

# **Jobless or Job Creating Growth?**

## **Some preliminary thoughts**

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## ABSTRACT

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

This paper outlines the experience of employment and unemployment over the past 10 years. It explores thinking about whether SA is on a sustainable job-creating growth path. It reviews whether the trends would support a basic definition of jobless or job creating growth. But the definition of employment is very broad and so the paper then looks at some underlying trends in the quality of work: this helps us to understand whether the employment created contributes to a sustainable dynamic path. The paper concludes with some thoughts about policy implications and policy balance.

## 1. Introduction

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

This paper outlines the experience of employment and unemployment over the past 10 years. It explores thinking about whether SA is on a sustainable job-creating growth path. It reviews whether the trends would support a basic definition of jobless or job creating growth. But the definition of employment is very broad and so the paper then looks at some underlying trends in the quality of work: this helps us to understand whether the employment created contributes to a sustainable dynamic path. The paper concludes with some thoughts about policy implications and policy balance.

## 2. Employment & Unemployment in South Africa

### Unemployment

Measuring unemployment is a tricky affair. Properly calculating employment and unemployment across the full population is really a new activity: there have been many changes in the measurement instruments over the 1990s as Statistics South Africa (SSA) has sought to make improvements. The Labour Force Survey (LFS), introduced in 2000, is currently the most reliable source of information. It is thus preferable to draw broad trends rather than focus on precise point estimates.

Unemployment can be measured in a number of ways. The accepted international norm focuses on 'strict' (or 'official' or 'narrow') measures that include only workers still actively looking for work. The 'broad' (or 'expanded') definition includes those parts of the labour force that say they would like to work, but have become discouraged.

In South Africa, the review of both strict and broad measures is important due to racial and gender biases: by far, the majority of discouraged workers are African rural women. Of the 7,7 million workers who were unemployed in 2001, 3,2 million were discouraged. The *chronic nature* of unemployment is demonstrated by the fact that only 41 per cent and 32 per cent of *urban* men and women respectively that were defined as strictly unemployed, had previously had a job. One-third to one-half of the 'strictly-defined' unemployed had been out of work for more than 3 years. Although some argue that many of these people may well be working in small piece jobs or in the formal sector (eg. Schlemmer), the LFS is covering any and all economic activity, including unpaid labour, so should be capturing this possibility. Labour force participation rates are quite high and more people are looking for work: this may mean that people are more hopeful or alternatively more desperate, as the picture is still quite bleak.

Even by the strict definition, unemployment is expanding each year, with a strong racial bias toward African workers. The main contributors to *growing* unemployment over the 1990s included: expanding labour force due to population growth, increased participation rates (with the end of apartheid – freedom of movement to urban areas, increased hopefulness; increased female participation) and relatively slow net increases in the number of job opportunities.

**Table 1: Unemployment trends (%)**

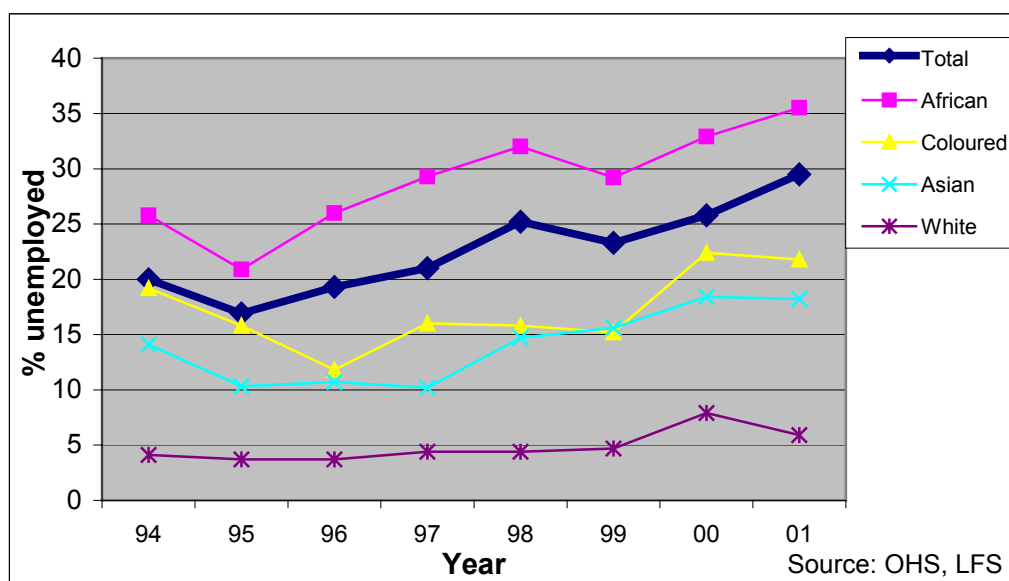
	1994	1995	1996	1997	1998	1999	2000	2001	2002
Strict def'n	20.0	16.9	19.3	21.0	25.2	23.3	25.8	29.5	30.5
Broad def'n	28.6	26.5	34.9	38.9	37.5	36.2	35.9	41.5	41.8

Source: OHS 1994–99, LFS Sept 2000, 2001, 2002.

Table 1 presents unemployment trends between 1994–2002. Care should be taken in reviewing these figures, and year-on-year trends deserve less attention than overall direction over the period. The official unemployment rate rose by 13.6 per cent between 1995–2002, reaching over 30 per cent of the labour force. The broader definition of unemployment, that includes discouraged workers, increased from 26.5 per cent to 41.8 per cent over the same period. The recorded unemployment rate would have grown much faster if not for the massive growth in the informal sector. There is some debate as to whether the pace of informal sector growth is real, or whether SSA has improved its data capture: for simplicity sake, this submission will work on the assumption that the growth is real.

There is a strong racial, gender and age bias to trends in unemployment. Unemployment rates for African workers are much higher than for other groups, as shown in

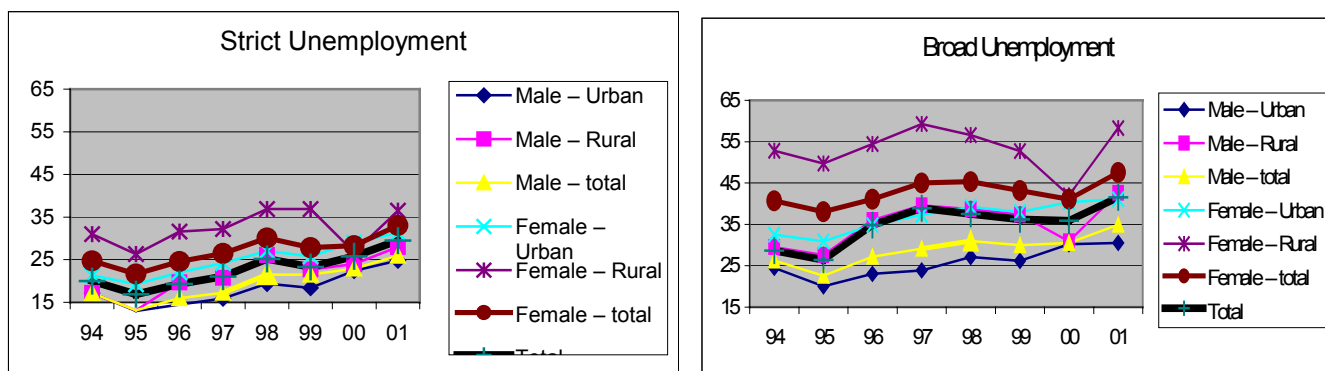
Figure 1. However, it also reveals that unemployment rates have been growing substantially for every other group, aside from whites, particularly from the mid-1990s. Even so, 35,5 per cent, or 3,9 million African workers were unemployed in 2001: compare this to 21,8 per cent of coloured and 18,2 per cent of Asian workers, numbering only 0,5 million.

