

DRAFT LABOUR POSITION PAPER

This first document is tabled for negotiations for the GDS. Supplementary documents will be developed and submitted in the process of engagement.

Employment Creation and Investment

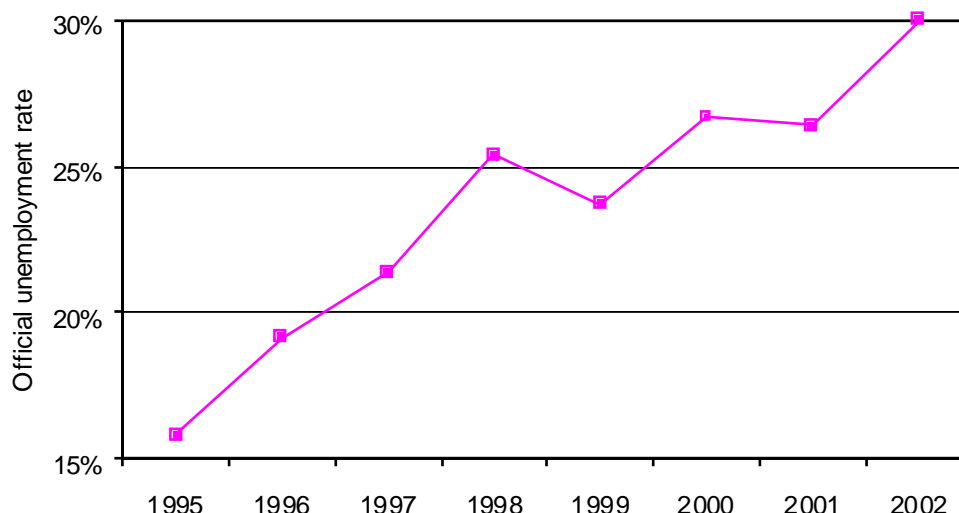
Strategies to address soaring unemployment and low investment must be linked. Ultimately, to achieve either objective, South Africa must restructure the economy toward job-creating growth. Seeking to raise investment or employment separately will not prove sustainable.

1 Problem statement

1.1 Unemployment

The official statistics point to a rapid worsening in the unemployment problem in the past decade. According to Statistics South Africa, using the narrow definition of unemployment that does not include those too discouraged to seek work, joblessness rose from 16% of the labour force in 1995 to just over 30% in September 2002. That is far higher than any other middle-income country reporting to the ILO. During this period, the number of unemployed has risen from around two million to over four million. If discouraged workers are included, close to seven million are out of work.

The official unemployment rate, 1995-2002^a



Note: a. The official definition of unemployment, used here, reports workers too discouraged to seek work as outside the labour force, rather than as unemployed. Source: Figures calculated from Statistics South Africa, *South Africa in Transition* (Pretoria: 2001) for 1995-1999, and from Statistics South Africa, *Labour Force Survey, September 2002* (Pretoria: 2003), p. iii.

Unemployment has hit hardest amongst African youth and rural people. Young people under 30 years old faced an unemployment rate of 47% in 2001, and constituted 70% of all unemployed people. (Statistics South Africa 2002a)

Rising unemployment has been accompanied by growing underemployment, with a shift to poorly paid, insecure survival strategies. As a result, the average income from work declined sharply between 1995 and 2001, as the following table shows.

Earnings by income category in nominal rand, 1995 and 2002

Note: The cut off point of R1000 in nominal terms in real terms means a 40% lower income in 2002 than in 1995. R1000 in 2002 was worth only R580 in 1995 rand.

Income Category (nominal rand)	% of total		Thousands of workers	
	1995	2002	1995	2002
R0	0%	4%	28	458
R1-R999	35%	35%	3 653	3 872
over 1000	64%	61%	6 619	7 157
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>10 300</i>	<i>11 029</i>

Source: For 1995, Statistics South Africa, October Household Survey, 1995, Table 2.3; Labour Force Survey September 2002, Table 2.5

