social protection system frees workers to invest in high return human capital and job search, and poverty reduction has a positive impact on job creation.

Comprehensive social protection improves the distribution of income and directly addresses the poverty that traps⁶ the economy from growth. This developmental approach is consistent with the growth strategy articulated in the government's Medium Term Expenditure Framework, which states:

A more equal distribution of wealth favours higher rates of growth. Improved levels of human development, therefore, are a central link in a virtuous growth cycle, in which higher savings, stronger demand for education, strengthened social capital, greater political and economic stability and growth in output are all mutually reinforcing.⁷

Likewise, the joint Department of Labour/Department of Education human resource strategy recognises that poverty and inequality limit “the ability of individuals, households and the government to finance the enhancement of skills, education and training that are critical prerequisites for improved participation in the labour market, and therefore, improved income.”⁸

The Committee's position on the question of the relationship between social security and labour market and employment policy is given in the box below.

Social security, labour market and employment policy

In the early stages of its work, the unemployment sub-committee of the Committee of Inquiry into Comprehensive Social Security envisaged a close integration of active labour market policies and social security policies, as conventionally understood. This view developed from a consideration of the form taken by social protection in advanced economies. As research proceeded, it became increasingly obvious that policy transplantation along these lines would be inappropriate—the structural pre-conditions for its success are not met in South Africa. For this reason, the Committee has engaged with those aspects of labour market and employment policy that strongly relate to poverty and social exclusion. The Committee's research shows that income security or income poverty for the millions is unlikely to be addressed, in the immediate to medium term, through employment. The vital importance of labour and employment areas of policy is acknowledged, as is the existence of a variety of institutions for developing and implementing policy. Further co-ordination of welfare and employment policies is necessary. This must, however, be achieved by strengthening the institutions of co-operation at all levels from Cabinet down, not by shifting responsibility for parts of employment policy to the Department of Social Development.

Poverty in South Africa is critically linked to the labour market. Research carried out for the Committee documents that in 1999 there were 4,6 million South Africans in the poorest households (living in households where gross monthly expenditure was less than R400 per month). A further 5,7 million people lived in households where expenditure was between R400-R800 per month. Average monthly per capita consumption expenditure in the poorest households was therefore, at best, in the region of about R100 per month. In the next expenditure class (R400-R800) per capita expenditure could not have been more than R170 per month. Even the most conservative poverty datum line in that period was set at between R300–R400 per month per capita. All 10,3 million people discussed above lived in households that contained no workers, either formal or informal. Labour market failure was thus a key determinant of their poverty.

Households with access to formal sector employment demonstrated substantial inequality—more than a third subsisted on less than R800 per month, while 15 per cent consumed more than R5 000 per month.⁹ Numerous academic studies corroborate, support and amplify these findings linking poverty and inequality to the labour market. For instance, in a recent study by Leibbrandt and Woolard found that “household income inequality is tightly linked to labour market access ... wage income is the primary cause of income inequality, but at least half of this ‘wage inequality’ is actually attributable to those households with no wage income ... Evidence suggests that inequality is rising and households at the lower end of the distribution are losing income share”.¹⁰

5.2 Employment and unemployment: The current situation

There is agreement that the number of unemployed in South Africa has grown substantially over the past few years. Many of their characteristics, and of the households in which they are to be found, can be ascertained with some confidence.¹¹

- Formal sector employment levels are a matter of some disagreement. In recent years, they may have risen (or fallen) a little. The manner in which total formal employment estimates are obtained (from household surveys) is dubious. Complicating this is the fact that the changeover from one form of household survey to another may have introduced a discontinuity into the (short) series that makes it difficult to tell what has happened over the past few years.¹² Formal sector employment levels, having apparently fallen between 1996-1998 may have started climbing back up to their 1996 level, but whether or not this is so, cannot be said with any confidence. What the sector certainly has not done is to create jobs in the numbers so urgently required in South Africa.
- Informal employment appears to be growing rapidly. This cannot, however, be confirmed. Not only that, the (equally short) informal sector employment series is also extremely volatile.¹³ It probably can be said with some confidence that if employment in the sector is indeed growing, then most of the jobs created are of the very low income (survivalist) variety.
- Official unemployment rates may have stabilised (at about 26 per cent), but then again, they may not—differences between successive estimates in the most recent period are not statistically significant, so it is not possible to say what has happened. The discontinuity referred to above also gets in the way of our ability to interpret unemployment trends.
- Because economic activity rates appear to have risen quite substantially between 1999 and 2001, the numbers officially unemployed appear also to have risen (from about three million to four million).¹⁴
- Unemployment rates according to the expanded definition seem to have stabilised at roughly their 1997 level (36-37 per cent). It is not clear what impact, if any, the 1999/2000 discontinuity has had on these results.

The numbers of ‘expanded’ unemployed appear to have increased substantially (by more than one million since 1999, and by more than two million since 1996). Once again, the explanation would seem to lie in rapidly rising economic activity rates. Why the rates of economic activity are rising is a matter of conjecture at the moment.

So too, is the question of what has happened to poverty levels. Despite dozens of government poverty alleviation programmes entailing the expenditure of billions of rands, the available evidence suggests that poverty is getting worse. That evidence consists chiefly in the observation that the number of ‘workerless’ households¹⁵ had apparently risen dramatically between 1995 and 1999. This, it would seem, is one consequence of rising unemployment levels.

Income inequality in South Africa, if it did not worsen between 1991 and 1996, is unlikely to have diminished. Widening intra-racial differentials, it appears, offset narrowing inter-racial income differentials. What has happened in the period since 1996 cannot be known with any certainty. The signs are not good—the factors that contributed to widening intra-racial differentials have probably been intensified by rising unemployment. Simulations performed on the income distribution data

show that very high rates of informal sector job creation are required merely to stop income inequality from rising (running in order to stand still).

These trends are analysed in greater detail below. Such detailed analysis is aimed at identifying the categories of people who are the most vulnerable and at risk in the labour-social security/welfare nexus.

5.2.1 Poverty and unemployment in South Africa: recent trends

Under conditions of relatively full employment, poverty is associated mainly with low wages. When, however, unemployment assumes the form that it has in South Africa, and starts climbing towards the levels that it has reached here, it can rival or supplant low wages as the major cause of poverty. This has important implications for policies intended to reduce poverty.

Instead of concentrating on how to devise means to promote income-generating capacities of those in low-wage occupations (invariably, low-productivity), policymakers have to devote increasing attention to find ways to ensure a growing proportion of the working age population can be gainfully inserted into the labour market. A situation arises in which asset poverty, of possibly quite significant dimensions, is transformed into one in which continuing asset poverty (and the relative income poverty to which it gives rise) is compounded by significant income poverty. The more the unemployment is suffered by those lacking the assets required to generate sustainable incomes, the less policies designed to enhance the income generating capacity of the poor are able to cope with income poverty.

A picture of unemployment and employment in South Africa as provided by the OHS results for the period 1996-1999 discloses a steady increase in the number of unemployed (from 4,6 to 5,9 million). The expanded unemployment rate was 33,0 per cent in 1996.¹⁶ It appears to have peaked at 37,5 per cent in 1998, settling around the 36 per cent mark since then. The unemployed continue to increase in number as economic activity rates (participation rates) rise. The February 2000 rate was 35,5 per cent, climbing back to 35,9 per cent in September. Numbers unemployed were roughly constant (the 6 553 000 in February vs. 6 559 000 in September would probably translate to somewhere in the region of 6,2 million OHS unemployed). A number of seasonal factors affect the results. These are 300 000 to 400 000 school leavers who are unable to obtain jobs. The number of unemployed could be said to have stabilised at around the 6 200 000 mark, with some tendency to rise, possibly at a slower rate than that observed in the past (figure 5.1).

Unemployment's intractability stems in part from its complexity. Unemployment in developing countries is viewed in the conventional literature primarily as a cyclical problem. Whatever merits this approach may have elsewhere, it is of little relevance in South Africa. The problem in South Africa is not 'cyclical'—it is structural or systemic. The September 2000 LFS results record a statistically insignificant increase in formal sector employment over the February 2000 figures—the February 2001 figures, in turn, record a statistically insignificant decline over the September 2000 figures.¹⁷ It seems, as noted above, that at best, formal sector employment is now roughly static,

with gains in those industries where employment is growing being counterbalanced by losses in those where it is shrinking.

In the absence of significant formal sector employment growth, the burden of absorbing the country's expanding labour force falls on the informal sector. Once unpaid subsistence agricultural producers have been removed from the picture, employment in the informal sector was roughly constant at about 1,8-1,9 million in October 1999 and September 2000. The results for the period prior to October 1999 are erratic, recording some improbable increases. The most recent figures, those for February 2001, show a substantial increase over the September 2000 results (more than 700 000 new workers), more than two thirds of whom appear to have been earning less than R500 per month.¹⁸

Figure 5.1 Unemployment & Employment in South Africa: 1996-2001

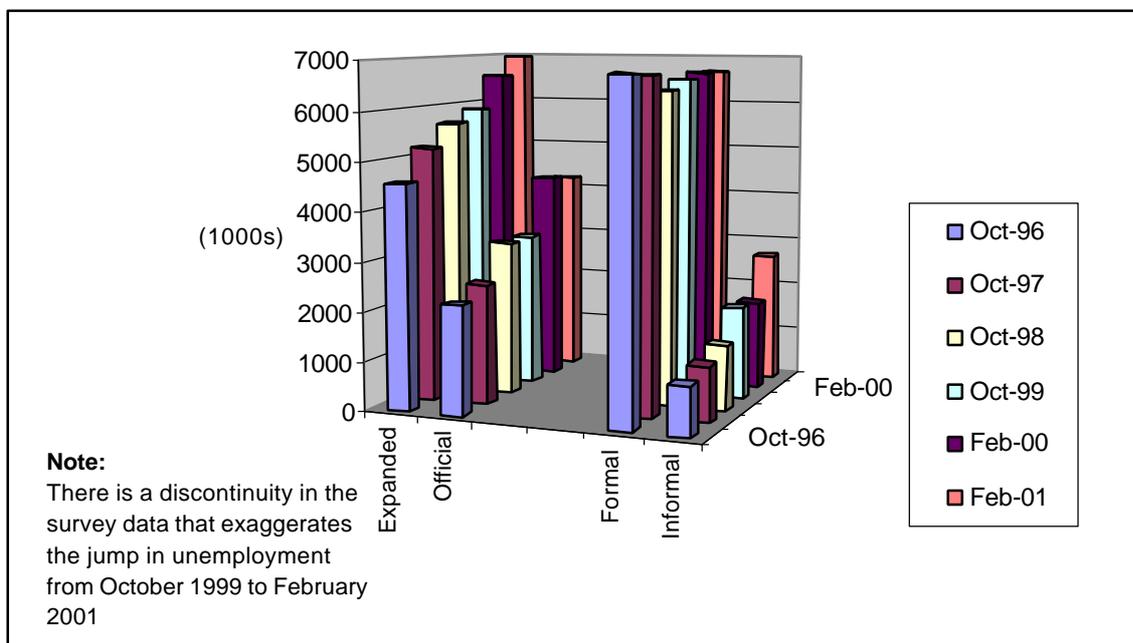
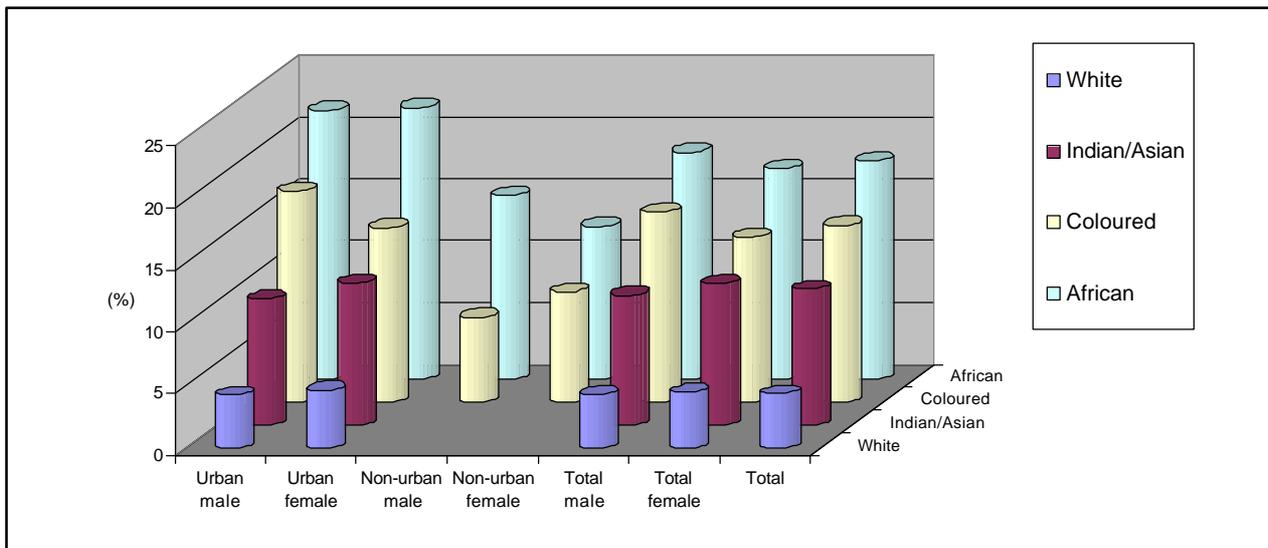


Figure 5.1 graphically shows the distribution of unemployment-employment over the period October 1996-February 2001. Constructed from tables 5.1 and 5.2 in the appendices to this chapter it shows the trends in the formal and informal sector over the period using both the expanded and official or strict definition of employment.

Figure 5.2: Relative burden of official unemployment: No. unemployed as % of No. of working age persons - February 2001



Several features of figure 5.2, showing the relative burden of unemployment on the population in the bar graph above are also significant.