**Figure 1: Unemployment by race (1994–2001, strict definition)**

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

The experience of unemployment by gender and location is well known. Figure 2 shows narrow and broad rates of unemployment by gender, also presenting variations by rural and urban location. The most significant point is the substantially higher rate of discouragement amongst rural African women than for any other group, reaching 58 per cent by the broad definition. The large dip in unemployment numbers between 1999–2001 may well be explained by a corresponding recorded rise and fall in subsistence agriculture, rather than any real underlying trend.

**Figure 2: Unemployment by gender & location (%) (strict and broad definition compared, 1994–2001)**



Source – OHS (1994 – 1999) and LFS (Sept 2000 – 2001)

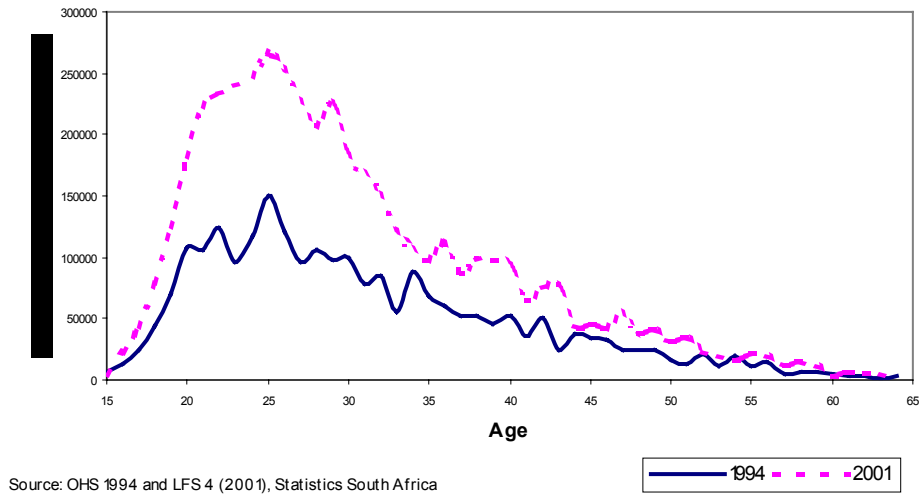
The importance of focusing on flows, and particularly on the inability of the economy to absorb new labour-market entrants, must be underlined.

Figure 3 presents unemployment rates by age group, comparing 1994 to 2001. Generally, one expects higher rates of unemployment amongst younger people as they find their way in the labour market. However,

Figure 3 shows that the number of young unemployed is growing much faster than any other group, thereby boosting the economy-wide unemployment rate each year. We see that young people are ‘queuing’ for work, only finding work after age 30. To put this into context, almost 72 per cent of the unemployed are under age 35 (LFS Feb 2002). Of the unemployed under age 30 years, 73 per cent had never worked before. The involuntary nature of this situation is highlighted by the difficulty in finding a job: 30 per cent of unemployed aged less than 30 had been searching for more than three years, while another 30 per cent had been searching for 1–3 years.

These are people who should be economically active, supporting older relatives and children; instead, many young people are joining the stock of long-term unemployed. This has serious implications for economic policy seeking to reduce long-term unemployment. Is this a problem of skills and experiential mismatches and poor labour market information, or is it deficient demand? The identification of appropriate policy interventions will depend on the extent to which it is one or the other.

**Figure 3: Number of unemployed by age (1994 & 2001)**

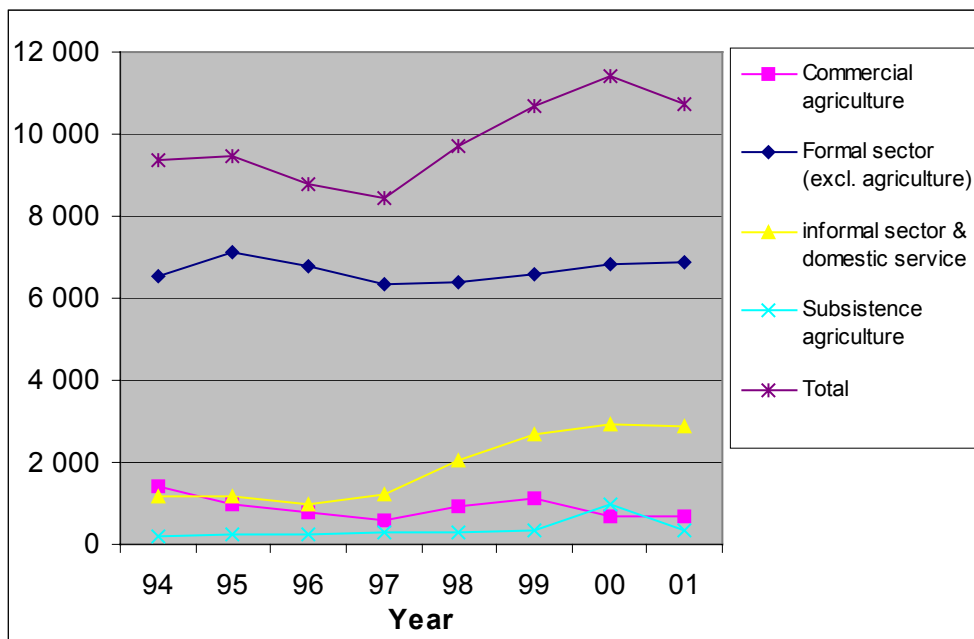


## Employment and underemployment

### Broad employment trends

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

**Figure 4: Formal sector employment ('000s, 1994–2001)**



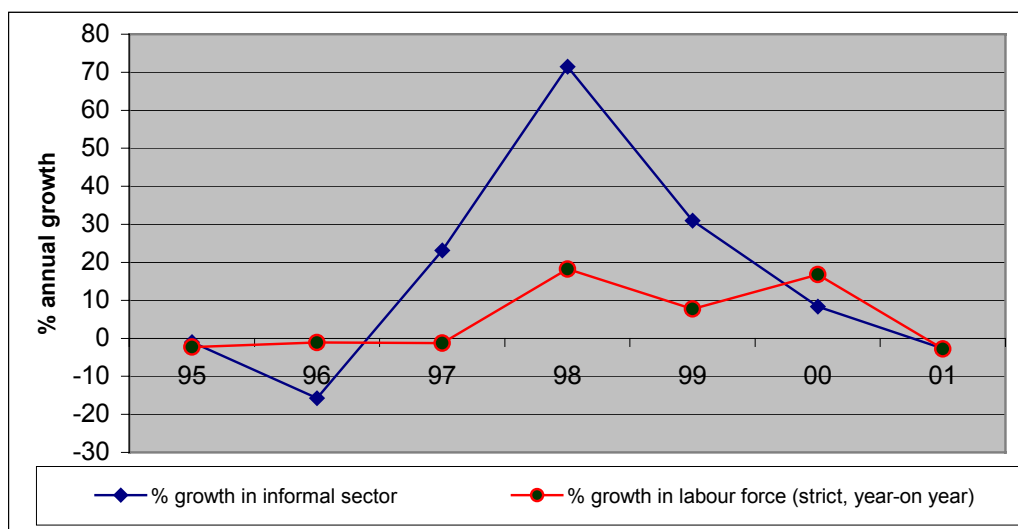
Source: OHS (1994 – 1999) and LFS (Sept 2000, 2001)