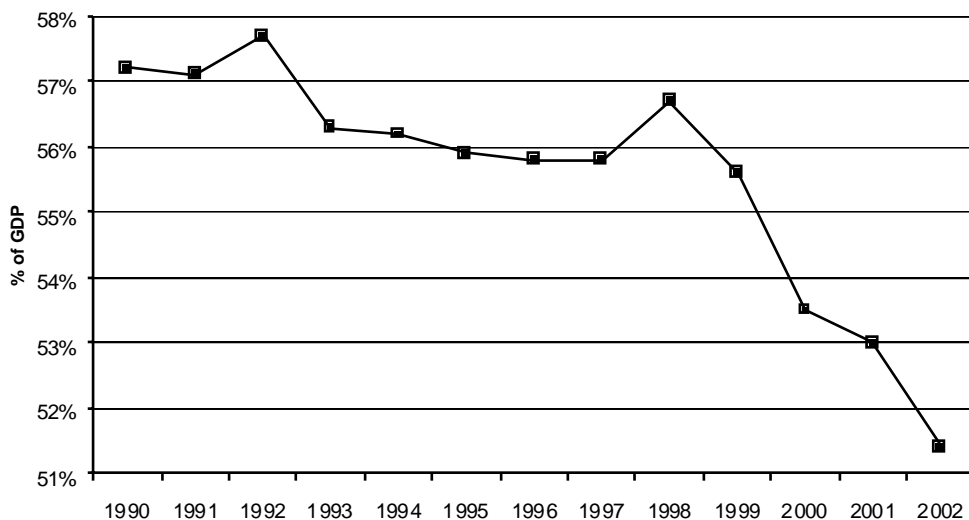
High unemployment is a problem for several reasons.

First, it reduces **incomes** and increases inequality. According to Statistics South Africa's *Earning and Spending in South Africa* (2002), between 1995 and 2000,

- The share of the poorest 60% of households in the national income fell from 17% to 15%, with the biggest decline amongst the poorest households.
- The average African household income fell by 19%, to R26 000 a year
- Average white household incomes rose by 16%, to R158 000 a year

The share of workers in the national income declined for most of the 1990s. This trend continues a long-term downward trend that started in the early 1980s.

The share of labour income in the national income, 1990-2001.



Source: Calculated from, Reserve Bank long-term time series on national accounts, electronic database at www.resbank.co.za. Figures for third quarter.

Social grants and other measures could, in theory, compensate to some extent for increased un- and underemployment. In the long run, however, sustainable livelihoods must, in the main, derive from socially productive work.

Second, high unemployment undermines **social cohesion**. The long-term unemployed are essentially excluded from a core social and economic relationship. This problem hits particularly hard at young people, since the lack of an income makes it difficult to start a family. It also appears in rising rural-urban migration as desperate people seek livelihoods in the cities, placing a growing strain on urban infrastructure.

Finally, as high unemployment cuts into incomes, it **reduces domestic demand**. The result is a vicious cycle, as companies downsize production for the local market, losing jobs in the process. Similarly, high unemployment indicates that the society is not as productive as it could be. True, the resources in employment may be used highly competitively, but a substantial share of the labour force lies fallow or is under utilised.

Strategies in response to high un- and underemployment must thus seek two outcomes.

First, they must ultimately ensure that the economy creates sustainable work at decent incomes for more people. It will not solve the problem to replace decent jobs with more casual and poorly paid work. The GDS should address both the quantitative and qualitative issues of employment – that is, how to grow the net number of new jobs as well as to improve the quality of employment, particularly in respect of casual, contract and other types of substandard employment, as well as the position of workers who currently do not enjoy fair labour standards.

Second, short-run strategies must seek to alleviate at least some of the effects of unemployment through programmes that promote social integration through work and provide a measure of income support.

1.2 Investment

As the following table shows, for much of the past decade South Africa did not perform as well as most middle-income countries in terms of growth or investment.

Economic performance of selected countries, 1995-2000

	South Africa	Middle income countries	Of which:					
			Korea	Malaysia	Chile	Hungary	Turkey	Brazil
Income per capita in 2000 \$PPP ¹	9160	3660	17300	4540	9100	11990	7030	7300
Average ratio, investment ² to GDP	16.5	25.0	32.0	39.5	29.9	21.2	25.1	20.5
Average annual growth in:								
GDP	2.5	3.9	4.8	4.7	4.5	4.0	3.8	2.3
Exports	5.2	8.9	16.8	10.2	8.3	17.1	10.8	6.1

Source: Data kindly provided by Dr Simon Roberts of Wits University. Calculated from World Bank Global Development Indicators, via TIPS. *Notes:* 1. Income per capita is for 2000. 2. Gross fixed capital formation

Overall, investment is low and biased toward capital-intensive sectors, with rising capital outflows. Investment has remained well below the 20 to 25 per cent generally considered necessary for growth. In 2001, investment fell to 14.7 per cent of GDP – the lowest level since 1993 – although it apparently somewhat in 2002.¹ Investment was particularly poor in agriculture, manufacturing, electricity generation and financial services themselves – critical sectors for development and job creation.