- In the first place, Africans, as a group, whether they be in urban, or non-urban areas, have the highest probability of being unemployed. The higher unemployment rates translate into a disproportionate share of the burden of unemployment. Given their population size in the potential economically active population as a whole (76 per cent in 1999), this bigger burden is reflected in their share of total unemployment (89 per cent of the ‘expanded’ and 87 per cent of the officially unemployed). Given lower participation rates among Africans, it shows as well in their share of non-employment, or the proportion of the potentially economically active population that is not employed (83,7 per cent according to the official, and 80 per cent, according to the expanded definition of economic activity).
- In the second place, regardless of race group, unemployment affects women more severely than it does men. In all population groups, unemployment rates for women are higher than are those for men. The effect is least marked in the white group (the rates appear to be converging), and most noticeable among the African group, where the absolute difference in official unemployment rates is more than 10 percentage points. Using the expanded definition, this difference rises to more than 15 percentage points.
- Thirdly, using the official unemployment rate, economic activity rates differ significantly between race groups, between sexes and between regions. For African males, the regional difference is almost 20 percentage points, which is greater than the (substantial) difference between participation rates for African men and women. The high unemployment experienced by African men (somewhere in excess of 20 per cent) and the even higher rates experienced by African women (30 per cent and more), the reasons for the very different economic trajectories of the different groups is immediately apparent.
- A fourth feature of the results is that despite their much lower participation rates, unemployed African women outnumber unemployed African men by a substantial number.

This holds in both the urban and the non-urban setting. Initial findings of research currently underway suggests that this might be associated with the absence of men from households, a phenomenon related to family breakdown, and one that appears, in recent years, to be on the increase.¹⁹

Although the majority of officially unemployed Africans are concentrated in urban areas (1 641 000 out of 2 751 000 in 1999), there are more ‘discouraged’ unemployed in non-urban, than in urban areas (1 340 000 vs. 1 143 000 in 1999). In aggregate, there are many more discouraged women (1 487 000) than there are men (996 000).

The relative paucity of economic activity in non-urban parts of the country, combined with additional child-caring duties that render them location-bound, might explain why there are so many more discouraged women in non-urban areas. To be an African woman in the non-urban areas of South Africa is to be doubly disadvantaged—in 1998, using either the official or the expanded definitions, they were more than 10 times more likely to be unemployed than was a white male in the urban areas of the country. Given the relative mobility of males, it is perhaps a little surprising to find so many discouraged in non-urban areas. A possible explanation for this is the finding by Klasen and Woolard (2000b) that the unemployed with no other means of support return to families where some support is available. If this is in non-urban areas, then there is a strong likelihood that they will be ‘drawn away from employment opportunities’.

5.2.2 The potentially employable, and the ‘difficult to place’

In advanced economies, there are debates around the question of early intervention to prevent the unemployed from slipping into long-term unemployment. There is lack of agreement over a wide range of issues that arise in relation to this problem. Among these are the ethical problems involved in the use of personal characteristics to identify those at risk that have hindered the development of policy to tackle the problem²⁰. The lack of consensus over the processes by which people slide into long-term unemployment, is likely to hinder policy development for the foreseeable future.

As far as is known, this question has not been broached in South Africa on any significant scale.²¹ It is important, from a social protection perspective, however, to distinguish between groups that are likely to benefit from active labour market policies (policies designed to facilitate labour market transitions), and those that probably would not. Evidence suggests that under conditions of slow growth the most effective state intervention that can be made is the payment of social assistance benefits to a significant proportion of the unemployed population.

The object of the exercise is thus not to ‘separate out the unemployable’, a crude, and, if translated into policy, probably inequitable and almost certainly unethical procedure,²² but rather to provide a guide (admittedly rough) in an area where none exists at present.

Identifying those who could be described as ‘difficult to place’ *under particular growth conditions* also requires a look at some of their characteristics, especially of unemployed Africans, with

between one and 12 year's of education.²³ Accounting for almost 80 per cent of total unemployment, many of them have already slipped into the long-term unemployment, which is the cause of so much concern in advanced economies. This group may be divided along regional, sex, age, educational lines, and type of unemployment (strict or discouraged), then splits them into those who have previously been employed, and those who have not. For the former, durations of unemployment are given. For the latter, they may be inferred from the age of would-be worker. Scanning the figures it may be seen that the unemployed under consideration here have the following features:

- Most had never previously been employed (73 per cent of all the unemployed).
- They are not predominantly young (87 per cent of those who previously have been employed, and 62 per cent of those who have not previously been employed are over 25 years of age).
- Among those who previously had been employed, 66 per cent of those aged 25 years or more had been unemployed for more than one year; 41 per cent of them had been unemployed for more than three years.
- They have ceased to search for work that does not exist (among those who had previously been employed, 38 per cent had ceased searching for work; among those who had not previously been employed, this rose to 50 per cent).
- Among unemployed men and women, slightly over half are in urban areas (54 per cent in each case).
- Unemployed women outnumber men (2,6 million as opposed to 2,0 million, and this despite significantly lower economic activity rates among women).
- On aggregate, those who have previously been employed tend to be less well educated (fewer mean years of schooling; smaller proportion with Gr.12 education) than those who have not.
- With the exception of the strictly unemployed urban men, women tend to be slightly better educated (higher mean years of education and larger proportions with a Grade 12 education).
- Discouraged unemployed tend to be less well educated than the strictly unemployed, and urban unemployed tend to be better educated than the non-urban unemployed.²⁴

What these characteristics suggest is that 'unemployment' of the sort experienced in South Africa is not a 'shock' in the sense in which that concept is used in some of the development literature. The term would, of course, apply to someone who lost their job as a result of retrenchment, in a restructuring exercise, or any of the other processes that give rise to unanticipated unemployment.

Based on research analysed by the Committee identifying the 'difficult to place' is possible using certain assumptions and characteristics, such as those below:

- Discouraged (non-searching)

- Located in a non-urban area
- Education level below, say 12 years
- Unemployed for more than one year
- Female.

Describing being female as a ‘negative’ characteristic obviously refers only to the fact that among men and women with apparently similar characteristics, women have a higher probability of being unemployed.

As expected, strictly employed prime age males in urban areas have the lowest probability of being described as difficult to place. But it also seems unlikely that a poorly-educated 47-year-old male in a non-urban area who has given up searching for work, and who has never previously been employed, would have a 50 per cent chance of not being difficult to place. *From the available data, conservative, estimates yield a total of more than, .5 million people for whom the labour market possibly holds no prospects whatsoever. The Committee estimates that there may be in the region of two million people in this predicament.*

If this likelihood is factored into calculations about the desired distribution of budgetary allocations between ‘empowerment’ policies, more serious attention might be given to the problem of what to do about the ‘difficult to place’. Social grants suggest themselves as the obvious solution to the problem. Public works programmes have their attractions, not the least of them being their ability to target effectively in the areas in which they are undertaken. To cope with the problem as it has been outlined above, is to commit the state to a management task of monumental proportions. Such programmes—if they are not to be required to endure for the lives of these would-be workers (for that is what is implied by ‘difficult to place’)—would require a significant development and empowerment component if they are to enable people to graduate from ‘difficult to place’ to ‘able to compete in the labour market’.

5.2.3 Youth unemployment

Research commissioned by the Committee of Inquiry attempted to place in context, the ‘problem’ of youth unemployment. It attempted to answer the question of the extent to which the needs of this group were so pressing as to warrant their being ranked above other demands made on the social security system. The finding of this research was that while the severity of the youth unemployment problem is significant the proportions of the unemployed over the age of 36 seeking work for more than three years are much greater than those under that age. This finding supports the proposition made above, namely that some significant number of people are unlikely ever to be employed in the sense in which that concept is usually understood. A summary of the results of the investigation into youth unemployment is presented in Section 5.5.3.1.

To introduce the problem of youth unemployment, a sketch of the results for unemployed African youths, (who account for the overwhelming bulk of unemployed youth) appears in Table 5.3 (see

Appendices). Results are given by sex; by type of area (urban or non-urban); by unemployment status (strictly unemployed or non-searching (discouraged) unemployed, and by work experience (PE denotes previously employed, whereas NPE denotes never previously employed).

It is useful to bear in mind as one scans these figures, that each year hundreds of thousands of school-leavers enter the labour market. For every 100 of them, a mere handful will obtain formal sector employment. Some will go into the informal sector—the majority will swell the ranks of the unemployed.

All told, there were some 2,5 million unemployed young people in 1999 in the categories described above, 1,4 million women, and just under 1,1 million men. Slightly more than 1,3 million of them are in urban areas, the remainder in non-urban areas face a reality in which economic opportunities are few and far between. The age category 15-19 years contained only about 8 or 9 per cent of the unemployed youth—the others were divided roughly evenly between the two age categories 20-24 and 25-29 years. About 600 000 of the young men, and 700 000 of the women had previously been employed. Those above the age of 25 years who had never previously been employed, more than 860 000, would have been starting to move into the ‘difficult to place’ category—almost half of them (410 000) had already slipped into non-searching status. As may be expected, this tendency was more marked in the non-urban areas.

5.2.4 Graduate (and diplomat) unemployment

For February 2001, official the unemployment rate among African degree holders stood at 14,8 per cent for men (17 000 of them), and 17,3 per cent for among the 23 000 women unemployed. Interestingly, the next lowest unemployment rate by education level was among those with no education at all! At 16,7 per cent for men (76 000 of them), and 14,8 for women (73 000 of them) these rates were considerably lower than the next lowest group, the diplomats. Here, the unemployment rate among men was 21,1 per cent (50 000 men), and 23,2 among women (81 000 women). The latter group (the diplomats) are presumably mainly retrenched teachers (all have a diploma or certificate with Grade 12 education), or the output of a teacher training system that cannot place its graduates.

Degree holders and diplomats seem less likely to become discouraged in their work seeking efforts than the less-educated. Expanded unemployment rates for graduates were 16,9 and 19,7 per cent respectively for the men and women (numbers go to 20 000 and 27 000 respectively). For the diplomats, the corresponding results were 25,9 and 28,6 per cent with numbers rising to 65 000 and 107 000 respectively. Discouraged diplomats of 31 000 is a very large number, representing a huge investment in education and training, going to waste.²⁵

A feature of the results plotting unemployment against education level is the way in which unemployment rates rise as educational levels rise. This reaches a maximum in Grade 11 (39,7 per cent), but this hardly differs from the figure for Grade 12—39,1 per cent. This result corroborates a finding²⁶ that among the African unemployed, especially those who have not previously been

employed, below that part of the job market employing graduates, education levels for all of the unemployed are now higher than those of the employed.

Given the way in which the South African economy has developed, this outcome is only to be expected. Many of those in employment entered the labour market when education for Africans was minimal. The huge effort expended in attempting to raise educational levels, coupled with the rise in unemployment that has occurred during the past several years, would lead to precisely the outcome reported in the surveys.

This raises a series of important questions about education policy—they will not be addressed here, save to say that like all capital, human capital depreciates over time. If it is not used, it will lose value. Unemployed graduates and diplomats are relatively articulate, being represented by a number of NGOs that act as information disseminators and lobbyists. The fact that this problem can exist at all in a country crying out for skilled workers is a contradiction that needs urgent attention. It poses, in acute form, the question of where resources for labour market insertion policies should be concentrated—on those with the highest probability of becoming employed, or on those most in need of assistance. It is not obvious into which of these categories the well-educated unemployed should be placed.

5.2.5 Lack of skills or qualifications vs. inability to find 'suitable work'

The inter-racial burden of unemployment is highly unequally distributed. So too, it would appear, is the distribution of the intra-racial burden. Kingdon and Knight (2000), for example, demonstrate that the non-searching unemployed are more deprived than active job seekers.

Except where labour is in short supply, the exigencies of poverty (and the generally low skill levels of the poor) have served to drive them into those areas of the economy of low waged work. Where the poor are, for whatever reason, not available for such employment (this could be by virtue of access to land for subsistence production, or because relatively full employment makes choice possible), extra-economic means have to be used if such vacancies are not to go unfilled. Coercion is one way in which 'problems' of this sort have been solved and the importing of foreign labour (usually from poorer countries) another. In general, the wages paid in the most menial, unpleasant and often degrading jobs (the removal of night-soil, for example), have been low.

Under conditions of less than full employment, the way in which vacancies for these jobs are filled, changes.²⁷ The possibility that economic forces (hunger) will drive the poor into unpleasant occupations, is likely to be higher with increases in the level of unemployment. The fact, however, that vacancies in certain unpleasant tasks have gone unfilled, even during spells of fairly severe unemployment, has not gone unnoticed. The wage paid in the 'worst'²⁸ job has been of profound importance in countries such as the United Kingdom (UK) in shaping social security policy (and, in particular, the level of social assistance grants intended to make good some of the loss of income resulting from unemployment). In the UK the idea goes back to the 1834 Poor Law Amendment

Act, as applied to the ‘able-bodied poor’, was the principle of ‘less eligibility’, which, as Barr points out, meant that:

... relief [social assistance] should be limited to an amount and administered in a manner which left the recipient worse off than the employed. (1998, p.17)²⁹

Willingness to accept ‘suitable work’ is typically made a condition of unemployment benefit receipt.³⁰ Clearly, what constitutes ‘suitable work’ will depend importantly on which side of the policy divide one stands. Someone discharged from a high-wage, high-skill post is unlikely to view a job offer for a position as toilet attendant, say, as ‘suitable’, especially if earnings-related unemployment benefits are paid.

The most important reason why people who are strictly unemployed are not working is because they ‘cannot find suitable work’, where ‘suitability’ is measured in terms either of salary, of location of work, and/or of conditions not being satisfactory.

The 1,8 million who lacked the skills or qualifications for the available jobs are those who could be said to be structurally unemployed. Interestingly (and predictably), the ‘structurally unemployed’ are quite a lot more numerous among the discouraged than they are among the officially unemployed.

Additional research commissioned by the Committee of Inquiry tends to confirm this. Natrass (2001, p8,) reports that among the strictly unemployed in households where expenditure was less than R800 per month, 32 per cent were aged between 15-25, while a further 36 per cent were aged between 26-35. Age distributions among the discouraged were similar. Of the 2,6 million unemployed in the workerless households—1,2 million strictly unemployed and 1,4 million discouraged work seekers a significant overlap can be expected between the set of households where gross expenditure was less than R800 per month and workerless households in the same expenditure class.