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

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

Overall, most net employment growth in the 1990s seemed to take place outside the formal sector. The main variations in employment figures rotate around the informal sector. Reports on job-creating growth or the recent 'job destruction' are probably more related to teething problems in statistical collection, than with real change. SSA has been actively working to improve its estimates of the informal sector. In this context, bi-annual or year-on-year comparisons can be misleading, and one rather aims for a general sense of direction. If one accepts the recorded growth in the informal sector in the 1990s as correct, then one finds that the ability to depend on this for future absorption has passed unless conditions change. Figure 5 shows that growth rates in informal employment are now falling, and the actual levels are levelling or slightly declining.

**Figure 5: Informal Employment & Labour Force Growth (% year-on-year)**



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

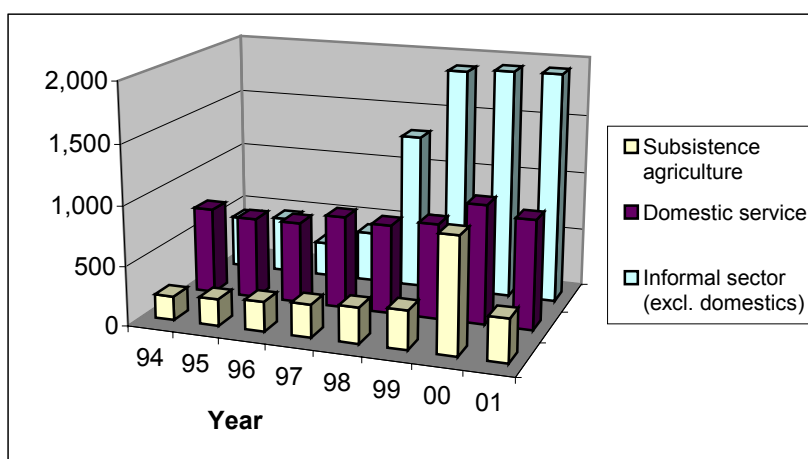
<sup>1</sup> Some of the data presented here will require revision after a review of census data and a review of what might reasonably be expected to have happened in the informal sector. In the latter case, we suggest that instead of the estimated 1.86 m jobs created mostly in the informal sector between 1997 – 2001 (as reported in the OHS & LFS), we believe that this figure may be closer to 0.52 m to 1.00 m jobs. This will be the subject of a forthcoming HSRC note. According to the census, about 0.4 m formal jobs were created between 1996 – 2001. In a review of the census, we find that approximately 500,000 formal sector jobs were created between 1996 and 2001.



Demarcating employment by sector in the informal economy is a little confusing and the categories require explanation. Essentially, it is worthwhile following definitions used by the OHS and LFS. These surveys distinguish between the informal sector, domestic work, and subsistence agriculture.

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

**Figure 6: Informal employment ('000s)**



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

### The quality of work

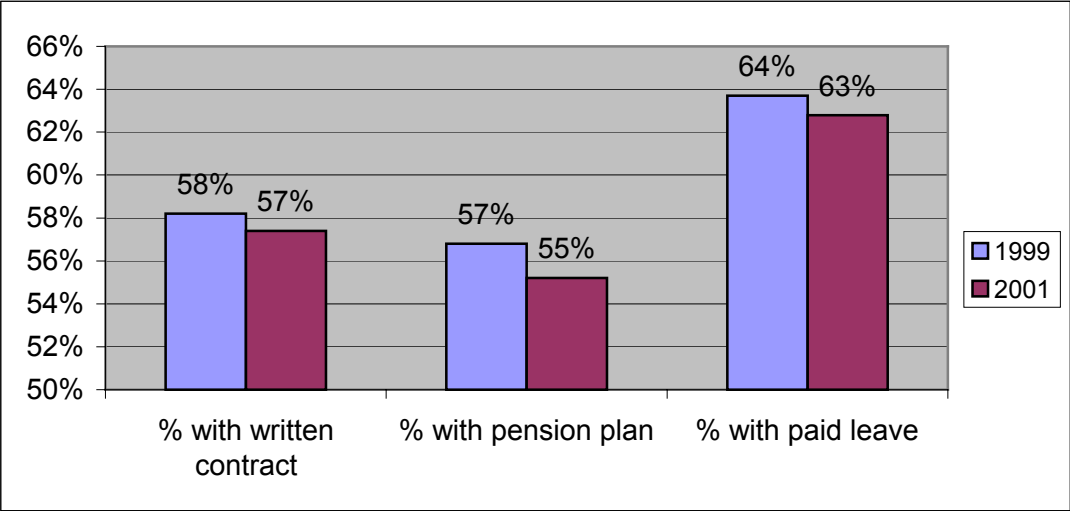
The quality of work can be measured in a number of ways, such as the prevalence of underemployed people wishing they could work more hours, contract flexibility, benefits and remuneration.

We looked at trends in hours worked and found that by far the majority of those employed in the formal sector worked more than 35 hours per week. The variations in work quality were more related to contract flexibility and earnings. Although the legislation is often seen as onerous, there is actually substantial contract flexibility in the formal sector. This was found by the ILO review looking back on the early 1990s (Standing, Sender & Weeks 1996). Counter-intuitively, the figures below show that there is more, not less, flexibility (or at the very least stability, depending on the reliability of the shift from the OHS to the LFS).

Figure 6 shows that just over half of formal sector workers have written contracts or pension plans. Just less than two-thirds are allowed paid leave. In fact, this overstates the contractual obligations in the formal *private* sector. The public service skews the average contractual obligations in the formal sector upwards.