In addition, the capital outflow grew rapidly and steadily between 1994 and 1999, although it dropped slightly in 2000. Moreover, the relocation of major South African companies abroad has led to a growing increase in profit outflows – from R11 billion a year in 1994 to R51 billion in 2001.

¹ Unless otherwise noted, information on financial flows, interest rates, savings and investment from SARB long-term data series from the SARB website.

In contrast, capital inflows have been markedly unstable, with a massive decline in 2000, from R80 billion to R12 billion. As a result, a net capital outflow emerged in that year. Capital inflows have apparently not recovered much since then.²

A particular concern is that foreign direct investment flowing out of the country has increased rapidly, and since 1994 has exceeded direct capital inflows. Between 1994 and 2000, foreign direct investment into the country came to R45 billion, while outflows of direct investment came to R54 billion.

2 Analysis

Two deep-seated structural problems – dualism and the restructuring of the formal sector since the 1980s - underlie high and rising levels of un- and underemployment as well as stagnant investment. These central factors have been aggravated by inefficient systems that raise the cost of living for workers. In these circumstances, markets alone will not bring about the structural changes needed to stimulate growth or create employment on a mass scale. We here consider each of these factors in turn.

2.1 Economic and social dualism

Apartheid left behind a profound dualism in the economy and the society.

On the one hand, the state stopped the majority from engaging in the formal economy except to a limited extent as underpaid labour. To achieve that aim, it deprived the majority of the population of education, skills and productive assets, including land and urban industrial and retail businesses. It also stopped them from interacting with formal financial, retail training institutions. The result was high levels of un- and underemployment in the black population, especially in the former homelands.

On the other hand, a modern economy was built up around exports of minerals, strategic industries (arms and energy) and the production of relative luxuries for the high-income (white) group. The state also played a central role in this process through the provision of cheap, largely migrant labour, social services and infrastructure, and an industrial strategy backed by the parastatals and tariffs and geared to supporting mining and import substitution industries.

With the ending of apartheid, this dualism remained. Above all, although the government has redirected its spending to improve services in black communities, there has been little shift in the structures of ownership and control. The marginalised still have little access to economic opportunities.

In these circumstances, improved skills and education by themselves will not bring about much improvement in employment. Indeed, the level of education of the unemployed has risen steadily in the past decade. A successful employment strategy must combine skills development with other measures to overcome dualism.

² The figures for 2001 are distorted by Anglo-American's restructuring.

2.2 Restructuring of the formal sector

Since the 1980s the formal sector has seen massive restructuring and job losses. At least since 1994, growth has been largely through productivity increases rather than rising output, so that formal job creation has been at best stagnant.

Restructuring had several roots.

1. Gold mining, the mainstay of the economy for most of the last century, is reaching maturity and downsizing employment. The growth in platinum exports has cushioned the economy in terms of foreign-exchange earnings but not jobs.
2. The opening of the economy from 1989, which was accelerated by tariff cuts in the mid-1990s, led to rising import penetration and to some extent the replacement of domestic producers by foreign-owned companies. A few sectors – notably the auto and arms industries – managed to take advantage of export markets, but even they generally lost jobs as they sought to become more competitive.
3. The deregulation of agriculture, leading to a 17% fall in investment and very large job losses.
4. The commercialisation of the parastatals and efforts to downsize the public service have led to the loss of over 200 000 positions.

This situation has had a contradictory impact on dualism. On the one hand, an increasing number are forced into survivalist activities, leading to a growth in micro enterprise. On the other, the formal sector remains heavily concentrated, despite the integration of a small black upper class into the state and big business. The main changes have been

- increased import penetration, leading to the loss of productive capacity in the capital goods industry in particular, as well as the clothing and consumer equipment sectors;
- a rise in foreign ownership in manufacturing, often displacing domestic producers rather than increasing output;
- the movement abroad of some of the largest mining and financial firms; and
- a shrinkage in state-owned enterprises.