The analysis and data provided above, on the conditions of the unemployed, must be reviewed together with the conditions of the vulnerable and the measures that are in place for those who are in chronic poverty, discouraged or in worker-less households.

5.3 Social grants and vulnerable households

If a single statistic can disclose the extent of poverty in South Africa, it may be this—of the roughly 800 000 live births in 1999, about 510 000 took place in households where total monthly expenditure was between R0 and R399. A further 97 000 were born in households where monthly total expenditure was between R400 and R799. The ‘anatomy of South Africa’s misery’³¹ suggests that Borat’s (2001) conclusion that the economy has not experienced jobless growth since 1995, rests on fragile grounds.

The relationship between unemployment, poverty (especially chronic poverty) and increasing within-group inequality is complex. Up until fairly recently (1995), research was suggesting that since most households (72 per cent of all households and 64 per cent of African households) contained no unemployed:

... most household-level inequality is driven by income dynamics within households with no unemployed members because most households do not have unemployed members and households with unemployed members tend to be crowded below the poverty line at the lower end of the household income distribution. (Leibbrandt, Woolard and Borat, 2000, p.48)

Since that was written, however, rising unemployment has resulted in a marked deterioration in the conditions of 'work poor' households. It is likely that chronic poverty is to be found in the increasing number of households in which there are substantial numbers of unemployed and no workers at all. These households are extremely vulnerable—the smallest shock can have catastrophic consequences for people living so close to the edge of survival.

Some means of ranking households in terms of their vulnerability to the vicissitudes of everyday life is necessary if poverty is to be properly understood. There are several ways to do so. The extent to which basic needs are met (or not, as the case may be) suggests itself as an obvious device for performing such a sorting operation. In the absence of reliable information in this field, the approach, appealing though it is, cannot be adopted. South Africa's social and economic statistics offer a highly acceptable substitute in the form of a ranking of households by expenditure category.³² By specifying additional fields into which to separate the various households, based on labour market status, one can create a plausible ranking of vulnerability.³³ Using these variables, the ranking of vulnerability below is proposed:

1. 'Workerless' households containing persons of working age³⁴
2. Households containing no persons of working age, but containing children (skip-generation households)
3. Households in which the only employed person(s) is a (are) domestic worker(s)
4. Households containing informally employed workers
5. Households containing domestic and other workers
6. Households containing formally employed workers.

At the bottom of this category are the households containing working-age people, none of whom are employed. Closely followed by pensioner households containing significant numbers of children, the workerless households are likely to vary in prosperity (levels of destitution, actually) according to the presence of grant recipients (CSGs, social old-age pensions). If domestic worker wages are really as low as reported, they could probably rank just ahead of households where the only people employed, work in the informal sector. Well-known for the very low incomes earned by the many engaged in survivalist activities, the sector also has a few who have prospered.

The Committee's analysis focuses on workerless households and those who subsist in the informal sector.³⁵ The economy has not created jobs at the rate required to absorb the unemployed, and is unlikely to do so in the foreseeable future. For most of the unemployed, the only realistic work opportunities take the form of survivalist activities in the informal sector. For these workers, earnings are likely to be very low. The only feasible way in which their poverty can be reduced in the short- to medium-term is by means of social assistance grants. The analysis below looks at the impact of various forms of social grants.

In both workerless and informal worker households, mean household size is smallest in the very poorest households (many of these 'households' will contain single individuals). Up to a certain point, as expenditure rises, so does household size. The presence of an informal sector worker in a household reduces the proportion of the very poorest households in the total—but not by very much. Among workerless households, 38 per cent were in the income class R1-399. For households containing at least one informal sector worker, that fell to 33,9 per cent. The difference is a little larger in the next income class (35,6 vs. 30,5 per cent). The Committee concludes that while any work may be better than none at all, the income derived does not contribute to a significant reduction in levels of poverty.

Importantly, the Committee's research indicates that in 1999 there were more than 3,7 million households containing almost 16 million people in which expenditure is less than R1 200 per month. At very best, this would imply an average monthly expenditure per person in the better-off households of somewhere in the region of R280. Even the most parsimonious poverty datum lines for the period do not get much below about R400 per month.³⁶ It is this category of household that constitutes the most vulnerable and at risk group.

Also significant from the data is that almost two-thirds of the households that were dependent on informal sector earnings (plus whatever grant, remittance and other income that might have come their way) spent below R800 per month. For most of the three million people involved, the grim battle to survive in the informal sector contrasts strongly with the rosy picture sometimes painted of the 'vibrancy' of their entrepreneurial spirit.

5.3.1 Conditions in workerless households

Poverty is on the increase in South Africa, despite the best efforts of government. This is one of the preliminary findings to emerge from the study of socio-economic conditions in households containing no workers. With unemployment rising from about 4 million in 1995 to 5,9 million in 1999, it is to be expected that the number of workerless households would rise. In 1995, Statistics South Africa said that 32 per cent of African households (a minority of which are pensioner households) were 'workerless' (contained no employed people). By 1999, that percentage had risen above 38. Translated into numbers of households, the data suggest that whereas there were about 1,9 million African workerless households in 1995, that number had risen to 3,1 million by 1999.³⁷ Only a handful of these were 'true' pensioner households, i.e., households in which the pensioner

did not have to share a pension with other household members. Of the roughly 210 000 African households in which there was no working age person present (many of them so-called ‘skip generation’ households), about 182 000 of them spent, on average, less than R800 per month. In them were to be found some 152 000 of the 176 000 children present in such households, and 188 000 of the 232 000 pensioners.

In 1999 there were roughly 2,6 million unemployed in households in which there was no worker present and in which monthly total household expenditure was less than R800 per month. Of them, 1,4 million were women. Amongst them, 800 000 had given up the search for work that does not exist, while a further 600 000 continued to search for jobs. Corresponding figures for the 1,2 million men, consisted of 560 000 discouraged unemployed—the remaining 590 000 sought work. Almost 96 per cent of these people belonged to the African population group, i.e., extreme or chronic poverty has a disproportionate effect on them. All told, there were some 10,8 people (of whom 10,2 million were African) living in workerless households where expenditure was less than R800 per month.³⁸

In households in the expenditure class R0-799 per month that contained working age persons, some 3,5 million were aged between 15 and 34 years (there were a further 1,6 million people between 35 years and retirement age). A minority of the young would still have been at school, but among the rest, many will have been unemployed, some for several years. The preliminary piece of research from which these numbers above are drawn did not look at the age distribution of the unemployed. It is likely, however, that the bulk of the unemployed would have been young. Natrass (2001, p8,) reports that among the strictly unemployed in households where expenditure was less than R800 per month, 32 per cent were aged between 15-25, while a further 36 per cent were aged between 26-35. Age distributions among the discouraged were similar. Since there were about 2,6 million unemployed in the workerless households—1,2 million strictly unemployed and 1,4 million discouraged work seekers. There must have been a significant overlap between the set of households where gross expenditure was less than R800 per month and workerless households in the same expenditure class.

5.3.2 Social grants and workerless households

Although one cannot mechanically read off crime rates from unemployment rates, it is unlikely that the connection between sustained high unemployment rates (with the attendant loss of hope of obtaining gainful employment), and the creation of a fertile breeding ground for criminal and other anti-social activity, is not strong.

It was suggested above that some significant proportion of South Africa’s unemployed could be considered to be so ‘difficult to place’ in the labour market as to be categorised (under the present economic conditions) as almost unemployable. *Social protection, which will consist either of social assistance grants, or public works programmes, should be provided for them.*

Detailed analysis of household compositions furnishes a useful tool for the evaluation of the efficacy of various forms of social assistance grants. The household analysis carried out below provides some indication of the way in which the different grants might work. The Committee was able to use existing information to better understand the likely impact of different forms of grants on household expenditure³⁹.

The Social Old Age Pension is well known to be the backbone of South Africa's social assistance system. In 1999 there were 2,5 million households containing 10,3 million people, 5 million of whom were of working age, and not one of whom was employed. Total monthly expenditure in these households was less than R800 per month. Expenditure in a further 280 000 'workerless' households, home to 1,75 million people (780 000 of working age), was between R800-1199 per month. Among these households, the death of the pensioner is highly likely to reduce to utter destitution any household fortunate enough to have had one present. Many of the very poorest households (those in which expenditure was less than R400), are so because there is no pensioner present. In workerless households in the R400-799 expenditure class, the death of a pensioner will automatically propel the household into the lowest expenditure category. In the R800-1199 expenditure class, the household will slip downwards by either one or two expenditure classes, depending on the magnitude of other income.

Households in the expenditure category R0-800 per month contained, on average, 2,02 persons of working age (potentially economically active). In the expenditure category (R800-1200), the figure was 2,11. Mean numbers of pensioners differed significantly though, a fact that probably accounts for some large part of the differences in household incomes between the two classes.

Mean household size varies inversely with income at the bottom end of the income distribution. In the poorest households (those spending less than R400 per month) of a total of 3,59 people per household (or 359 people in every 100 households), there were 1,43 children; 0,25 pensioners; 1,28 young people aged between 15 and 34 years.

If the age distribution of the children in these households were roughly the same as that in the population as a whole, then about one-third of the children would have been eligible for the Child Support Grant (CSG). So, with full take-up of the CSG, mean household incomes would have risen by about R55 per month. Raising the age limit for the CSG to 18 would possibly increase mean household incomes by a further R200 or so per month at existing benefit levels. Poverty in South Africa is such that the perverse incentive effect of extending the CSG has to be treated with the seriousness that it deserves—a universal grant, by its very nature, will be less prone to generating this unwanted side-effect.

One problem with income or expenditure data grouped into classes is that means are not known. Even if average expenditure (income) is estimated on the higher level, at R350 per month, the total income increase of about R255 would still leave the household in dire poverty. A care-givers grant of, say, R100 to the 1,02 women present in these households would raise household income still further, leaving only the 0,89 men in extreme poverty. Clearly, even a universal grant of say, R100

to each member of the 1,2 million households in this category would not eradicate absolute poverty. It would, however, make a substantial difference to the members of the household and remove them from destitution.

In the next expenditure class (R400-799 per month), average household size increases to 4,71. The mean number of pensioners per household rises to 0,59, and that of children to 1,98. Here, targeting children produces more tangible benefits. It is important to note that even if a universal grant of R100 per month were introduced, it would still leave most of the households in this expenditure class in poverty. It would, however, wipe out destitution.

There were almost twice as many pensioners per household in the R800-1200 expenditure category than there were in the R0-800 class. In the latter, the figures were 0,41 (0,30 female and 0,11 male), as opposed to 0,80 (0,50 female and 0,30 male).

An income grant to all except pensioners would thus benefit the very poorest households slightly more than it would the next expenditure class up. If one assumes full take-up of the CSG at the present age limit, the cost of providing a grant to those whose expenditure was less than R800 per month in 1999 would be about R9,5 billion annually. Giving it to those in the next expenditure class would add about R1,5 billion to the annual cost.

5.3.3 Employment in the informal economy

A comprehensive picture of conditions of workers in the informal economy is difficult to construct for a number of reasons.

Driving employment totals in the sector are two sets of changes. The first of these, the massive decline in informal agricultural employment (mainly unpaid, as far as can be determined, certainly in the earlier LFSs), sees the number involved dropping by almost 850 000. The other big change, that in employment in wholesale and retail trade, sees 600 000 new workers joining the industry between September 2000 and February 2001. This is difficult to verify. The sudden appearance of 600 000 workers in six months, not to mention the fact that so few observations exist at present, make it difficult to indicate with any degree of certainty trends in the sector.⁴⁰

The 1999 October Household Survey, for example, offered a figure of 1,9 million.⁴¹ Glancing at the numbers of workers in the three sectors identified (formal, informal and domestic worker), the apparently large size of the informal sector (3,3 million workers) is questionable. This differs from the figures for February 2001 in which informal sector employment, excluding agriculture, had risen to about 2,6 million.⁴²

The Committee notes that whereas a bit less than one quarter of formal sector workers earn R1000 or less per month, more than three quarters (76,3 per cent) of informal sector workers, and more than 90 per cent (91,3) of domestic workers are to be found in this income category. Another striking result is the figure of 18 per cent for informal economy workers who receive no income (it

was 30 per cent in September 2000). Their condition is relatively easily explained—they fall either into the category ‘helping without pay in a family business’, or that of subsistence agricultural workers.

There are 41,9 per cent of workers in the informal economy earning between R1-500 per month. The next income class, R501-R1000, contains 16 per cent of the informal workers. The economic conditions of informal sector workers can be deduced from an analysis similar to that conducted for workerless households based on available data.⁴³ It is possible to use the 1999 OHS data to point in the direction that an analysis of household economic conditions should head. That task is attempted below.⁴⁴

Ignoring those working in subsistence agriculture, the earnings of domestic workers are even lower than those of informal economy workers—almost a third of them (64,3 per cent) were paid R500 per month or less. With a further 27 per cent being paid between R501-1000, that left a scant 7 per cent earning something near a living wage.⁴⁵

When reviewing information on education by sector of employment for all race groups combined it is possible to see the correspondence between earnings and education levels. Mean education levels fall, as one moves from the formal to the informal to sector, and from there to the domestic workers, as do mean incomes.⁴⁶ If (arbitrarily), we treat anyone with less than a Grade 4 education as functionally illiterate, then about 7 per cent of formal workers would fall into this category; they would be joined by about 19 per cent of informal sector workers, and 23 per cent of the domestic workers. The proportion of the workforce with between four and eight years of education rises more markedly. Grades 9-11 are relatively under-represented in the formal sector, presumably because of the larger proportion of those who have completed Grade 12. Among informal sector workers there is a sprinkling of people with diploma-level education (most of them of the post-Standard 10 variety), and an even smaller number with a degree. Nobody with these qualifications is to be found among the domestic workers.

The nature of the work activities in the informal sector and who is located in what sector also influences earnings and employment status. A comparison of the ways in which this differs between the formal and informal sectors is instructive.