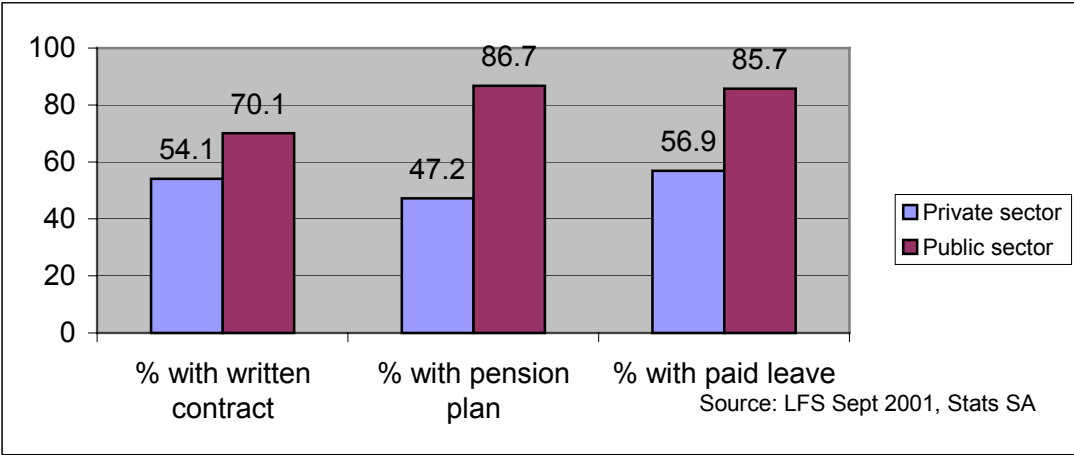
Figure 7 shows that by far the majority of public sector workers (comprising about one fifth of the formal sector) have contracts, pensions and paid leave. This may indicate that either there has long been substantial flexibility, or else that firms are locating strategies to introduce flexibility. Either way, employment should not be constrained by contract inflexibility, except possibly on the margins.

**Figure 7: Formal sector work conditions (1999 & 2001)**



Source: OHS 1999, LFS Sept 2001.

**Figure 8: Comparison of work conditions in the public and private formal sector (2001)**



Source: LFS Sept 2001

It seems that average manufacturing wages are often the minimum living level. Mean monthly incomes in 1999 are presented in table 2. Formal wages for African workers ranged from R 599 to R 2,204 per month. It is estimated that more than 4 million formal sector workers earn less than R 23,000 per year. As many households depend on only one wage earner, the sector worked makes a very large difference to poverty levels. As shown below, informal sector workers earn between 1/5 to almost 1/2 of their counterparts in the formal sector.

**Table 2: Mean Monthly Incomes (Rand, 1999)**

	Rand		As % of formal African male earnings	
	Men	Women	Men	Women
<b>White workers</b>				
Formal (urban)	7514	4774		
<b>African workers</b>				
Formal (urban)	2204	2068	100%	94%
Informal (urban)	1012	845	46%	38%
Informal (non-urban)	705	524	32%	24%
Domestic (urban)	903	537	41%	24%
Domestic (non-urban)	347	397	16%	18%
Agricultural (formal)	1011	599	46%	27%
Agricultural (informal)	386	306	18%	14%

Source: Meth (2001)

### Implications of employment and earnings by race, gender and location

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

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

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

This has implications on households and on firms:

- it results in persistence in cycles of poverty for *female*-headed households in particular. This may have implications for the focus of policy on the particular needs of female-headed households and the reduction of cost of living, for example, through child-care services etc., and in the longer term, more forceful policies to enable career pathing of women out of dead-end jobs, and improved focus of education and work placements for girls.
- it reduces the potential skills pool, as firms choose from only a portion of the workforce on the basis of gender and race, rather than capability.
- It raises policy questions insofar as rural livelihoods are concerned, where the required balance between social grants and earnings from economic activity may differ from urban areas.
- It is probable that the weak contract coverage and benefits provision apply mostly to African workers: this raises questions in respect of the role of the state in connecting

benefits to work, or at least in enabling some kind of 'forced' savings (in addition to such a large reliance on state pensions).

### **3. Job-Creating or Jobless Growth?**

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

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

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

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

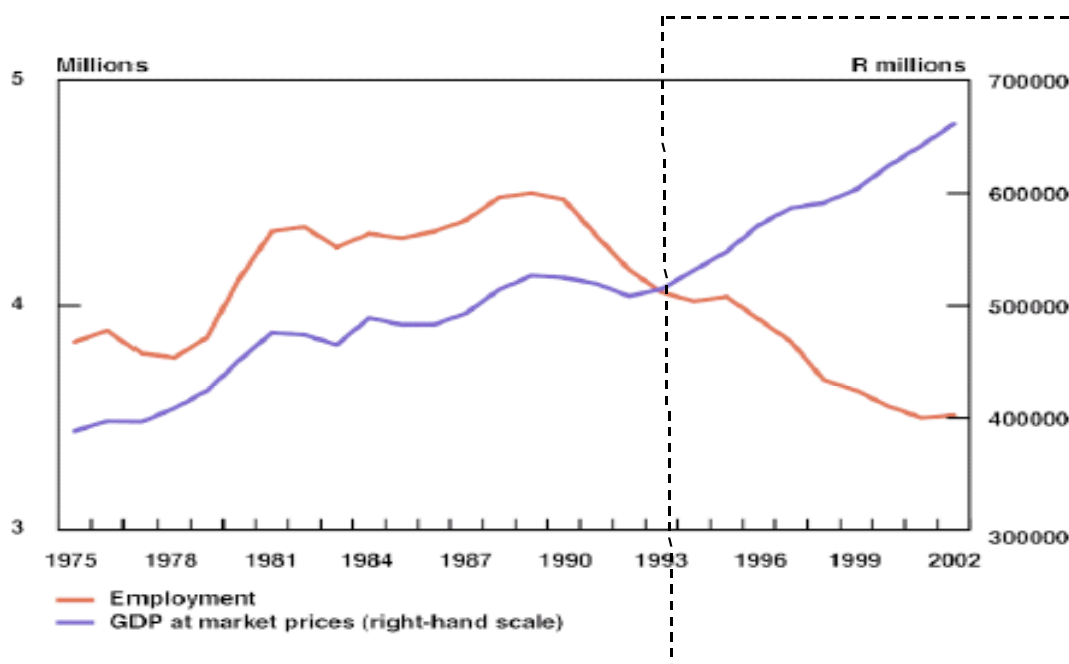
First, let's look at what jobless growth means. Some would say that it is simply a positive correlation between GDP and employment growth, whether formal or informal. This is a fairly simplistic view, taking the term on 'face value'. A wider literature points to a definition that links GDP growth with rising unemployment – so even if jobs are created, they are not expanding in such a way as to at least contain joblessness (references to come).

One way to assess whether employment is growing in accordance with economic growth, and 'turning a corner' is to assess whether there is some trend over a number of years. "Turning the corner" might entail proof that the economy is on a sustainable job creating growth path.

Figure 9 to Figure 14 show different representations of employment and GDP growth. These are first meant to reveal whether there is a link between them. But they are also meant to highlight how different representations can influence perception about the relationship.

Figure 9 is sourced from the South African Reserve Bank, and is a frequently used representation of the GDP – Employment relationship. It uses a measure of formal, non-agricultural employment only – presumably to eliminate confusion and cyclical variations arising from agriculture and the informal sector. The SARB uses the Survey of Earnings and Expenditure (SEE) for its employment data. It depicts a fairly dire picture of dramatically widening gap between employment and GDP since 1994.