In sum, the restructuring of the formal sector has improved international competitiveness in some sectors, but failed to define growth sectors other than the auto industry and platinum mining. In these circumstances, job losses, rising foreign ownership and commercialisation of state enterprises have tended to aggravate inequalities and dualism.

2.3 Inefficient benefit systems

While the main causes of high un- and underemployment are structural, the situation is aggravated by inefficiencies arising out of apartheid residential

patterns and fragmented benefits systems. By raising the cost of living for working people, these inefficiencies increase the cost of employment.

Residential patterns. Apartheid pushed most black workers to the outskirts of town; new housing projects have continued and even aggravated the problem. This pattern imposes high transport costs on most workers, which in itself prevents some people from getting work. People often prefer informal housing or even homelessness in city centres, to RDP housing, since they have no chance of earning a livelihood far outside town. The shift from publicly subsidised transport to private taxis has added to the cost of transport – and increased the danger of commuting as well.

Basic services. Tariffs for basic electricity, water and telecommunications are now extraordinarily high relative to the incomes of most working people, two thirds of whom earn less than R2500 a month. Many low-income people do not pay for electricity or water; but for those who do, as the following table shows, the cost is exorbitant.

Expenditure on education, water and electricity by income category, 2000

	0-500	501-1000	1001-2500	2501-4500	4501-8000	Over 8001 ^a
<i>% of households</i>	10%	18%	31%	16%	11%	14%
<i>% of income spent by customers on:</i>						
Education	4%	2%	2%	2%	2%	2%
Electricity	16%	9%	6%	5%	3%	2%
Water	14%	7%	7%	2%	2%	1%
<i>% of total payments for service charges:</i>						
Education	1%	4%	12%	16%	17%	50%
Electricity	2%	6%	17%	18%	19%	39%
Water	2%	5%	28%	14%	16%	35%
<i>% of households paying service charges:</i>						
Education	29%	37%	40%	41%	39%	37%
Electricity	38%	49%	57%	71%	85%	90%
Water	22%	35%	44%	56%	69%	79%

Source: Calculated from, Statistics South Africa. 2002. Database on expenditure and income, 2000. CD-ROM. Pretoria. Note: a. average income in this category was around R200 000 a year.

Healthcare. Healthcare has become a growing problem for employment. On the one hand, the public health system is heavily underfunded. Long delays in getting treatment cut into working time. Moreover, the failure to provide anti-retrovirals means HIV-positive workers get ill and must leave work much sooner than they should have to. On the other hand, the cost of private medical schemes has soared in recent years. This appears to be due in large part to the decision to compel them to accept more risks, without first assessing whether they would remain affordable to the majority of workers.

Education costs. For low-income workers, the cost of school fees and uniforms is becoming an increasing burden.

2.4 The need for government intervention

For strategies to address un- and underemployment, a critical question is whether the market in its current form will overcome the structural problems of

dualism and downsizing in the formal sector. In the event, once massive state intervention has created dualism, the market will maintain it.

The main reasons for this situation are:

1. Markets in the formal sector tend to leave out the poor entirely. Poor households and micro enterprises cannot afford to buy many essentials at the market price. Formal financial institutions and retail systems are not structured to serve them – and since these companies see them as undesirable and unprofitable, they have little incentive to change.
2. Apartheid in the context of a mining-based economy shaped concentrated, inflexible and conservative capital. The dominant groups historically benefited from dualism, which generated cheap and docile labour. They now see themselves as part of international mining and finance, rather than the South African economy. As a result, when their traditional activities can no longer expand, they have sought mining and financial opportunities outside the country rather than explore innovative domestic investments. (In contrast, when the high-performing countries of South East Asia initiated industrialisation, capital was mostly local and small by world standards, and largely based in agriculture and manufacturing.)
3. Because the big mining and petrochemical groups - and increasingly maize traders as well - exercise considerable market power, they can enforce import-parity pricing even when no imports are necessary. This makes it harder to develop value matrices in ways that would expand production and employment.

It follows that overcoming dualism and restructuring the formal sector towards job-creating growth requires an active, developmental state. Government needs to develop appropriate carrots and sticks to guide economic growth, taking into account that globalisation has brought increased mobility of capital.

3 Proposals

We here first propose an overall strategy, and then look at specific proposals.