Virtually all Africans working in the formal sector are paid employees (working for someone else). Among whites, by contrast, about 15-16 per cent are working on their own or with a partner—the figure for Indians is roughly half of this, and that for Africans, roughly half of that. The proportion of formally self-employed Coloureds is also very low.⁴⁷ Given apartheid’s restrictions, a pattern of this sort is to be expected.

The picture is different in the informal sector. The first feature of note is the number of ‘employees’—anecdotal evidence has it that many vendors in market areas and central business districts of the major towns and cities are employed by firms who let their business spill out into the street. Many more men than women are thus engaged. The occupations, ‘gardener’ and ‘security

guard' are a mainly male preserve. As was argued above, removing the 477 000 unpaid subsistence agricultural workers leaves only a small group "working on his/her own or on a small family farm/plot or collecting natural products from the forest or sea"⁴⁸.

The earnings of almost 80 per cent of informal sector workers were below R1 000 per month. Another feature worth noting is that of the 3,3 million workers in the sector, 1,8 million conducted their activities from home.

5.3.4 A profile of informal worker households

Congregated in about 367 000 households where monthly expenditure was less than R400 per month were some 1,37 million people, roughly 400 000 of whom were informal sector workers.⁴⁹ A further 220 000 people met the criteria for being classified as unemployed. As was the case in the workerless households, an important part of the explanation of why these households were so poor was the absence of potential state grant recipients. There were only 0,07 pensioners per household (compared with 0,17 pensioners in those households containing no workers). Mean household sizes were similar, as were the relative numbers of children, but there were proportionately many more unemployed in the workerless households.

Looking in a little detail at the unemployed, almost two-thirds of them are more than 25 years of age. Depending on how one defines 'youth', the problem is not therefore one of 'youth' unemployment *per se*, although the large number in the next age category indicate that those who left school five or so years previously have not managed to find employment. Looking into the figures for duration of unemployment and for the previously employed/never previously employed questions would provide more information on this. Strictly unemployed and non-searching unemployed are roughly evenly represented. There are more women unemployed than there are men.

The proportion of workers engaged in full-time informal sector work is an important determinant of household wellbeing. In the expenditure class R1-399, 46.3 per cent of workers are full-timers. This rises to 54,7 per cent in the R400-799 bracket, and to 58,8 per cent in the R800-1199 category.

In the 'average' R400-799 workerless household, there were 0,57 pensioners—the average informal worker household contains only 0,20 pensioners. Corresponding figures for the R800-1199 households were 0,75 and 0,22. Once again, this raises the question of whether the presence of a grant recipient makes it possible for at least some household members to avoid the extreme rigours of survivalist activities in the informal sector.

As has been argued above, some significant proportion of South Africa's unemployed are unlikely ever to be employed, given the structural form of the economy.⁵⁰ Skills training, credit facilities, improved land security and the host of other measures mooted by government, can get some of the 'unemployables' into production processes, especially at a survivalist level. However, current levels

of poverty and social exclusion will have damaged several million more people, perhaps irreversibly before the impact of these measures can be felt.

5.3.5 Social grants: there is no alternative

Drawing on the profiles of the workerless and informal worker households presented in the previous section, the Committee concludes that in the absence of any alternative sources of income, people are driven into survivalist activities, many of them working long hours for very little gain. Research done for the Committee suggests that with formal sector employment creation at its present low, or possibly negative levels, the numbers of informal sector jobs that have to be created merely to hold inequalities at existing levels are probably beyond the economy's capacity.⁵¹ While the Committee recognises that policies to improve people's income generating capacity are important, equally important is the extent to which their ability to earn income depends on their assets.

Recent research on poverty suggests the existence of traps from which some significant proportion of the poor cannot escape, no matter how hard they try.⁵² The combination of income and asset poverty is simply overwhelming. For most of the people caught in this predicament, social grants represent the only hope. Although income is remitted to these households, the proportion of households receiving support of this kind is so small that the displacement of this 'private' social security by state grants would have little of the negative effect such provision is usually argued to cause. Even though it is not possible to track the origins of the income support in the country as a whole, what little evidence there is suggests that it comes from those who are themselves not very well off. Relieving them of the burden of having to stretch small incomes would also improve their wellbeing and their potential for self-improvement.

It has long been accepted that in countries where income inequalities are extreme, very high rates of distribution-neutral (trickle-down) growth are required to reduce poverty levels. The lower the mean incomes of the poorest, the faster this growth must be. Even the World Bank, the champion of the 'high-growth' approach to solving the poverty problem, is beginning to acknowledge this.⁵³

Formerly dismissed as mere populism, (modest) redistribution is increasingly being recognised as the most effective way to reduce poverty.⁵⁴ Once again, as was noted in the introduction to this chapter, even the World Bank has begun to acknowledge this. A recent study of the performance of developing countries found that in a globalising world characterised by increasing inequalities, 'social protection mechanisms' (rather than active labour market policies of one sort or another) could be the best complement to the policies resulting in those increases in inequality.⁵⁵

5.4 Social insurance

Social insurance, because of its contributory nature, is able to avoid the stigma often associated with welfare. Contribution to a social insurance fund creates an entitlement that becomes available the moment the contingency against which protection is offered, arises. Other social security benefits that do not stigmatise recipients include those that are universal in character.

Social insurance in a globalising era is affected by a number of factors. Growing employment insecurity⁵⁶ is eating away at the base on which social insurance is established—secure jobs. Efforts to reduce the costs of employment result in the growth of so-called ‘atypical’ employment. Protection against unemployment has proved exceptionally difficult to provide, coming very late in the day to many quite advanced countries. With few exceptions such as Brazil, conditions in South Africa differ somewhat from those in middle-income developing countries.

A substantial part of the urban formal sector workforce has been covered through the Unemployment Insurance Fund (UIF) since the mid-1970s (prior to that the UIF excluded most African workers). Those excluded from its cover were categories of workers such as informal sector agricultural labourers, seasonal workers, domestic workers and informal-sector workers generally. Government employees, and those earning an income at a threshold determined by the earnings of a skilled manual worker (in South Africa, a ‘white’ skilled worker) were also excluded. Exclusion was based either on grounds of security of tenure (government employees) or of a low propensity to become unemployed (workers ‘above’ the grade of skilled worker). Mineworkers in South Africa were admitted to the UIF in 1988 and ‘formal sector’ agricultural workers in 1994.

5.4.1 Issues in unemployment insurance cover

Constitutional law is being invoked by some of those still excluded from coverage of the social insurance system. The feasibility of providing cover for all workers is affected by a number of factors.

In essence, the fund pays earnings-related benefits up to a threshold income (related to the mean earnings of skilled manual workers), after which benefits become flat-rate. A fixed (equi-) proportional contribution (tax) from each contributor is deducted. Benefit entitlements are proportional to contribution durations, allowing beneficiaries a maximum benefit period of six months. With benefit entitlements accumulating at the rate of one week’s benefits for every six week’s contributions, it takes three years to accumulate a full benefit entitlement.

The UIF cannot be used to complement active labour market programmes as is the case in the UK and the United States (US)—to promote workfare. In the UK, for example, benefits are flat-rate (and restricted to an absolute minimum) and benefit receipt is made conditional on participation in one or other of the welfare-to-work programmes that have been instituted. That can easily be introduced into South Africa’s legislation, but without the likelihood that anything other than a minority of unemployed can be steered back into work.

A provision in the draft UIF Bill that would have rendered those who resign voluntarily from a job ineligible for benefits would, it was argued, have provided the system with a safeguard against the disincentive to seek waged work. Recent objections from parliament to this contentious clause have led to its removal. In the past benefit recipients had to ‘prove’ that they had actively sought employment. Under pressure from employers objecting to the crowds that gathered outside factory

gates needing the signatures or company stamps that would constitute such proof, this requirement was dropped.

Currently covering about 4,4 million contributors,⁵⁷ the UIF paid out benefits to about 650 000 beneficiaries in 2000.⁵⁸ The majority of claimants (as one would expect) were in the lower income classes. On average benefit duration for that year was about 3,2 months. This appeared to be influenced quite strongly by benefit exhaustion, especially at the lower end of the earnings distribution. This implied that at any given moment, roughly 200 000 unemployed are in receipt of benefits.

Relative to the number of contributors, the number of beneficiaries was very high. This was probably the result of significant beneficiary fraud. It could also, however, have been the outcome of a large amount of churning at the bottom end of the earnings distribution. In the lowest income class (R1-1000 per month) containing almost 30 per cent of beneficiaries, the average duration of benefit fell to 2,8 months. More than 42 per cent of beneficiaries exhausted their benefit entitlements. By contrast, mean benefit duration in the top income class (R6001-8000) was 3,7 months, with 9,2 per cent of beneficiaries exhausting their entitlements.

Because the majority of beneficiaries have never had the opportunity to build up the formal-sector contribution record on which benefit entitlements are based, the UIF cannot address the problem of providing benefits to significant numbers of the unemployed. As a social policy instrument covering such a small proportion of those in need, it is inadequate. The Committee is of the view that whether the proportion is 3 or 5 per cent does not greatly affect the conditions of the majority of unemployed.

Two possibilities have been considered. The first of these is that social insurance systems i.e., labour-based social security provisions, are under such threat from increasing job insecurity (growing casualisation or atypical employment) that some form of universal state coverage is necessary. The second argues that under conditions of mass unemployment, social insurance creates or perpetuates discontinuities in the labour market that reinforce existing inequalities. The policy prescription is similar to that reached by the first route—remove social insurance and replace it with a flat-rate social assistance grant, bolstered by active labour market policies.

The Committee's research alongside international comparative experience confirms that there is growing employment insecurity in South Africa.⁵⁹ Evidence put before the Committee on increasing casualisation as a means of evading labour legislation is plentiful. Based on an indicator of trends it can be deduced that contributor numbers are falling. Both tendencies support the position that government urgently needs to consider another social policy intervention or mechanism for providing protection against unemployment and poverty.

5.4.1.1 Maternity benefits and the gender division of social reproduction

In countries where women's struggles have advanced the cause of gender equality the furthest, such as the Nordic states, some European states and Australia, the concept of maternity leave has changed. The rigid and unfair division of labour in child rearing and childcare between men and women no longer exists. In these countries, family leave, usually up to 12 months is granted. Parents may then choose how the leave is allocated. In practice, the tendency is that many of the early child rearing duties are still taken up by women but the possibility of a different division of labour can be entertained within the concept of family leave for child rearing as opposed to conventional maternity leave.

South Africa's level of development and social structure with regard to family types are unlikely to accommodate such an arrangement but it does constitute a benchmark against which to measure local legislation. In terms of the Basic Conditions of Employment Act, three days paternity leave is granted—if employed fathers wish to participate further in child caring they must either use existing leave entitlements, take unpaid leave, or resign.

Secondly, maternity benefits in South Africa at present accrue only to those who are covered by the Unemployment Insurance Act. Amendments to the Act seek to eliminate a discriminatory provision in terms of which a woman who takes maternity leave forfeits her entitlement to unemployment benefits. The new provisions in the Act have significantly reduced entitlements for a large proportion of those who are likely to claim. The maximum duration of maternity leave permitted in terms of the Basic Conditions of Employment Act is six months while the Unemployment Insurance Act makes a provision of four months. It was proposed that maternity benefits be set at the same rate as unemployment benefits.

If this does not happen it effectively means that women would be entitled to four month's paid and two month's unpaid leave. This creates problems with regard to the proposed income replacement rates (IRRs) and the period required for them to qualify for benefits. The IRRs in the proposed benefit schedule do not meet the stipulations of International Labour Organisation Convention 103 and its associated Recommendation 95. In terms of the latter documents, the recommended IRR is 100 per cent. The payment of such a large replacement income raises serious problems as one goes up the income scale—these cannot be avoided. Underlying the recommendation of a high replacement income for maternity is, however, the recognition that this special contingency, more than any other, is a time of extraordinary expenditure where such a benefit is entirely appropriate.

No profile of maternity benefit recipients exists—the research required to determine this has not been tackled in South Africa. With increasing variations in family structures and a shift away from the conventional nuclear family, it is highly likely that there will be many single mothers among the claimants. They are likely to experience significant hardship. Rising unemployment will also have resulted in many women workers assuming the role of breadwinner. Loss of earnings as a result of maternity will likewise impose severe hardship.

The next issue is that of the relationship between contribution record and benefit pay-out. This is a problem that has resulted in many different solutions world-wide.

5.4.1.2 Domestic workers

Incorporating domestic workers into a social insurance system is a complicated task given the numbers involved. Few, if any examples exist anywhere of its being done on the mass scale required in South Africa. Besides the many administrative difficulties of bringing domestic workers into the system, the disparities in wages and other conditions also present major constraints.

The Committee has considered the suggestion of a tax rebate for employers of domestic workers as one way of encouraging their participation in the scheme. There are obvious problems with this approach. The first of these is an understandable reluctance to redistribute in favour of the better-off since most employers of domestic workers are higher income earners. The second is a comprehensible reluctance to accept the argument that employment of a domestic worker may, for many people, be treated as a cost of production of income. Thirdly problems arise on both the contribution and the benefit sides from the fact that many domestic workers have multiple employers.

On the contribution side, the question of what tax rebate to allow is the principal issue. As far as benefits are concerned, the question of what benefits, if any, should be paid when a domestic worker loses one or more of the 'jobs' has to be resolved. The issue here is how to ensure that any worker with multiple employers who loses one or more of the jobs is not placed in a worse (or better) position than a worker with a single employer who loses that job.

Welfare traps will exist, but they will be minimised by the harsh realities of the trade-offs between the certainty of short-term benefits and the low probability (once benefit entitlements have been exhausted) of obtaining jobs to replace those 'surrendered' to obtain benefits. In any case, voluntary separations disbar claims for benefits, so 'resignations' would have to be engineered through collusion with employers.