**Figure 9: GDP & Employment Growth (Non-Agricultural, Formal Sector) - SARB**



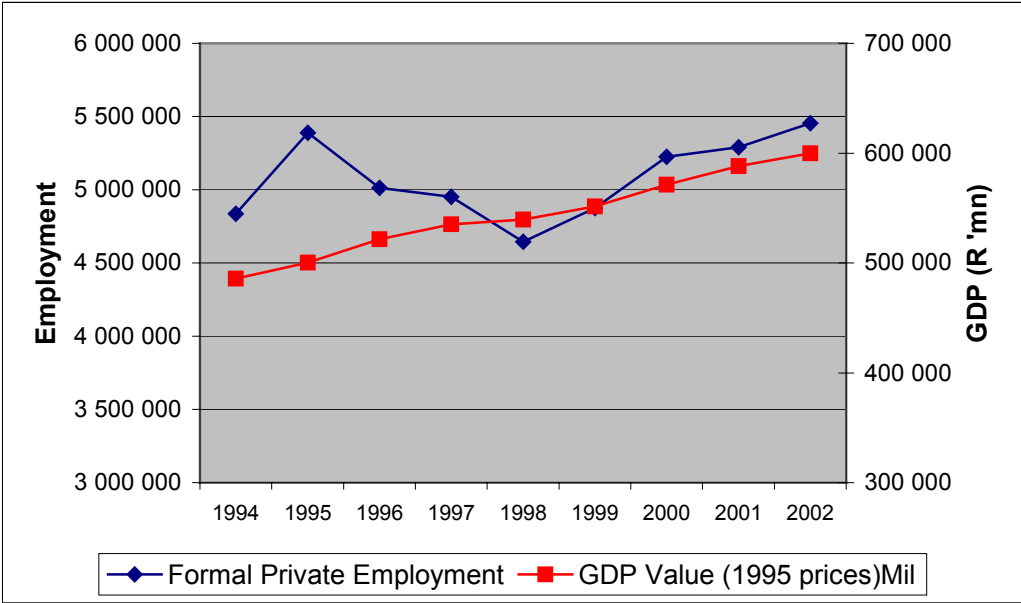
Source: South African Reserve Bank, 2003  
 Notes: Employment figures from SEE

Using the same representation, the GDP – Employment relationship was recalculated using the October Household and September Labour Force Surveys: this is represented in Figure 10 and Figure 11. Figure 10 includes only formal private non-agricultural employment, while Figure 11 also takes account of public sector employment. These representations show quite an apparent divergence from the SARB figure – showing quite important increases in formal employment since 1998, seeming to grow at about the same annual rate as GDP. The scale and representation could also draw the reader to the quick conclusion that employment is growing faster than GDP and that the original SARB figure misrepresents the trend. We would argue that the OHS and LFS offer better employment estimates than the SEE due to the latter’s exclusion of many parts of services industries – the main source of employment growth in the 1990s.

In addition, Figure 10 and Figure 11 mislead the less-careful reader to believe that formal employment growth has exceeded GDP growth – thereby drawing one to a conclusion that the SA economy has “turned a corner” due to the scales used.

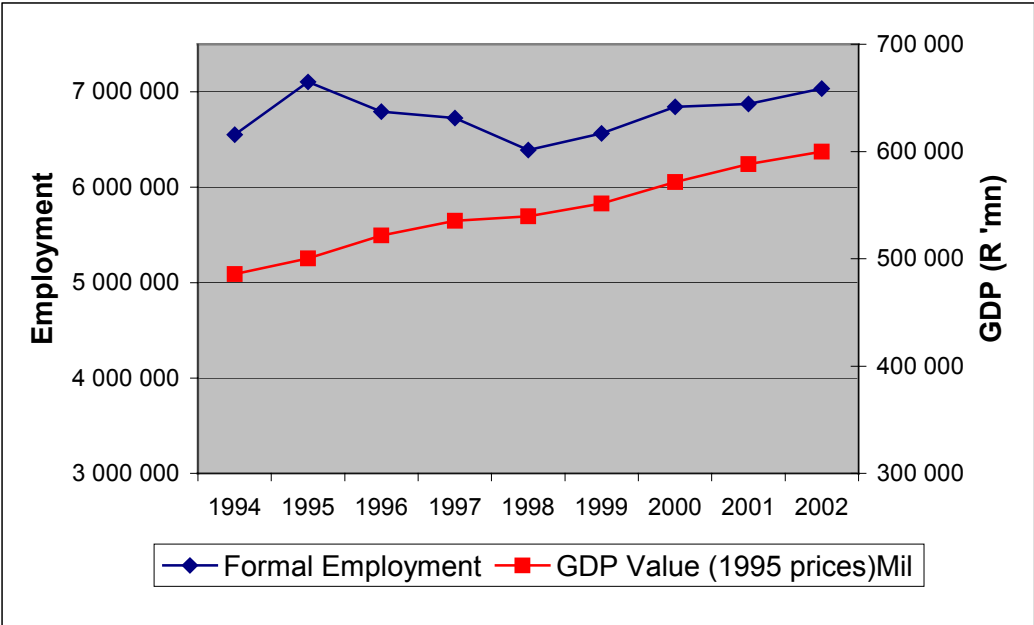
Using the same data, Figure 12 and Figure 13 show indices of growth in employment and output. While growth trends do merge to some extent after 1998, the employment gap left-over from the 1990s is wide. Nevertheless, from 1998, there does appear to be, at the very least, a broadly similar growth rate in non-agricultural formal employment and GDP – a very encouraging sign.

**Figure 10: GDP & Employment Growth (Formal Private, Non-Agricultural)**



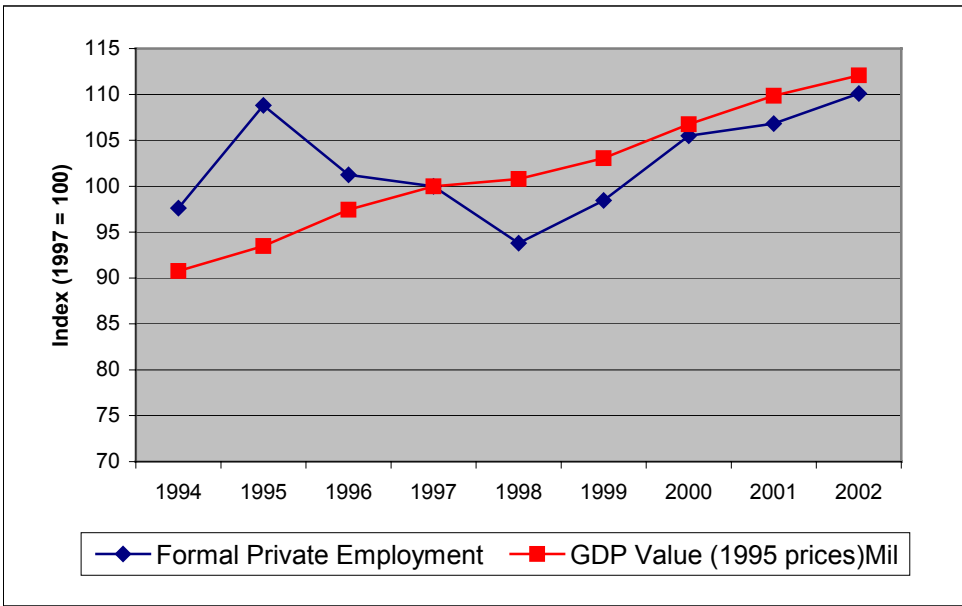
Source: calculated using October Household Survey and Labour Force Survey (Sept)