3.1 Toward an integrated development strategy

The analysis above suggests that an integrated development strategy that can address un- and underemployment needs five elements:

1. Strong prioritisation of job retention and creation by the main stakeholders, including government and business. The overall goal of the national development strategy must be “decent work,” in the sense of more and better jobs, and full employment. This must be a specific policy objective, not the residue outcome of other policies, and should be the priority aim of economic and social policies.
2. Strategies to restructure the formal sector to support more rapid, sustainable, job-creating growth. That, in turn, requires a broad developmental vision that gives direction to measures to restructure output and ownership.

3. On that basis, strategies to overcome dualism should include getting assets and skills to the marginalised and linking them more effectively to the formal sector. That means reviewing the state's social protection and infrastructure programmes to maximise the impact on employment. Many of the resulting activities would be concentrated in non-tradable sectors and not necessarily internationally competitive. Most would be focused on meeting the basic needs of the poor, either through small-scale production or through government's social-protection programmes.
4. Inefficient systems of housing, infrastructure and benefits should be restructured to reduce the cost of living for working people. In particular, much greater effort should be put into locating low-income housing near city centres and industrial sites. However, this restructuring should not have the unintended consequence of lowering incomes and doing away with permanent full time jobs, as happened when the tendering system was introduced in public bus transport.
5. In the short term, government should develop employment programmes that would give young people, in particular, greater social cohesion; provide some income support; and provide basic skills.

3.2 Specific proposals

3.2.1 Ensuring prioritisation

- 1 All major employers, in both the public and private sector, should have to include in their annual reports an assessment of their progress in creating jobs, both directly and indirectly. Employment should form part of the "three-bottom line" approach to accounting and to the JSE's proposed sustainability index.
- 2 Together with the budget, government should publish an annual analysis of the current and projected impact of all its programmes and policies, by budget vote, on employment. This analysis should include the activities of the IDC and other major parastatals.
- 3 All legislation and regulations should be accompanied by a report on the likely (non-tax) impact on employment and investment.

3.2.2 Formal sector

We need to identify formal activities that can create jobs, and align the efforts of all the parties to support them. This approach should give greater security to private investors and ensure that government does more to prioritise employment creation in its economic strategies.

a. Formal industries that can create jobs

A dynamic, job-creating formal sector could develop from growth in:

- 1 Production to meet the needs of the poor. This would support relatively labour-intensive activities - light industry (food production and processing,

clothing and basic consumer equipment) as well as infrastructure and housing construction. Effective demand would come in large part from government's programmes for social protection.

- 2 In addition to the auto industry, there is potential for expansion in:
 - a. Production of generic medication, for use both in South Africa and across the continent
 - b. Software and web design, which are highly labour intensive
- 3 Services, both for domestic and foreign use. Services are inherently labour intensive, even in the formal sector. Some of them could be provided commercially, including to earn foreign exchange; others should remain in the public sector.
 - a. Commercial services with growth potential include finance; tourism; call centres; education and health for use by foreigners from the region and even overseas; and transport and telecommunications for the formal sector and the region.
 - b. Public sector services, which form part of the system of social protection, include health, education, policing, water and sanitation, and public transport.
- 4 Production downstream and upstream from the gold, platinum and iron mines, petroleum refineries and agriculture could both meet domestic demand and expand exports.
- 5 Construction. A shift to labour-based construction methods would multiply the number of jobs in this sector. Currently, government alone spends over R100 million on construction, but often relies on unnecessarily capital-intensive technologies.

Generally, government should stop supporting huge, capital intensive projects unless they are accompanied by specific, viable plans for linked projects to create employment. In particular, we should stop supporting aluminium refineries based on cheap electricity.

In addition, we should do more to support inland production, where the majority of the population lives, rather than assisting primarily export-oriented coastal activities.

b. Strategies to restructure the formal sector

- 1 As the DTI's Integrated Manufacturing Strategy points out, sectoral policies are critical for ensuring more dynamic growth and co-ordinating trade, competition and procurement policies. The sector job summits agreed at the Presidential Jobs Summit in 1998 are a critical process in this context. Currently, summits for chemicals, engineering, food and services are on the table. Government and business should do more to ensure high-level discussions and innovative ideas in these meetings. That means:

- a. Creating an environment where all the parties understand that to ensure sustainable long-term growth, they must jointly engage on policy development for their sector, rather than looking just to advance their narrow interests.
 - b. Ensuring appropriate mandating structures at sectoral level. For business, we need to encourage sectoral associations that can engage strongly on policy issues, like the Chamber of Mines, CAIA and SEIFSA. Government must bring in progressive and innovative experts who can give strategic leadership to the process.
- 2 The DTI's supply-side measures to support industry must be tied more closely to employment creation. That means, amongst others, that they must be extended to production for the domestic market and to services of all kinds. At the same time, they must be made easier to access and be more widely publicised, for instance through bargaining councils.
- 3 Investment by government and the parastatals has historically "crowded in" private investment. We recognise that government is now trying to increase its own investment, although from a low base. In addition, Government should:
 - a. Develop investment plans and targets for the parastatals that will support job-creating growth
 - b. Ensure that the IDC and DBSA review all their policies and programmes to prioritise employment-creating growth, and report regularly on their efforts in this regard
 - c. Review its own investment programmes to ensure they do more to create employment and stimulate economic growth.
- 4 The NEDLAC parties should define core outcomes for SETAs and assess them against those outcomes.
- 5 Through the Financial Sector Summit process, the NEDLAC constituencies are trying to develop institutions that can channel investment from the private sector – including pension funds - toward developmental aims. Enforcing the redirection of investment is not possible, however, until we have a better sense of where investment is needed. Again, government must give more of a lead in this area.

When we have identified appropriate areas for investment and institutional mechanisms, labour will support a target, as a start, of 15% of contractual savings, including retirement funds. But it would be counter-productive to make lower-level workers bear the main risk of restructuring.

- a. Retirement funds from workers constitute only a small share of all contractual savings, which also includes long-term insurance and unit trusts as well as some bank deposits. In 2000, pension funds had R500 billion in assets; unit trusts, R210 billion; long-term insurers, R670 billion; and banks, R821 billion. According to Statistics South Africa's income and

expenditure survey, in 2000 over 80% of households earned under R4500 a month, but they received just under 30% of pension income, while the top 10% of households got 40% of pension income.

- b. Currently, pension funds that seek to contribute to more productive investment face two risks: a financial risk, because these are usually less well known investments, and the substantive risk that their efforts may not have the hoped for social and economic effect. The former should be assisted by the development of more easily accessible and appropriate intermediaries and grading systems. The latter requires that government publicise its strategic vision of where job-creating growth is desirable and possible, with a commitment to supporting development in those sectors.
- 6 Although Labour sees savings as ultimately driven by the environment for investment, through the Financial Sector Summit we have agreed on some measures to enhance personal savings. A critical agreement was to ensure that all South Africans have access to basic transactions and savings services. That will, in turn, require the transformation of the PostBank and the development of more appropriate banking legislation. We also need to ensure that all working people have access to affordable and efficient retirement savings vehicles.
- 7 Competition policy should be reviewed to ensure it aligns with development and industrial policy. Currently, there is an excessive focus on ensuring competitive market structures locally, without adequately taking into account social concerns, including around job retention and rural development.
- 8 Engagements around trade, both at bilateral and multilateral level, must ensure that they lead to net employment gains. Moreover, the negotiations around “new” issues – procurement, patent rights, investment and services, in particular – must protect the ability of states to support infant industries, labour-intensive sectors, local procurement and SMEs.
- 9 The parties should do more to promote labour-based methods in construction, including by developing model methodologies and providing training for project managers.

3.2.3 Overcoming dualism

Job-creating growth in the formal sector is necessary but not sufficient to overcoming un- and underemployment. In addition, we need strategies that will gradually overcome the dualism left by apartheid.

- 1 Programmes to improve the asset base of the poor include:
 - a. A massive expansion in land reform embedded in a programme of rural development to ensure access to finance, appropriate agricultural extension services and technology, inputs and markets. Rural co-ops are particularly important in this context, since they can let producers pool their capital, share transport costs and enhance their access to suppliers