The possibilities of abuse in a system such as this, sophisticated as it is, are quite substantial. This will be the case with any system that tries to cope with the problems of bringing this particular group of workers into the social security system. Suggestions that employers be allowed to pay a once-a-year contribution, and be required to sign a certificate of some sort when the worker becomes unemployed, are so full of loopholes as to constitute an open invitation to fraud. Moreover the inability to deal with the problem of multiple employers poses constraints in implementing such a proposal. Furthermore, such a proposal is likely to ensure that only relatively better paid domestic workers will obtain coverage.

It is the Committee's view that unemployment insurance as a policy instrument to address income insecurity for certain categories of workers poses many problems. Alternatives within a

contributory-based system are unlikely to provide sustained income replacement or security under existing socio-economic conditions.

Domestic worker earnings are low (as already noted, 630 000 of the million or so domestic workers earned less than R500 per month in September 2000). Many of them are located in households where gross monthly expenditure is low, and there are many dependants. Besides this, domestic workers are not the only large group of workers excluded from the UIF—informal sector workers have an equally valid claim, one that they presumably have not been able to assert thus far because of organisational weakness.

Given the very low earnings of most domestic workers any social insurance benefit would be very low even under the proposed new digressive benefit schedule. A modest universal state income benefit would place them in a more secure position than benefits from a short-term insurance payout. This would apply to all poorly paid workers, such as seasonal and informal workers.

5.4.1.3 Government workers and social insurance

Issues affecting social insurance for government employees have been considered within the changes that are taking place in the socio-economic context as well as the public sector. The Committee's review indicates that a substantial number of government workers favour inclusion into a social insurance system that will enable them to cope with risks and vulnerabilities arising from unemployment and other contingencies.

The Committee has taken into account positions put before it on the inclusion of civil servants into the UIF. One view holds that workers could, through their representative organisations, decide for themselves whether or not to opt for inclusion. Among the financial constraints that influence this choice is that of annual increments which would not be increased if workers opted to go into the UIF. It is the Committee's view that government workers should be allowed to choose whether or not to opt for inclusion in the UIF and that the necessary information affecting the risks they face as a category should be made available to them.

The Committee suggests that if workers did elect to enter the scheme, the state, as employer, should probably not make contributions to the UIF in respect of each worker. Instead, the necessary contributions may become part of the larger contribution made by the state into UIF revenues.

5.5 *Active labour market policy and workfare*

In recent years, approaches known as 'workfare' in the US and 'welfare-to-work' in the UK, have reshaped social security policy in important ways, in particular, by linking benefit receipt to entry into programmes designed to 'wean' benefit recipients off welfare benefits. Pre-dating both of these is the Swedish approach to solving the problem of gainful re-insertion of the unemployed into employment known as 'active labour market policy'. Underlying each approach, and varying in intensity of enforcement with differing ideological stance, is a twofold goal:

- “The state should place those on the margins of the labour force in jobs (or training for jobs), or induce them to take jobs, and
- The unemployed should be *obliged* to take, and remain in such jobs.”⁶⁰ (emphasis in original).

Both workfare (or its near relative, ‘welfare-to-work’) and active labour market policies have been mooted as possible approaches to the (partial) solution of South Africa’s unemployment problems. The Committee has reviewed the international literature on these approaches to social security, and examined the applicability of each to the South African situation. The results of these investigations appear below.

5.5.1 Workfare in South Africa?

Workfare has been cited as a possible welfare reform in order to promote self-targeting of benefits, restrain cost pressures and promote sustainable job creation. Workfare is understood differently in advanced economies from the way it is used in developing countries. Firstly, in advanced economies like the US, workfare as a part of the welfare system is used to coerce the ‘able-bodied’ (‘undeserving’) poor into work. Secondly it is used as a synonym for public works programmes, offered as an alternative to social security for cyclically unemployed people in developing countries.⁶¹

Used in the US/UK sense of the term, the low-paid jobs into which these people are herded (on pain of losing their benefits) do not exist in sufficient numbers to make the policy viable in South Africa. Used in the World Bank ‘developing country’ sense, since the approach is not designed to deal with mass structural unemployment such as that experienced in South Africa, it is inapplicable here. There are probably about three million unemployed who would accept work at almost any wage. Evidence of existing job creation efforts indicate that there is very little possibility of the state being able to create public works programmes to absorb all of these people.

The Committee’s review of lessons of international experience, particularly from the US and the UK indicate that workfare yields little in the way of sustainable social or economic benefits for countries such as South Africa given the different contexts. Even in developing countries evidence suggests that workfare in the guise of public works programmes cannot offer a sustainable solution to the problem of structural unemployment. The World Bank⁶² states that:

Programs...are not usually meant to function as a permanent escape route to poverty but to provide a means to smooth the consumption of poor households during short periods of unusual hardship.⁶³

The World Bank estimates that combined administrative costs, equipment, materials and skilled labour account for between 40 and 60 per cent of total costs. The World Bank notes that workers in such programmes have to forego some income to participate. When transport costs are added to this, it observes that the ‘net benefit is even lower’. The World Bank concludes therefore that:

... these programs can only be considered cost effective only (sic) if, in addition to serving as a self targeting mechanism for distributing cash, they provide substantial benefits through the assets created.⁶⁴

Research evidence on workfare in advanced economies suggests that although it has had some success in moving welfare recipients off welfare rolls, it also displaces existing workers, undermines wages and fails to create sustainable employment opportunities for beneficiaries. Under certain conditions, workfare can contribute to an intensification of poverty and undermine economic growth.

In the South African context, workfare is even less likely to be successful. Whether or not workfare is a useful programme for dealing with unemployment shocks is a contentious issue. Its usefulness in the context of widespread structural unemployment and disproportionately rural female poverty, however, is unambiguously limited. Argentina's example of workfare—with a 15 per cent participation rate by women—provides little of relevance to attacking deeply rooted poverty in South Africa.

Estimates prepared⁶⁵ for the Committee indicate that the cost of workfare in South Africa, given the high rates of structural unemployment and underemployment and the incidence of 'discouraged workers', is likely to impose a substantial fiscal burden. According to the 1999 October Household Survey (OHS), there were 3,2 million 'officially' unemployed individuals, as well as approximately 3 million 'discouraged jobless'. In addition, 1,8 million workers earned less than R400 per month.

Assuming that half of the officially unemployed would be prepared to accept a workfare monthly wage of R400, and that administrative and support costs equal wage costs, the annual fiscal burden of a workfare program that absorbed one quarter of the unemployed would be R15,4 billion. Such expenditure is unsustainable and does not effectively meet the policy objectives of providing income security through sustainable livelihoods. It is the Committee's considered view that this expenditure cannot meet the needs of the many very poor households with members who are unable to find work.

In order to arrive at a conservative estimate, this calculation is based on a monthly workfare wage of R400. The wage is considered to be lower than the lowest feasible wage that could be offered in a public workfare programme. A wage of R400 per month leaves a single worker household in poverty and a worker with dependants even further below the poverty line. Using the 'Working for Water' wage scale (R26-R33 per day) as a measure of an indicative rate for unskilled labour, the R400 per month wage (approximately R20 per day) is less than 80% of this indicative rate, below the norms set for developing countries. The R400 is substantially less than the average wage for rural seasonal (R486), casual (R499) or temporary (R645) workers—the lowest paid workers according to the 1999 OHS. The choice of a higher wage for the public workfare programme would lead to a commensurately higher fiscal burden.

The estimate of administrative and support costs equal to the cost of wage payments is a conservative estimate based on international experience. This places the total cost of a workfare job, given an indicative monthly wage of R400, at R9 600 per year. Other workfare and public works programme proposals estimate the total cost per job as R15 000 per year or more.

In the US and Canada, the total cost of a workfare job was generally more than 100 per cent more than the cost of the wages. Rigorous analysis by the Committee shows that this ratio is likely to be higher in South Africa, because the ratio of an average government employee's wages to the workfare wage is much higher than in an industrialised country.

Comparing the policy alternatives, the Committee is of the view that the cost of a South African workfare programme that accommodates half of the officially unemployed would cost roughly the same as the net cost of a universal basic income grant. Such a workfare programme would also fail to reach those in greatest need. Moreover, analysis on the potential impact shows that a workfare-based social safety net fails to protect child-headed households, 'skip generation' households (pensioner households with children), and households with members who are unable to work.

A micro-simulation of a workfare programme for South Africa calibrated to the same cost as a basic income grant demonstrates that the workfare programme would have a very poor social impact. The average improvement in terms of reducing the poverty gap is only 11,5% with the workfare programme, compared to an improvement of 37,1% with the basic income grant. The basic income grant is three times more efficient in reducing poverty. The workfare programme is the least effective with the poorest types of households—particularly child-headed households and other households that include children.

The Committee's investigation concludes that social security measures that go under the name of 'workfare' are inappropriate for South African conditions. In neither the US/UK, nor the World Bank, senses in which the term 'workfare' is used is it appropriate to this country.

The Committee does not suggest that energy and resources should not be thrown into a massive programme of infra-structural investment, of which public work programmes should form an integral and important component. The burden of the analysis is merely to insist that 'workfare', conceived of as 'public work programmes' cannot solve the problem of extreme poverty associated with joblessness. The Committee supports all endeavours to create 'public work' type employment, seeing initiatives such as the recent proposal from the Department of Labour to create a large number of para-professionals to do caring work in the community, as vitally important. Such an initiative could be particularly appropriate for those unemployed graduate/diplomat workers.

5.5.2 Linking active labour market policies and social security

Active labour market policies (as opposed to macroeconomic policies designed to stimulate supply, or more problematically, demand) may be conceived of as a set of policies designed to assist transitions in the labour market. Not all of the policies that facilitate transitions are, however,

conventionally thought of as active labour market policies. Five transitions are identified by Walker (1997). In more secure times (at least for some), individuals may have made only one or two of these transitions in a lifetime. The growing insecurity of existence makes it likely that the average individual will now experience many more. The transitions are grouped as follows:

- Transitions among the employed. Under this head, one would find policies to upgrade the conditions of the working poor. Skills development and training belongs here.
- Unemployment/employment. Some of the policies attempted under this head include the 'early' identification of 'at-risk' groups, that is individuals likely to fall into long-term unemployment. Even in advanced countries with abundant resources, this enterprise has not always been successful. Even if one could identify target groups in South Africa, targeting them would be difficult, if not impossible.
- Education/employment transitions. Typical programmes here include learner ship initiatives for youth. Previous work experience seems to be a crucial determinant of employability, so programmes that can provide this may significantly improve the prospects of those who participate.
- Private household/employment transitions. For people who have long been out of the labour market, measures to assist them in returning to paid employment are important. This applies particularly to women who have withdrawn from the labour market to devote themselves to childcare.
- Retirement/employment transitions. Policies in this regard can work in both directions. On the one hand, it may be held desirable to promote early retirement. On the other, encouraging workers out of retirement to fill skilled posts for which there are no takers, might also be the object of policy.

After reviewing international experience on active labour market policy (now widely accepted as 'preventive social security' or 'active welfare'), the Committee concluded that the conditions for creating tight links like those that exist in some countries between employment and social security policy do not exist in South Africa. Amongst these pre-conditions would appear to be the following:

- The number of unemployed relative to the number of employed and the potentially economically active population should be relatively small (i.e., unemployment rates should not be 'too' high, nor economic activity rates 'too' low.⁶⁶
- Sufficient employment opportunities must exist to make the threat of withholding of benefits on failure to take up a 'suitable' job offer credible.
- Capacity to administer and manage the complex systems required must exist. This extends to the need to provide well-informed 'advisors' to deal with cases on an individual basis.

The Committee is of the view that the responsibility for job creation and employment growth stimulation policies, and policies for facilitating labour market transitions should remain in the Departments of Trade and Industry, and Labour. Although it is desirable to link active labour market policies to social security policy the preconditions for this do not exist in South Africa.

Active labour market policy in the short to medium term cannot become part of a Comprehensive Social Protection System. However, the relationships between active labour market policy and social policy need to be considered and interventions to ensure that growth and social development are not seen as mutually exclusive spheres, must be put into place.

A wide range of active labour market policies exist, many of which are being, or have been tried in South Africa. In view of the steadily growing numbers of unemployed, the Committee recommends a rigorous assessment of these endeavours. Based on such an assessment it may be possible to make long-term projections about the type of policy intervention that has the required impact on income poverty.

It is the Committee's considered view that policies setting in motion the many instruments the state uses (or can use) to address the twin problems of unemployment and low income (often survivalist) economic activities in South Africa require effective coordination and programme evaluation.

The Committee's analysis of existing institutional arrangements for co-ordinating and evaluating active labour market policy (including employment creation and employment growth facilitation) is that they are inadequate. The Committee notes that strategies to address some of the concerns identified are beginning to emerge in appropriate government sectors. Examples of important recent initiatives are the Integrated Sustainable Rural Development Strategy and the even more recent Integrated Action Plan to Accelerate Growth, Employment and Investment. The Committee recommends that these plans should be linked to each other. It is further proposed that government should commit itself to a medium-term employment framework with clear, achievable goals. Such a medium-term employment framework needs to be part of an institutional arrangement at a sufficiently high level so that it has the political leverage necessary to see policies through to fruition.

5.5.3 Active labour market policy: special areas for research?

Notwithstanding the conclusion drawn by the Committee that the structural preconditions for a tight linkage of active labour market policy with social security policy to form the integrated approach called 'social prevention' do not exist, certain aspects of active labour market policies were felt to be deserving of special attention.

As part of the review of the relationship between social security as conventionally understood (social insurance plus social assistance), and employment policy, the Committee therefore commissioned three studies. These examined issues affecting youth unemployment (Nattrass, 2001), Non-profit Organisations (NPOs) and training (van Broembsen, 2001), and job creation (Altman, 2001).

5.5.3.1 Youth unemployment and social security

Policies designed to address certain categories of the unemployed—such as the youth and the disabled—are usually guided by concerns about equity and/or the efficient functioning of the labour

market. Usually if a particular category of jobseeker—in this case ‘the youth’—is systematically disadvantaged in the labour market, and then compensatory strategies need to be implemented to ‘level the playing field’.