**Figure 11: GDP & Employment Growth (Formal Private Non-Agricultural & Public Sector)**



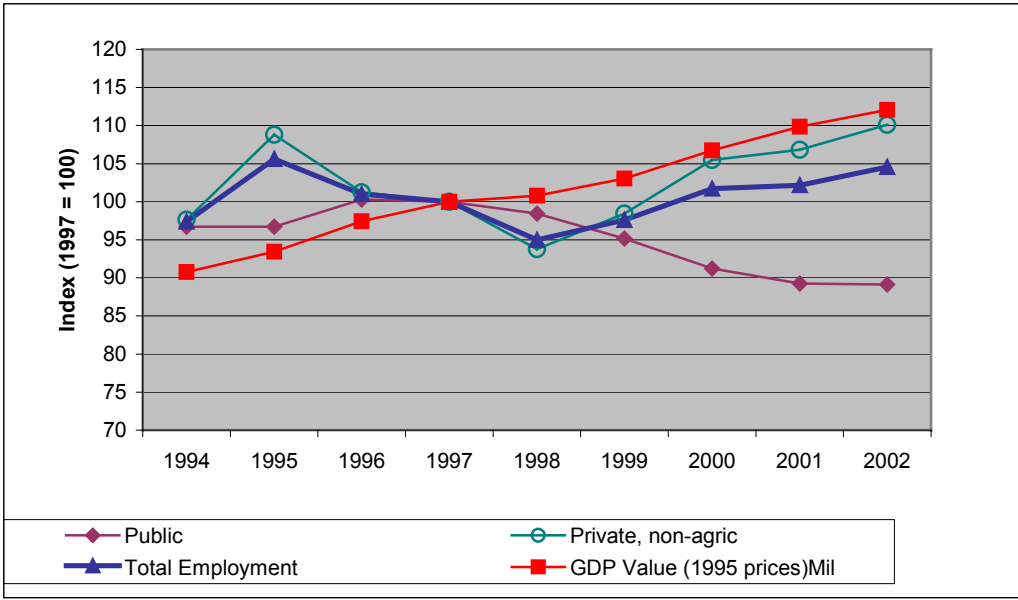
Source: calculated using October Household Survey and Labour Force Survey (Sept)

**Figure 12: GDP & Employment Growth (Formal Private Non-Agricultural), Index (1997 = 100)**



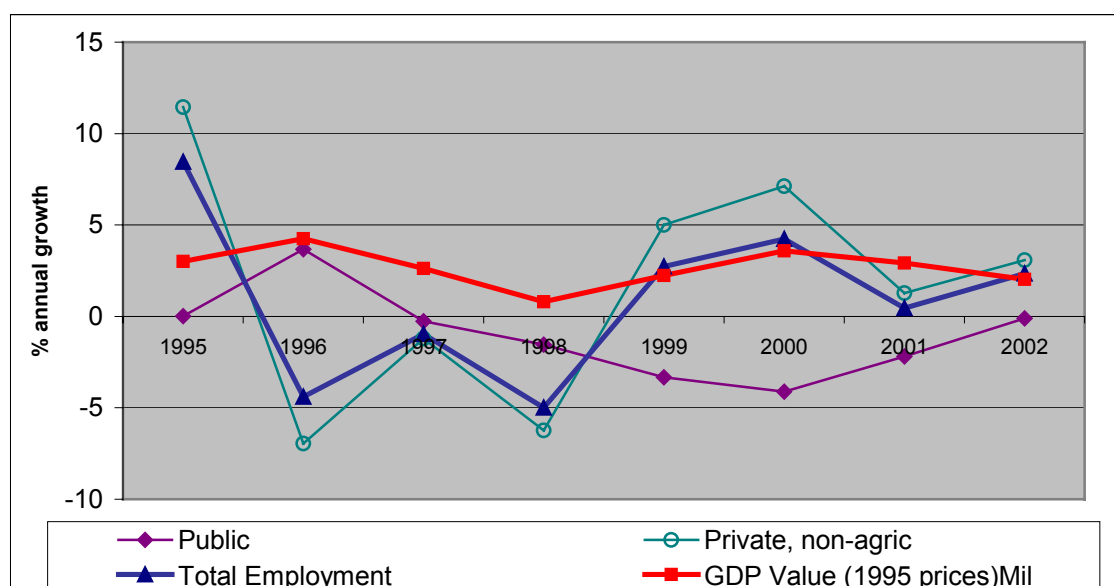
Source: OHS, Sept LFS

**Figure 13: GDP & Employment Growth (Formal Private & Public Non-Agricultural), Index (1997 = 100)**



Source: OHS, Sept LFS

**Figure 14: GDP & Formal Employment Growth (% year-on-year growth)**



Source: OHS, Sept LFS

Figure 14 shows a final representation – of year-on-year percentage change in employment and GDP. Private formal employment, given its size, naturally leads the trend, and the public sector has dampened employment growth since 1997.

Overall, the correlation to growth is difficult to ascertain, partly because of the restructuring over the 1990s. Informal employment was clearly the main discernible source of job growth in the 1990s, and even that is now slowing and even falling. Formal non-agricultural employment does seem to started growing in the 2000's. So in absolute terms it does seem that some jobs were created. Does it matter that they were informal?

## 4. Implications of employment trends

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

Employment is important from a number of perspectives, including:

- Improved income distribution and household welfare *per se*
- Sustainable growth path –
  - a growing productive sector to support less productive parts of the economy (via intra-household transfers, fiscal transfers and consumption linkages);
  - longer upswings in the business cycle (with household demand being the single most important contributor (see Laubscher 2002).

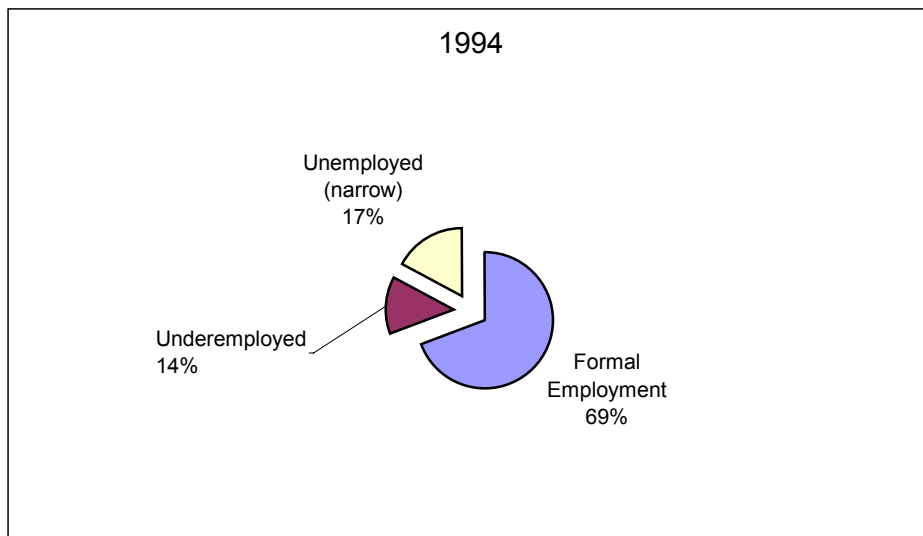


- o Non-economic considerations that arise from participation, well-being, social interaction, social cohesion, self respect, good health, and a feeling of making a contribution to family and community.