Such strategies typically include:

- Training and job-placement programmes (which push young unemployed people further to the front of the job queue and help increase the demand for their services).
- Subsidised employment schemes or lower minimum wages for young people (both of which lower the costs to employers of hiring young people—thus increasing the demand for their services).
- Legislation requiring firms to fill a certain proportion of jobs with workers from targeted groups.
- Government-financed public works programmes and schemes to help targeted individuals create their own businesses.
- ‘Youth brigade’ or ‘task force’ initiatives which provide organised activities for young people ranging from training to voluntary and paid work in the community.

To understand the existing and potential impacts of unemployment on the social security system, the Committee has considered the question of whether unemployed youth should be prioritised as part of a comprehensive social security strategy ahead of, say, long-term unemployed people in their late 30s or early 40s. Research considered by the Committee draws on international experience, on South African material, and on interviews conducted with Operation Starfish in Cape Town (and participating employers), placement agencies, employment consultants and human relations managers in large and medium-sized companies.

It can be argued that specific measures should be introduced to address youth unemployment because unemployment rates are higher for younger people than older people. As can be seen in table 5.4, data from the 1999 OHS indicate that over two-thirds of the unemployed are less than 36 years of age, and unemployment rates fall steadily as age rises. These trends are particularly pronounced for women. The strict unemployment includes only active job seekers, whereas the broad definition includes such ‘discouraged’ or passive unemployed.

A typical view is that this pattern of labour market disadvantage arises because young (‘inexperienced’) job seekers cannot compete with older (‘more experienced’) labour market participants. They thus fail to develop the skills and experience necessary to make them productive adults and hence sought-after workers. This is particularly the case in times of slack demand. Addressing youth unemployment (and in particular, female unemployment) would thus supposedly qualify as a welfare measure because it targets a particularly disadvantaged constituency. Further, in the absence of targeted support, such a constituency would find itself falling to the bottom of the income distribution and remaining trapped there.

This view rests on the assumption that older jobseekers necessarily have the kind of experience and skills demanded by employers—and hence are actually in a superior position to younger jobseekers. In South Africa, where unemployment has been high and rising since the mid-1970s (if not before), a substantial proportion of older jobseekers have never had a job (see table 5.5). In addition many have been unemployed for so long that the labour market advantage they may have had from previous work experience, has long disappeared. Table 5.5 shows that a higher proportion of younger job seekers than older job seekers have never worked before. This is not surprising given the fact that younger job seekers have been in the job market a short time—and given South Africa’s sluggish growth record.

A striking statistic is that proportionately more older job seekers than young jobseekers have been looking for work for more than three years. Such long-term unemployed individuals are even less likely to be employed than recent school-leavers. They have spent more time outside of education and training, are less familiar with modern technology (including computers) than recent school-leavers, and employers are likely to be wary of those who had no visible legal means of support for long periods of time.

South Africa’s social safety net is characterised by substantial ‘holes’. One of these relates to unemployment. Except for those formal sector workers who contribute to the UIF (and are entitled to income support for 36 weeks) there is no support for unemployed people. Given South Africa’s high rates of unemployment, plugging this hole in the social security net is of strategic importance.

The Committee considers this an important reason for intervening to reduce youth unemployment, since it either plugs a particularly important hole in the social safety net or reduces the number of people falling through the hole. If the government provides employment for young people—e.g. through a targeted public works programme—then the social safety net is being plugged directly. Such programmes usually self-target the poor by paying below-market wage rates. Thus, in the case of youth unemployment, only the poorest young unemployed people are likely to participate.

Other policies designed to reduce youth unemployment (such as job training and placement schemes) do not comprise part of the social safety net as such—but rather function to reduce the demand for social assistance by helping young jobseekers find work. In other words, they do not plug the hole in the welfare net, but rather function to reduce the number of people falling through it.

Unlike public works programmes which use a low wage as a form of self-targeting, international evidence suggests that job training and placement programmes appear to benefit the more skilled and employable the most (see DSRG [2001] and Meager and Evans [1998]). Moreover, ethnic minorities and ‘hard to reach and place’ young people with multiple disadvantages in these countries, tend not to benefit as much.

Preliminary research into the experience of ‘Operation Starfish’⁶⁷ (see box) reveals useful trends. Evidence suggests that the more skilled and experienced applicants were easier to place than

others—and that most of the job placements were in administration (most notably in ‘front-line office’ positions). This mirrors the experience of private sector placement agencies in South Africa (although Starfish was almost certainly more successful at placing people from more disadvantaged areas).

Operation Starfish (Starfish 2000)

Operation Starfish is a project of the Careers Research and Information Centre in Cape Town. Its objective is to help unemployed people—particularly from disadvantaged areas—obtain the skills and experience needed to obtain permanent employment. Starfish engages in training (e.g. orientation training for office work and computer literacy) and organises internships for Starfish interns. Some of these interns subsequently obtained permanent jobs in the firms they served their internships, and others were able to use this experience to obtain work. Participating firms were asked to pay R1 000 a month stipend, but some paid more. Most firms who participated in the internship programmes were pleased with the programme (although some said they found it difficult to train the interns, and others said they had problems getting the interns to ‘fit in’).

The name ‘Starfish’ comes from the following parable:

One day a young man was walking along the beach when he discovered to his horror that as far as the eye could see, the sand was covered with starfish, washed in by the tide and left to perish in the sun. He then noticed another man painstakingly casting the stranded starfish one by one back into the water. He had already cleared a small patch, but there were so many more.

“This is futile” declared the young man, “what difference can you possibly make?”

Tossing another starfish back into the water, the other man said, “I assure you it makes a big difference to this one.”

Operation Starfish ran for about two and a half years. It received more than 5 000 applications for the internship programme from unemployed people. Of these 1 800 were placed with host companies, and 1 200 found permanent employment soon afterwards. Starfish received funding (R5 000 000) from the government, i.e. it cost R2 500 per successfully employed, previously unemployed person.

As can be seen in table 5.6, most of the unemployed living in households with a monthly income of less than R800 a month are young people. This is to be expected given that most unemployed people are young. But if one looks at the proportion of poor unemployed people in each age category, the picture changes significantly: disproportionately more older unemployed people live in poor households. In other words, the older the unemployed person, the more likely he or she is to be living in poverty.

Table 5.6 also looks at other indicators of poverty, i.e. whether any children under 7 living in the household had gone hungry in the past year, and whether any other members of the household had gone hungry. Again, one finds that although most incidences of hunger were associated with younger unemployed people, the relative burden of hunger was higher for those in the age groups 36-55.

The Committee finds that targeting the youth as a welfare measure may help many people, but it misses crucial dimensions of poverty and disadvantage amongst older age groups. Put differently, poverty is related to unemployment and not youth unemployment per se. The connection between youth unemployment and poverty is simply a reflection of the age composition of unemployment. Older unemployed people are disproportionately poorer—hence one cannot conclude that the age of the unemployed person is a driving factor behind poverty.

5.6 Recommendations

5.6.1 On the appropriate form of social security

The Committee's investigations, drawing on primary and secondary sources, show that poverty and (within-group) income inequality have reached levels that compromise human security in South Africa. The current social safety net is inadequate to deal with the immediate crisis of poverty and continuing alienation. The Committee therefore agrees with government that policies to address poverty and social exclusion should not be limited to the creation of a conventional social safety net. For, even after a net to stop people from falling into destitution has been constructed, the negative effects of unemployment on social cohesion will continue to be felt. Instead, the notion of social protection has to be more comprehensive and must provide an effective framework to design a system appropriate to South African needs.

Further the Committee proposes that the principle of social insurance, based on entitlements through contributory schemes should, where feasible, be extended to include as many of the employed as possible. There are likely to be certain groups of workers who will remain excluded from social insurance schemes such as the UIF, because of their location in the workforce. For these workers, other arrangements for providing social security are proposed.

Even if protection through social insurance could be made available to all workers, it would not solve the fundamental problems caused by unemployment... The Committee's research has shown that because the majority of UIF claimants were poorly paid when they were employed, replacement income levels are correspondingly low. Benefit receipt durations are also very short. The digressive benefit schedule in the new Act is an improvement, but it cannot solve the problem of benefit exhaustion. As far as can be determined, some significant proportion of UIF beneficiaries do not find their way back into paid employment. Once their benefits are exhausted, they require social assistance as much as the unemployed who receive no benefits at all.

Consequently, social protection must comprise the two 'direct' forms of insurance and social assistance, as well as the set of 'indirect' active measures designed to facilitate favourable labour market transitions:

- Social insurance. This must be extended wherever possible, with due consideration being given to the administrative feasibility of providing such protection and recognition of its limitations.
- Social grants. Coverage of these must be urgently widened to relieve the income poverty of the many who will not be rescued by policies designed to stimulate gainful labour market insertion.
- Indirect social protection, through the facilitation of favourable labour market transitions, must be fostered by the deployment of every policy instrument that can help to do so.
- Each and every policy instrument to address the problems of poverty and unemployment/employment must be monitored and evaluated.

Although close linkage of the direct (conventional social security measures) to the indirect (active labour market-type policies) is not possible in short to medium term in South African conditions, institutions to co-ordinate these policies so that their potential relationships are developed should be constructed.

5.6.2 Social Insurance: The Unemployment Insurance Fund (UIF)

5.6.2.1 Recommendations on social insurance

With regard to the UIF scheme, it is recommended that the state acknowledge and accept that without regular increases in the contribution rate (the pay-as-you-go rate) a contributor-funded scheme is structurally non-viable, and that state support (a contribution equal, to approximately 25 per cent of current contributions) is required.

- Maternity benefits proposed under the revised legislation are inadequate. It is proposed that the income replacement rate should be raised to at least 90-70 on the digressive scale.
- It is further suggested that mothers become eligible for the full benefit package (17 weeks paid maternity leave) after 13 weeks contributions. The possibility of introducing maternity-type benefits for those in casual, seasonal or insecure employment should be investigated.
- It is proposed that an attempt to co-ordinate the many research initiatives on reproductive health and child health (mostly conducted by health-discipline based researchers?) be made. The conditions into which more than 600 000 of the 800 000 babies born annually are delivered are appalling
- Domestic workers could be incorporated into the UIF, on a similar basis to the IT-based solution proposed below. In return for bringing domestic workers into the 'banked' sector of the economy (the only way to create reliable contributor records) it is proposed that employers be granted a modest tax rebate.

- Political pressure to include domestic workers is intense. In the absence of feasible unemployment insurance for domestic workers, a basic income grant, in the medium term, would mitigate some of the risks and vulnerabilities experienced by this sector. Most domestic workers as well as informal workers, seasonal workers and other difficult-to-reach categories of workers would be able to have a minimum level of income security through a basic income grant than they would from the UIF.
- Government workers should be allowed to choose, through their representative organisations, whether or not to become contributors to the UIF.
- The UIF's virtue is its ability to spread the transition from the relative comfort of its replacement income to another income replacement measure.

The Committee has considered several issues regarding the UIF. Prominent among these are gaps in the UIF Bill. Significant omissions are the exclusion of domestic workers from the fund and the treatment of women workers who are eligible for maternity benefits. Another gap is the absence of a clear principle for financing the fund. Also of importance is the discriminatory treatment of the women eligible for maternity benefits.

5.6.2.2 Recommendation on financing principles for the UIF

The Committee has considered the complexities involved in the financing of the UIF and that the financing of the fund has been a subject of negotiations in Nedlac and meetings between the Department of Labour and the National Treasury. The Committee's notes current arrangements in terms of which government will effectively act as debt underwriter of the UIF. It is the Committee's view that although falling claim levels and improved financial controls have eased the financial crisis for the meanwhile, the fund remains vulnerable. Until the special conditions in which the fund is required to operate are acknowledged, and appropriate government top up funds (in the form of a regular contribution to the fund) are provided, this vulnerability will remain.

Noting that a start has been made in negotiations currently underway, the Committee suggests that government will have to act as debt underwriter of the UIF, in the final instance, under conditions of (continuing) financial crisis. The Committee understands that Treasury support will be available for a period of some three years. During this period the UIF is required to take all steps necessary to ensure that all the systems required to control a financial institution disbursing several billion are in place. At the end of the period the Committee understands that the situation will be re-evaluated.

The Committee recommends that those concerned engage (once more) in a principled discussion over the nature of the desired contribution and benefit regime.

Unemployment 'insurance' funds the world over experience variations in their fortunes that relate in a complex way to movements in the business cycle. In some funds, an attempt is made to maintain a reserve from which to meet contingencies. Even wealthy economies experience difficulties from time to time in keeping a balance between income and expenditure of the funds. It is generally accepted that 'insurance' against unemployment is (actuarially) difficult, if not actually

possible. Insurance against mass unemployment (on the scale experienced in South Africa) is out of the question.

The financial sustainability of the UIF is in question. This is perhaps inevitable, given the nature of the institution. As it stands at present, the UIF retains the form of a fund that essentially was designed to cater for the limited requirements of a historically privileged workforce not seriously troubled by the threat of unemployment. At inception, and for many years thereafter, the fund was assisted by a significant contribution from government.

Millions of poorly paid workers, previously excluded from the fund were brought into it as paying contributors. The probability of their becoming unemployed is much greater than that of the original contributors. The net effect has been that from being a minority share of total benefit payouts made from the fund, unemployment benefits crowded out maternity and illness benefits to absorb more than 85 per cent of payouts. For many years now, the bulk of the claimants have been the poorly paid, as have been the bulk of contributors. If domestic workers, who probably number somewhere in the region of a million,⁶⁸ are included under the protection of the fund, the current financial predicament will worsen. The vast numbers of these workers are poorly paid. Their ability to contribute to the fund's finances is therefore limited. Their claim propensities, on the other hand, are likely to be relatively high.

After careful consideration of the socio-economic conditions in South Africa, the Committee's view is that a fund run solely on the contribution income of those it covers cannot be viable in the long term. In the medium term the circumstances strongly urge that government make a contribution to the costs of the scheme until such time as the unevenness in the earnings distribution has been significantly reduced.

The new Unemployment Insurance Act proposes the extension of coverage to those currently excluded by virtue of the fact that they earn more than the ceiling income. Claims of 'high' income earners are likely to be so few as to make 'value for money' for those new contributors extremely low. Any tendency to respond to the discontent that this will evoke by an appeal to notions of social solidarity, should be tempered by a realistic assessment of the extent to which such sentiments exist in South Africa.

The Committee has found that the principles of social solidarity that underpin, or at least used to underpin systems in the UK, the Scandinavian countries and Germany, are perhaps most remarkable by their absence. The proposed extension of coverage is likely to be seen by many of them for what it is—a tax, not an insurance premium. The Committee does not have a principled objection to the levying of such a tax. From projections that have been examined, it would appear, however, that the additional funds so generated will still not be sufficient to keep the fund afloat in times of crisis.

The Committee therefore recommends as a matter of principle that in the short to medium term, government commits itself to the support of the fund. Furthermore the level of support required should be based on the proposed actuarial model of the fund. The Committee also recommends that

measures need to be put into place to ensure that the government contribution is not frittered away in inefficiency losses within the fund and that the creation of a contributor database be established. This will serve to limit the potential for both business (under-contribution will be substantially reduced), and beneficiary fraud (claims will only be entertained when proper records exist).

Transitional arrangements of the type currently being devised through negotiations are inevitable. Clearly the pace at which the contributor database can be constructed will be a critical determinant of the shape of these arrangements.

5.6.2.3 Recommendations for domestic workers

The Committee recommends that government consider as an alternative the need to ensure a minimum income grant to provide income security for domestic workers and other categories of workers who experience desperate poverty, chronic risks and vulnerabilities.

The Committee suggests that in the short to medium term an income grant, as part of government's Social Assistance Programme to alleviate poverty, could be a more efficient way of responding to the needs of categories of workers that flow in and out of low paid insecure jobs.

5.6.2.4 Recommendations on maternity benefits

The Committee's view is that, subject to an agreed qualifying period, a woman should be entitled to benefits for the full duration of maternity leave. Examination of the UIF records shows that benefit exhaustion down at the bottom end of the income scale was the main reason why maternity leave durations were shorter than those at higher income levels. In other words, poor workers can give less care to their infants precisely because they are poor. This has serious implications both for mother and child. International practice in the establishment of qualifying period varies enormously.

The Committee's suggestion is that a woman who joins a firm in the first trimester of a pregnancy should not receive full benefits. Any employee, however, who has contributed for longer than 13 weeks should be eligible for the full package. This restriction should prevent attempts to gain employment simply as a means of obtaining benefits. Evidence does not support the argument, that a provision such as this will encourage pregnancies.

The Committee is informed that the primary reason for the maintenance of this benefit at the same level as the other benefits paid in terms of the Unemployment Insurance Act was financial. Such a stance besides being non-compliant with the stipulations of ILO Convention 103 and its associated recommendation 95, could be seen as a form of discrimination. Since reproduction is biologically determined, recognition of its significance for the nation requires an acknowledgement that reproductive health, and the health of infants, give rise to special needs. It is therefore appropriate to address the needs of at least working mothers through the means suggested above.

The Committee further recommends that as far as suggested replacement rates are concerned, a benefit regime with a Lower Replacement Rate of 66 per cent and an Upper Replacement Rate of

80 per cent that allows full benefits after 13 weeks contributions would cost about R230 million. Making benefits a function of contribution record, as is done at present, would reduce the additional cost to about R160 million. Raising replacement rates to 70 and 90 per cent, would raise the additional costs by about R300 and R220 million, respectively. The contribution that this would make to gender equity and social reproduction with the long-term benefits for overall productivity means that the gains outweigh the costs.

5.6.3 Social assistance

Urgent steps are required to bring relief to the poor who cannot be reached by existing poverty relief programmes. Social assistance to the unemployed and to those in poorly-paid jobs is an imperative.

The success of the state in achieving fiscal and monetary stability will be diminished unless economic and social policy goals result in improvements in the lives of the poor majority.

A dialogue informed by the results of major research aimed at understanding the causes of unemployment, should be opened. Strongly held positions that influence policy, based sometimes on little more than speculation, must be brought out into the open for debate. This will ensure the review of existing policies dealing with unemployment.

5.6.4 Active labour market and job creation policies

In the absence of the preconditions for a tight integration of labour market and social security policy there is a need, in the medium term, for an inter-departmental body to co-ordinate the many active labour market policies and job-creation initiatives. Since the linking of social and economic policy goals are central to its work, representation of the Social Sector Cluster, and in particular the Department of Social Development on this body is essential.

The Committee endorses the proposal that as many jobs as possible be created through public works programmes but cautions that public works programmes, by their very nature, do not offer long term viable employment opportunities for the unskilled structurally unemployed. The Committee supports initiatives presently being developed by the Department of Labour to address youth unemployment through the creation of several hundred thousand public sector ‘learner ship’ opportunities, especially in the provision of essential social services of a para-professional nature.

5.6.5 Institutional arrangements

These recommendations must be seen within the broader recommendations made in the chapter on Institutional Framework. An independent Poverty, Social Exclusion and Social Protection Studies Unit should form a component of the proposed Commission for Social Protection. Its primary task would be to report regularly to parliament and the social cluster in Cabinet on the results, at a national level, of attempts to alleviate poverty and reduce inequality. It would also initiate and support academic policy studies in the field.⁶⁹ Much of the data on poverty now emerging from Statistics South Africa is not analysed because resources to do so cannot readily be found. The unit

would take a lead in seeing that all useful information is extracted from the raw data and their policy implications assessed for appropriate action. The unit would also assist other government departments with the design of policy evaluation measures.

Consideration should also be given to the collection of data and information on the success or otherwise of all job creation policies of government and of skills training. Without this information and policy tools to evaluate the impact of government's job creation and human resource development strategy it will be extremely difficult to determine efficiency and equity gains and impediments to social security.

There are numerous non-profit organisations (NPOs) and NGOs engaged in the skills training and 'empowerment' field. It is far from clear that the benefits of their activities outweigh the costs. The role and place of these institutions must be clarified.

5.6.6 Policy evaluation

The professional art of policy (and social policy in particular) and programme evaluation is poorly developed in South Africa especially in the field of social security. Institutional capacity to undertake this crucial activity on an ongoing basis has to be developed. A variety of institutions are required. Ideally, each department carrying out social policy should have the capacity to carry out evaluations.

A thorough review of the statistics used to construct measures of the success or otherwise of policy is required.

The October Household Survey with appropriate modifications by Statistics South Africa is essential. The LFS does not provide all the data required to monitor, evaluate and make informed recommendations. It is not clear that the primary information required to evaluate policy can be obtained from the LFS. The five yearly population censuses are too far apart for evaluation purposes. This matter should be referred to the National Statistics Council.

5.7 Conclusion

While unacceptably high levels of poverty and related problems require immediate government intervention, the promotion of active labour market policies (and job creation policies, more broadly conceived) is essential in South Africa. However, given the structural barriers, educational levels and other features of the global economy, such policies on their own, are unlikely to address the immediate social crisis. The Committee's considered view, based on research, is that in the medium to long term, employment growth and job creation will not be significant enough to ensure income security or earnings replacement for low income workers in the survivalist sectors. In this context income support through social assistance becomes a feasible and viable option.

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ENDNOTES

- ¹ Coudouel A, Ezemenari K, Grosh M, and Sherburne-Benz L, in the chapter on Social Protection, World Bank Poverty reduction Sourcebook, 2001 World Bank, Washington.
- ² Rama, M 2001:23, Globalisation, Inequality and Labour Market Policies, presented at the DPRU/FES Conference, November 2001, Johannesburg.
- ³ The report was prepared for the Office of the Executive Deputy President and the Inter-Ministerial Committee for Poverty and Inequality in 1998.
- ⁴ This was said to be: "... particularly evident in what is probably the most pressing challenge facing us, namely employment creation." (p.2)
- ⁵ In summary, the report is not strong on how to tackle the unemployment crisis. This may be the responsibility of specific departments, and particularly the Department of Labour in the run-up to the Job Summit, but a concise set of pointers should have emerged from the report itself." (pp.4-5)
- ⁶ The Committee uses poverty trap to mean a structural condition from which people cannot rescue themselves despite their best efforts. A welfare trap by contrast refers to the barrier created by means tested social grants that have in built perverse incentives.
- ⁷ National Treasury, "Medium Term Budget Policy Statement 2000", chapter 2, page 16.
- ⁸ Human Resource Development Strategy for South Africa (2001).
- ⁹ About half of South Africa's population (21, 5 million people) lived in households with total spending of less than R800 per month, of which 15, 2 million people lived in households with no access to formal sector employment, and 10, 3 million in households with no one employed at all. (Calculations in Samson et. al. 2001b, based on 1999 October Household Survey data).
- ¹⁰ Leibbrandt, M and I. Woolard, 2001. "The Labour Market and Household Income Inequality in South Africa" forthcoming in *The Journal of International Development*. See also McGrath and Whiteford (1994), Leibbrandt and Woolard (2000) and Whiteford and van Seventer (2000).
- ¹¹ The results in Sections 2 and 3 of this chapter are drawn from a research paper by Meth (2001).
- ¹² Survey coverage of the sector is incomplete (the surveys miss many employers, especially in the service sector). In the resulting void, estimates of the level of employment among the non-surveyed formal-sector employers are obtained by subtracting from the total number of formal sector workers obtained from household surveys, the numbers of formal-sector workers found in surveys of formal-sector employers. The discontinuity arises because of slight differences between the October Household Survey, abandoned in 1999, and replaced by the LFS in February 2000.
- ¹³ 'Trends' cannot be confirmed because the statistical series on which the conclusion of 'rapid growth' is based, apart from being too short to permit reliable conclusions to be drawn, has behaved so erratically that the figures for job creation that it has thrown up arouse great suspicion.
- ¹⁴ The first LFS (February 2001) contained the results of a reconciliation exercise to make comparability with the 1999 OHS possible. See Statistics South Africa, Discussion Paper 1, 27 March 2001 (LFS 1).
- ¹⁵ These were households in which there were people of working age, who were either unemployed or not economically active, i.e., they are not pensioner households.
- ¹⁶ The argument that measuring the number of unemployed using the 'expanded' definition is the appropriate way to gauge the extent of the problem in South Africa, has considerable force.
- ¹⁷ According to Statistical Release No. 0210 of 25 September 2001, formal sector employment rose from 6 678 000 in February 2000 to 6 842 000 in September 2000, only to fall back to 6 678 000 in February 2001. See Table C on page iv.
- ¹⁸ Without digging into the dataset for precise information it is not possible to get to the bottom of informal sector earnings. Table 3.5 in the LFS presents the distribution of earnings in the sector, but it includes unpaid subsistence agricultural producers and small-scale (paid) agricultural producers as well. This matter will be dealt with at greater length below—suffice it to note here that the income class R1-500 contained 944 000 people in September 2000, and 1 392 000 in February 2001.
- ¹⁹ *Pers comm*, Dorrit Posel, September 2001.
- ²⁰ Meager and Evans, 1999:15.
- ²¹ Julian May and his colleagues are moving in this direction as a result of their pioneering work with the KIDS panel study (see, for example, May *et al*, 1999). *pers comm*, September 2001.

- ²² It is clear that if the intention of policymakers were to identify those deserving of social assistance, the distinction would be spurious as well—there is no reasonable method of separating those ‘incapable’ of being employed (in given economic circumstances) from those ‘capable’ of being employed, but unable to find jobs.
- ²³ The focus is on the African population group because apartheid disadvantaged them most. Depending on the policy goal, such analysis, as noted above, raises important ethical questions. Meager and Evans note that experiments at identifying the vulnerable explicitly excluded characteristics such as age, sex or ethnic origin (1999, p.15).
- ²⁴ These results are from Meth (2001), Table 9.
- ²⁵ See SNR P0210, 25 September 2001, Tables 2.6.1.2 and 2.6.2.2.
- ²⁶ See Meth and Casale, 2001.
- ²⁷ Unemployment, of course, cannot exist, except as a frictional phenomenon, in a neo-classical world. In developed economies, if some substantial number does claim to be unemployed, this, it is argued, is mainly because the social security system raises the reservation wage.
- ²⁸ (In practice, the lowest paid, and in terms of the argument offered above, frequently most onerous).
- ²⁹ In a footnote he observes that “[R]eaders may note a more than passing similarity between those arguments and more ... recent debates [in the UK]. Some commentators argue that part of the Poor Law spirit persists—e.g. the decline in unemployment benefits relative to other benefits in the UK in the 1980s can be interpreted as a case of less eligibility.” (Barr, 1998, p.17n)
- ³⁰ This condition was used in South Africa in the bad old days to sluice the unemployed (especially the African unemployed) out of the Unemployment Insurance system, into employment in agriculture and mining, both of which suffered perennial labour shortages (Meth and Piper, 1984). Given the appalling conditions in both sectors, these shortages are little to be wondered at.
- ³¹ De Kiewiet used this or something like it as title for a book.
- ³² The concept of ‘household’ is used as that it had a (relatively) simple and agreed meaning. This is fairly far from the truth. Hosegood (2001), of the Africa Centre for Population Studies, has some quite trenchant things to say on this question—the result of monitoring household developments using a large-scale panel study.
- ³³ Bhorat and Leibbrandt (2001a; 2001b) have made a significant contribution to our understanding of vulnerability in the labour market in South Africa. The two works referred to here identify the correlates of vulnerability then combine the covariates into an econometric model. The approach suggested above differs in that it starts from an *a priori* specification of vulnerable households. It then proposes a comparative analysis with less vulnerable households, as a way of understanding poverty.
- ³⁴ The exploratory analysis conducted here did not take into account the questions in the OHS relating to migrant workers (see Section 5 of the 1999 OHS questionnaire). Question 5.1 defines a migrant worker as someone who is absent from the home for more than a month each year to work or seek work. This will be tackled in subsequent analyses. The low number of remittances reported below, and the very low levels of total monthly expenditures in the receiving households suggest that the absence of these contributions will not greatly affect the results presented here.
- ³⁵ The information on which the results that appear below are based was extracted from the linked 1999 OHS database by Michael Samson of the Economic Policy Research Institute in Cape Town. Grateful (extremely grateful) thanks are in order.
- ³⁶ Bhorat and Leibbrandt used a per capita adult equivalent value of R293 per month in 1995, noting that this represented an “... extremely low labour market income ...an adult earning such an income would be poverty-neutral in the sense that they pay their own way but make no additional contribution to lifting the household out of poverty.” (2001a, pp.98-99)
- ³⁷ These numbers were obtained by a somewhat roundabout method. The Stats SA publication *Unemployment and Employment in South Africa* (Orkin, 1998, p58) states that 32 per cent of African households contained no employed people. The total number of African households (5 950 992) comes from Leibbrandt, Woolard and Bhorat (2000, p.49). These authors used the 1995 OHS. The total number of households in the Leibbrandt et al piece (8 801 993) accords well with the 1996 population census number of 9 060 000 (Report No. 03-01-12 [1996], p.86. Note that this excludes institutions and hostels. A proposal for a research project to tackle the question of conditions in 1995 more thoroughly has been submitted to Treasury. The number of workerless African households in 1999 comes from a file generated from data extracted from the OHS by Michael Samson of the Economic Policy Research Institute in Cape Town (file NoWorkerHhData.xls, worksheet A-NoOfHh). There were 3 069 897 such households, 2 859 167 of them containing working adults, 210 730 containing either pensioners only or pensioners and children (skip-generation households). The total number of African households in 1999 (7 985 000) is taken from the 1999 OHS (SNR P0317, 31 July 2000, p.40). It appears that ‘institutions and hostels’ are excluded from this total as well. The listing of ‘Dwelling types’ contains no reference to either, and has only 29 000 households in the category

‘unspecified’. The publication does, however, note that the sample frame was extended to include workers in mining hostels. This issue will be pursued with Stats SA.