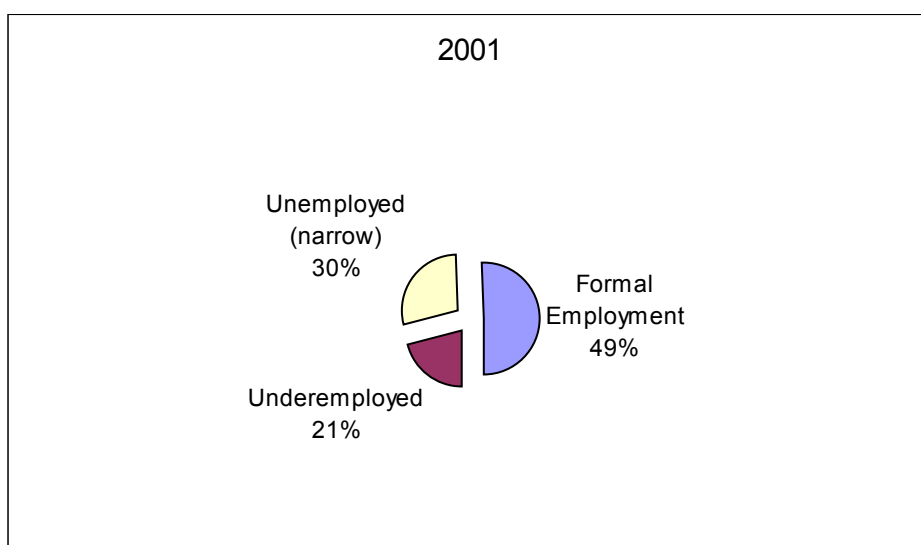
If Government is tracking figures as one measure of improvement in these considerations, then aggregate employment figures can be very misleading. If the broadest brushstrokes are applied, the picture drawn in the 1990s is one of slow formal employment and growing informal employment, within the context of a fast-growing labour force. At the same time, productivity is improving, so GDP growth is still higher than it was and more is squeezed out of fewer people. Some argue that this nevertheless means overall employment has increased in accordance with GDP growth. There are a number of concerns with this view. First, there is little reflection of the proportions required to uphold sustainable development – in other words, a certain minimum productive sector is required to support less productive parts of the economy. Unless Government plans to offer very substantial transfers as found in welfare state economies, it is essential that economic growth be partly derived from broader economic participation. Instead, more people were unemployed than were working in the formal sector in 2001. Of a broad labour force of 18,5 million, 7,5 were employed in the formal sector and commercial agriculture, 3,2 million were working in the informal sector, subsistence agriculture and domestic work, and 7,7 million workers were unemployed (of which 3,2 m were discouraged). At least one-fifth of formal sector workers were employed in ‘elementary’ occupations.

The distinction between formal, under- and un-employed is a loose one based on broad SSA definitions. Formal employment refers to those categorised as falling within formal sector employment including commercial agriculture. Underemployed refers to those in the informal sector, domestic service and subsistence agriculture. Unemployed refers to the official or narrow definition of unemployment. If further analysis were done, the ‘underemployed’ category would expand at the expense of formally employed, as there are many other categories of worker (eg. cleaners, tea ladies, underemployed care givers, etc.).

Figure 15 offers a clearer set of implications. Two pie charts are provided, comparing the proportion of productive, underemployed and officially unemployed in 1994 and 2001. As noted, ideally the aim of national policy is to raise incomes through employment opportunities, thereby promoting spread effects through the economy. These spread effects arise from a range of linkages, whether in the household, through increased expenditure, and via state revenues. Instead, the proportion of formal sector workers in the labour force fell from 69 to 49 per cent. At the same time, those underemployed rose from 14 to 21 per cent, and unemployed from 17 to 30 per cent. In summary, the economy had previously been supported by more than two-thirds of the labour force, whereas it is now supported by only a half. This is unsustainable and poses a certain brake on long term growth and human development. An economy needs a minimum proportion of its labour force sufficiently active to support less productive groups, with the exception of oil-exporting economies that have so much income that they support large welfare states.



**Figure 15: Proportion of productive & unproductive labour (1994 & 2001)**



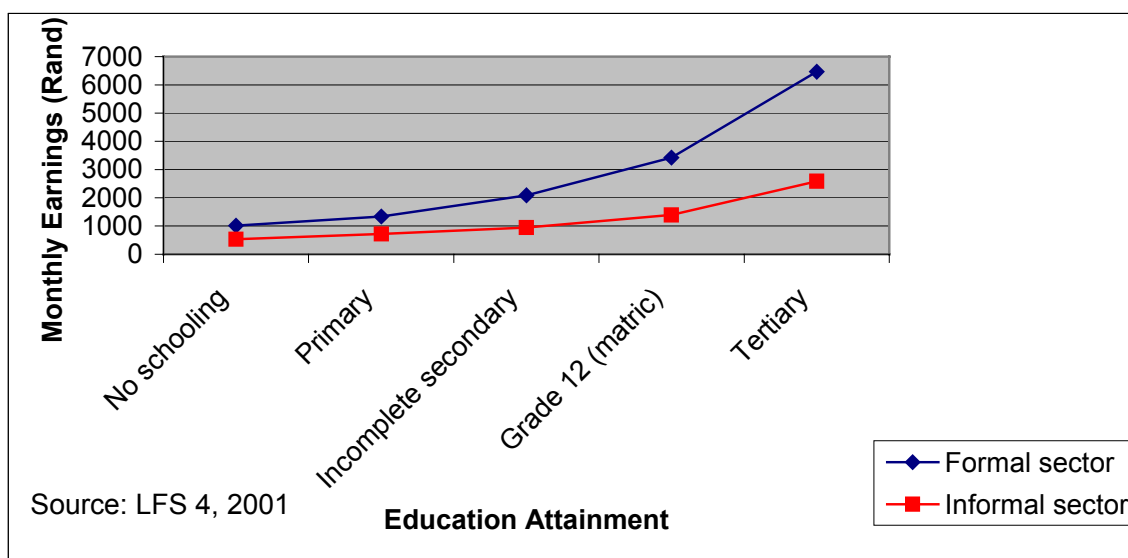
Source: calculated from OHS 1994, LFS Sept 2001.