³⁸ These totals include the ‘skip generation’ households..

³⁹ It is important to bear in mind when reading the rough estimates of the costs of benefits yielded by the calculations below, that the figures are based on very small sub-samples raised to population totals. The standard errors on such figures are high—so too, must be the errors on benefit costs.

⁴⁰ If the 600 000 new wholesale and retail trade workers had appeared between LFS1 and LFS2, the difference (the error?) could possibly have been attributed to the fact that LFS1 was a pilot survey, covering ‘only’ 10 000 households, whereas LFS2 went into 30 000 households (the standard panel for the survey). The fact that the difference crops up between two surveys, each covering 30 000 households, removes this possibility.

⁴¹ See Statistical Release P0317, 31 July 2000, p.vii.

⁴² An international comparison of the relative sizes of the urban informal sector in a wide range of developing countries appears in Easterly (2000, Table 8). The table, which expresses the size of the urban informal sector as a percentage of urban employment, gives a figure for South Africa of 19 per cent in 1995. This compared with an average of about 65 per cent for West African countries, 55 per cent for other countries in sub-Saharan Africa, about 47 per cent for Latin America, and about 42 per cent for Central America. A crude guess at the 2001 level for South Africa, made by assuming that proportions of (non-agricultural) informal sector workers were similar in urban and non-urban settings, suggests that even with the (dubious?) addition of the several hundred thousand workers between September 2000 and February 2001, that proportion had only risen to about 22. This will be refined once digging into the database commences.

⁴³ The results of the first LFS were plagued by what would have become a major problem, had it persisted, namely that of missing responses. Most visible in the results for formal employment, the problem, although somewhat less significant in the informal than in the formal sector, the numbers involved was still large enough to be a matter of some concern. In the formal sector, 769 000 did not know, or refused to disclose their incomes (the former being more likely). The corresponding figure in the informal sector was 135 000, more than 7 per cent of those who reported an income. In the formal sector, a further 155 000 had ‘unspecified’ incomes. Some 37 000 in the informal sector were similarly classified. The LFS 2 results are much better—in the formal sector the number reported under ‘Don’t know/Refused’ fell to 149 000, while that for the informal sector fell 29 000. ‘Unspecifieds’ were below 10 000 for the formals, and zero for the informals. See LFS 1 and 2, Table 3.5 in each case. In LFS 3, the numbers creep up again—there 539 000 ‘don’t knows/refuseds’, and 78 000 unspecifieds in the formal sector, while the informal sector contained 60 000 of the former, and 58 000 of the latter. This high rate of non-response may be a problem.

⁴⁴ One part that cannot be done is that of attempting to estimate, as was done for the workerless households, however crudely, the magnitudes of remittances. This is because the noise generated by the estimates of worker earnings drowns out income from other sources—a key ingredient in the workerless household exercise.

⁴⁵ The problem of non-response among domestic workers loomed quite large in LFS 1, but disappeared from LFS2. It reappeared, but with less severity, in LFS3. A possibly important omission from domestic worker incomes is payments in kind. Though their value is the subject of some contention, such payments ought not to be ignored.

⁴⁶ Obviously, a proper attempt to estimate the relationship between the two would need to be a lot more sophisticated than the crude (back-of-envelope) correlation attempted above.

⁴⁷ These results (based on small numbers of responses), are highly unstable.

⁴⁸ By including ‘commercial farms’ in the category of “Working on his/her own or with a partner in any type of business” the classification used by Statistics South Africa (possibly) locates some of the 650 000 informal agricultural workers within the category of (genuinely) self-employed people, reducing somewhat the numbers engaged in economic activity other than farming.

⁴⁹ The figures in the table for workers are for all races. At the time of writing, it had not been possible to extract figures for African workers only. Because of the sheer numerical preponderance of Africans, the errors involved in using the figures for all races rather than for Africans only will be trivial at this level of household expenditure. It becomes somewhat less so as expenditure rises, but not to a degree that need concern us here.

⁵⁰ This conclusion is also drawn by Bhorat, 2001.

⁵¹ Meth, 2001, pp.68ff.

⁵² Carter and May, 2001.

⁵³ See, for example, Ravallion, 2000, p.17.

⁵⁴ See Dagdeviran et al, 2000.

- ⁵⁵ See Rama, 2001, p.21. The World Bank's view of social protection is a limited one, containing only public works and social insurance. Two aspects of their position are worth noting, however. In the first place, the World Bank sees social protection interventions as either 'one-time', or permanent. In the second, public works programmes are redistributive because they must ultimately be financed by taxation. Few developing countries could extract these taxes from the poorest of the poor.
- ⁵⁶ Standing, 1999.
- ⁵⁷ This estimate comes from the latest LFS (September 2000)—see Table 3, p.60.
- ⁵⁸ The latest year for which we have information on benefit durations.
- ⁵⁹ Of the sort that makes Standing argue against an employment-based social security system.
- ⁶⁰ Standing, 1999, p.313.
- ⁶¹ The World Bank equates workfare with the public works programmes that it promotes as an alternative to social protection, in particular, unemployment insurance. World Bank, 2001, p.155.
- ⁶² World Bank. Coudouel, A *et al*, 2001 April in Social Protection Draft.
- ⁶³ Opcit.
- ⁶⁴ Opcit.
- ⁶⁵ Research undertaken by Charles Meth and the Economic Policy Research Institute (EPRI).
- ⁶⁶ What constitutes 'too' high or low is not easy to specify. Advanced economies in which close linking of employment and welfare policies has taken place have done so under conditions in which unemployment rates ranged between roughly 5-15 per cent. Economic activity rates were generally in excess of 70 per cent. Corresponding figures for South Africa are unemployment rates in the upper 30s (approximately 36 per cent at present), and economic activity rates for the African population not much above 50 per cent in non-urban areas (depending on which figures one uses).
- ⁶⁷ A youth training and placement scheme in Cape Town funded by the Department of Social Development as part of its Poverty Relief Spending.
- ⁶⁸ The most recent LFS results (those for September 2000) based this time on 30 000-household sample, confirm the results for the first LFS. The income estimates are probably also credible—630 000 of the 999 000 domestic workers earn between R1-500 per month, while a further 277 000 are paid between R501-1000. A small number (65 000) have salaries in the R1001-2500 range. See LFS, Table 3.10, p.43.
- ⁶⁹ The 'Chronic Poverty Study' mooted by Aliber (2001), the longitudinal survey suggested by Asher (2001), the various studies undertaken by May in the Centre for Social and Development Studies spring immediately to mind. Doubtless there are several other initiatives deserving of support.

APPENDICES

Table 5.1 Unemployment in South Africa, 1996-2001

Period	Official unemployment		Expanded unemployment	
	Number (1000s)	Rate (%)	Number (1000s)	Rate (%)
1996	2 224	19,3	4 566	33,0
1997	2 451	21,0	5 202	36,0
1998	3 163	25,2	5 634	37,5
1999	3 158	23,3	5 882	36,2
Feb 2000	4 333	26,7	6 553	35,5
Feb 2001	4 240	26,4	6 961	37,0

Source: SNR P0317, 31 July 2000, Tables B and D; and SNR P0210, 25 September 2001, Tables B and H.
 Note: The line under the 1999 results indicates a discontinuity between the series.

Table 5.2 Employment (1000s) in South Africa, 1996-2001

Period	SEE/STEE	Formal sector		
		Non SEE/STEE	Total	Informal sector
1996	5 242	1 550	6 792	996
1997	5 139	1 587	6 726	1 136
1998	4 945	1 445	6 390	1 316
1999	4 840	1 724	6 564	1 907
Feb 2000	4 754	1 924	6 678	1 821
Feb 2001	4 676	2 002	6 678	2 665

Source: SNR P0317, 31 July 2000, Table D; and SNR P0210, 25 September 2001, Tables C and F.
 Note: The line under the 1999 results indicates a discontinuity between the series. The formal sector employment figures exclude agriculture

Table 5.3 Unemployed African youth with Gr1-12 education—1999

Urban	Males				Females			
	Strictly unemployed		Discouraged		Strictly unemployed		Discouraged	
	PE	NPE	PE	NPE	PE	NPE	PE	NPE
15-19	1 873	21 648	1 355	19 722	2 763	20 325	2 129	28 844
20-24	27 102	141 906	5 883	95 532	32 731	166 701	14 724	135 533
25-29	61 627	125 005	18 004	74 206	55 851	146 499	24 182	114 993
Total	90 602	288 560	25 242	189 460	91 345	333 524	41 035	279 369
Non-urban								
15-19	1 898	25 034	2 813	29 192	1 712	28 868	4 764	34 778
20-24	14 481	107 016	7 709	131 186	20 040	128 611	15 296	155 065
25-29	28 587	79 540	14 507	81 446	24 020	101 053	22 225	140 309
Total	44 966	211 589	25 029	241 825	45 772	258 532	42 285	330 151

Source: Meth and Casale (2001, File: Results.xls, Worksheet: Youth).

Table 5.4 Unemployment rates by age and the age distribution of the unemployed (OHS 1999)

	16-25	26-35	36-45	46-55	56-65	Total
<i>Strict</i>						
Men	37,6%	20,9%	12,7%	10,4%	7,1%	19,1%
Women	47,5%	31,3%	19,9%	12,3%	5,3%	27,2%
Total	42,4%	25,7%	16,0%	11,2%	6,8%	22,8%
<i>Broad</i>						
Men	52,0%	30,3%	20,2%	18,2%	13,7%	29,1%
Women	63,6%	47,2%	33,4%	23,8%	15,6%	42,7%
Total	57,9%	38,7%	26,7%	20,6%	14,5%	35,7%
Age Distribution of the Unemployed*						
Strict	35,0%	36,7%	18,9%	7,5%	1,6%	100%
Broad	34,7	35,5%	19,1%	8,2%	2,0%	100%

* These do not sum to 100% exactly because of rounding errors and because of the tiny percentage of unemployed people in age groups less than 16 and older than 65 years of age.

Table 5.5 Long-term unemployment by age (OHS 1999)

	16-25	26-35	36-45	46-55	56-65	Total
Never worked before						
Strict	80,0%	61,9%	45,1%	39,7%	38,5%	63,9%
Broad	84,0%	67,4%	52,7%	47,9%	45,2%	68,4%
% who have been seeking work for 1-3 years (strict)						
	36,5%	25,3%	21,6%	18,4%	17,2%	27,8%
% who have been seeking work for more than 3 years (strict)						
	24,3%	49,4%	54,7%	53,6%	59,0%	42,0%

Table 5.6 Unemployment by age and household income (OHS—1999)

	16-25	26-35	36-45	46-55	56-65	Total
Percentage of unemployed in each age category living in households with an income of less than R800 a month						
Strict	45,1%	47,7%	53,4%	60,9%	53,9%	48,9%
Broad	48,8%	50,5%	55,9%	61,5%	61,2%	52,1%
Age distribution of unemployed living in households with an income of less than R800 a month*						
Strict	32,0%	36,1%	20,1%	8,9%	1,8%	100%
Broad	32,5%	34,7%	20,5%	9,4%	2,3%	100%
Percentage of unemployed in each age category living in households where children under 7 went hungry because there was no money to buy food						
Strict	33,1%	33,1%	36,1%	36,4%	36,1%	33,9%
Broad	32,3%	30,3%	33,6%	32,1%	32,0%	31,8%
Age distribution of unemployed living in households where children under 7 went hungry (no money to buy food*)						
Strict	34,6%	38,0%	18,6%	6,9%	1,5%	100%
Broad	36,1%	35,6%	19,0%	7,1%	1,7%	100%
The percentage of the unemployed in each age category living in households where other members went hungry (no money to buy food)						
Strict	35,8%	35,1%	37,5%	42,0%	39,3%	36,4%
Broad	33,6%	32,1%	36,2%	38,0%	36,9%	34,0%
Age distribution of unemployed living in households where other members went hungry(no money to buy food*)						
Strict	34,4%	35,3%	19,5%	8,6%	1,7%	100%
Broad	36,1%	35,6%	19,0%	7,1%	1,7%	100%

* These do not sum to 100% exactly because of rounding errors and because of the tiny percentage of unemployed people in age groups less than 16 and older than 65 years of age.