In a context of rising household dependence on fewer wage earners, the proportion of workers in the formal vs. informal sector matters a great deal. Figure 16 shows returns to education in the formal and informal sector. Note the massive difference in earnings: workers in the informal sector with primary or secondary education earn average monthly wages of between R535 and R1 392. Their counterparts in the formal sector earn about twice as much. Those with tertiary education earn 2,5 times as much in the formal sector.

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

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

**Figure 16: Earnings in the formal & informal sector by level of education (2001)**



It does appear that the South African economy has experienced 'jobless growth'. In other words, there does not seem to be a strong correlation between GDP and employment growth as yet. Simultaneously, higher GDP growth coincided with rising unemployment. Generally, the shift has been from formal to informal, with fewer returns to education, low wages, and fewer contractual obligations or benefits. A positive scenario might emerge where both the formal and informal sectors grow and absorb the unemployed. Instead, a dynamic link has not yet made itself apparent. From the perspective of households, this would indicate that there is a vicious downward cycle, not an upward virtuous development cycle: this is not a sustainable growth path in a middle-income economy.

## 5. Some implications for future policy directions

There are two complementary variables that will impact on future employment trends – economic growth and the capacity of the economy to absorb labour. Some of the policy implications will rely on expected trends, both policy induced and not. Some questions that arise in thinking about weighting vis-à-vis employment policy might include:

- What is expected in future? If gap between labour demand & supply is expected to fall, then expanded public works and related programmes can help – as they mop up part of the problem for a period of time. If not, this can be a static approach (except insofar as the programmes grow at the pace of or in proportion to the gap). Otherwise, additionally need to address labour absorption capacity of the economy.
- If the growth path is labour absorbing and problem is cyclical – focus on growth and counter cyclical policy (or policy that addresses implications of cycles, such as special support for SMMEs)
- If the growth path is not labour absorbing, then need more dramatic intervention for structural change. Some of the questions will relate to the extent that the problem is related to the functioning of labour markets, inappropriate factor prices, demand deficiency, weak economic linkages, etc.

### Growth & employment?

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

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

In the high-performing Asian economies, employment growth rates of 2,5 to 4 per cent would normally be associated with GNP growth rates around 5 to 8 per cent or more (Mazumdar & Basu 1997). In these South-East Asian countries, employment and growth depended on the rapid expansion of low-cost manufactured exports, made possible by a low cost structure.

Developed economies that have overcome high unemployment have relied substantially on the expansion of high-value market services (such as business and professional services) and low-value social and personal services, such as health, education and child care. Ireland is one example, where in this way employment growth rates averaged 2,6 per cent between 1991–7, but GDP grew by more than 8 per cent per annum (O’Connell 1999).

It seems quite unlikely that more than 4 per cent employment growth could be achieved within the current policy framework, particularly at projected GDP growth rates of around 2,5–3,5 per cent. South Africa has a capital-intensive structure of production, with many supply constraints limiting employment and investment multiplier effects. This is reinforced by globalisation, where it is the high-skill, capital-intensive export industries that are mostly benefiting. At the same time, services industries are expanding and entry is easier for formal and informal

SMMEs. The comparison to Ireland above is offered to show what ratio of employment to GDP growth might be expected in a context of high rates of labour absorption per Rand invested. What could we expect where the economy has a low capacity to absorb labour? The South African economy is likely to generate less than 1 per cent annual growth in formal 'market-based' employment in the short-to-medium term (Altman 2001; Lewis 2001).

## **Increasing the capacity of the economy to absorb labour**

If the economy is growing as fast as the labour force, then, by definition, jobless growth generally arises when labour productivity increases faster than economic growth.<sup>2</sup> This might result from a number of market responses, such as that to:

- Relative price of labour and capital, encouraging increases in capital intensity within same sectors
- Other incentives that shift investment toward capital intensive sectors and investments
- Intensified competitive pressures – and firms responding by improving work organisation and technology upgrades
- Slow demand growth (ie. productivity increases, within a fairly stagnant context)

As noted by Wakeford (2003), “the relationship between productivity, real wages and unemployment are highly complex...” For example, observed increases in wages may reflect more investment in high productivity industries, which simply reflects the nature of segmented markets. The incentive to invest in these industries may have been encouraged by other factors, with the outcome being higher average formal sector wages, rather than the other way around.

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

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

- The expansion of “low productivity” or labour intensive non-traded goods and services, such as construction, and social and personal services.
- A deepening of economic activity around formal sector investments. A key problem in any developing economy relates to the depth of linkages – these are the activities that lead to broader employment multipliers. This generally entails the promotion of small business, and in South Africa, can involve more strategic use of procurement by government and business to promote diversification and import substitution.
- Active labour-market policy – some of the central functions of any market would include: signalling, response, mobility and reproduction. It could be argued that labour markets in South Africa are not well developed from a perspective of information provision, skills response, occupational and geographic mobility, nor even in supporting the reproduction of labour. For example, learning institutions may be getting a signal that certain skills are increasingly in demand, but they may not respond due to inappropriate institutional incentives. Poorly developed labour markets with weak

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<sup>2</sup> While the labour force grew faster than GDP in the mid-1990s, revisions to demographic projections seem to indicate that GDP growth should soon begin outstripping labour force growth by at least 1 - 2%.

information flows, substantial exclusion, rigidities in spatial and occupational mobility, and weak skills development are a legacy of the apartheid regime.

- Household expenditure is the single most important contributor to upswings in the business cycle (Laubscher 2002). In South Africa weak household consumption expenditure has therefore resulted in shorter upswings and longer downswings. Are there ways that Government could more forcefully stimulate or even emulate household expenditure, whether directly or indirectly? Examples include financial transfers, food vouchers, and food grants. Alternatively, employment expansion (eg. in construction and personal services) and reduced forms of inefficient household indebtedness (eg. multiple insurance policies, high interest costs, defaults) could contribute to household consumption.
- The inflation-unemployment relationship is not well understood, but nevertheless has a substantial impact on policy decisions. Given current knowhow, Government is limited in its capability to stimulate the economy for fear of inducing self-defeating inflationary pressures. It may be that low-level inflation under current circumstances requires strict unemployment rates of around 30 per cent. This is explained by path dependence in the economy, where the institutions underpin a continued link between inflation and unemployment. Some examples include: wage-setting institutions, administered prices and the extent to which markets are competitive. How can the inflation-unemployment relationship be unbound? The concept of 'hysteresis' or path dependence requires investigation. One would look at underlying market and institutional structures to see where institutional reform could help to unlock the relationship between unemployment and inflation. The line of inquiry is this: if Government seeks to stimulate demand for say food, with the aim of eradicating child malnutrition, (and simultaneously creating jobs in food production and distribution) would it be inflationary and could these pressures be avoided through market restructuring or voluntary price restraints?

## 6. Conclusions

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

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

The policy solutions are varied and complex, but there are three complementary interventions: the one entails active stimulation of low-productivity labour-absorbing non-traded goods and services to increase the number of opportunities in the market and deepen linkages. This is one measure, in combination with active labour market policy, that raises employment created at any rate of national growth. The South African government is involved, or is laying the ground, for most of these activities. The policy questions revolve more around the pace of implementation, scale, and depth.

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