- and buyers. Public works programmes can assist with integrated water, land and energy management as well as basic infrastructure.
- b. Measures to provide infrastructure and housing in ways that make it possible to improve livelihoods. That means infrastructure must be provided affordably and at a level that can support some productive activities. In contrast, current programmes often prove very expensive if households use more than the minimum needed for health and decency. Electrification often provides only enough current for lights, but not for cooking or running machinery. Housing must also be located close to industrial and retail sites.
 - c. Improving access to affordable finance to start new businesses, linked to adequate skills. The DTI's current programmes are supposed to do this, but surveys show that the vast majority of small enterprises don't even know they exist. Local and provincial governments are much more able to ensure an integrated approach to small and micro enterprise. National government should develop measures to enhance local and provincial governments' capacity for local economic development, and then the DTI's responsibilities and funds for small and micro enterprise should be allocated to them.
 - d. In this context, ensure massive support for co-ops, by advantaging them in support programmes for SMEs in general, establishing a more enabling legislative environment (including a more appropriate system for legal recognition) and through public education programmes, including in lifeskills in the schools. Labour will submit detailed proposals to support co-ops.
- 10 The NEDLAC parties must establish a systematic review of strategies to formalise informal work, ensuring it is covered by relevant laws and regulations, including labour legislation, and to afford it the full range of support services and incentives available from the state.
 - 2 The skills development strategy should be reviewed to ensure that it contributes to employment opportunities much more urgently. In particular:
 - a. ABET and life skills should be provided affordably and on a mass basis, especially for unemployed people. These programmes would both make it easier for marginalised people to gain livelihoods, and create jobs for providers. They could form part of the short-term volunteer programmes proposed below.
 - b. Learnerships are an important route to skills. But the current system involves excessive subsidies and has already begun to promote corruption and displacement of permanent workers. Government should rely more on the parastatals and its own departments to provide training, with a more stringent review of private-sector learnership proposals. NEDLAC should set up a task team to review the current system and

propose improvements that will meet government's goal of 50 000 learnerships in the next three years, without replacing existing jobs.

- c. Public education must be free and better geared to obtaining employment. In particular, the matric system should be revised to provide a better set of market signals, and we should look at ways to extend teaching of technology-related skills, especially in historically African schools. School uniforms and shoes should be standardised, locally made and cheaper, and free for poor children.
- 3 Much more should be done to integrate small and micro enterprise into the formal economy, without displacing better-paid and more secure jobs. The current policy of using outsourcing and privatisation for this purpose is thus inappropriate, since they generally just downgrade workers' incomes without adding to production. Instead, formal enterprise should face pressure to increase and diversify local procurement, and to improve their services for small and micro enterprise.
- a. The Financial Sector Summit agreed on a variety of processes to restructure the public and private financial sector to increase access to basic financial services and productive credit. All the parties should put more resources in to make sure these processes are implemented urgently. Government, in particular, should engage more pro-actively. In particular, it should accelerate the agreed-on legislative changes to support third-tier banking, especially co-op banks, and regulate credit bureaux.
 - b. Business and government should align their procurement practices with the Proudly South African campaign, and should generally be more pro-active in developing local suppliers. Preference to black producers should be secondary to procurement of locally produced goods and services.
 - c. Consumer co-ops could provide an important outlet for products from small and micro producers while reducing the cost of basic consumer goods, especially in rural areas. The NEDLAC task team on co-ops should develop proposals to facilitate them.
 - d. Transport to townships and rural areas should be affordable and safe. As discussed below, that means current policies on commuter transport must be reviewed. In addition, Spoornet should be required to maintain lower costs for rural transport.
 - e. Access to telecommunications is critical for engaging in the modern economy. Regulation of the sector must ensure universal and affordable access to basic telephone services. We need a much clearer strategy to achieve this aim, which would set viable and unambiguous targets, timeframes and measures of affordability for both fixed-line and cell operators.

These proposals have substantial implications for the provision of social protection. The RDP expected government spending on the poor to support

employment creation both by increasing household productivity and by expanding domestic demand. Instead, social protection has largely been provided in a fragmented manner and at a level too low to achieve the RDP's goals. They need to be redesigned to maximise job creation, with changes in:

- The nature of products and services to ensure that they can in fact enhance the ability of beneficiaries to engage with the economy, and to maximise local procurement
- Pricing policies, so that they are affordable to poor households at levels that permit greater economic activity
- Procurement policies, so that they maximise job creation amongst local suppliers
- Employment policy. Government has long faced a push to reduce employment, which has both undermined services and led to substantial job losses. Instead, government should be seeking to provide services in ways that create as many jobs as it can without compromising delivery. Estimates suggest, for instance, the historically African schools face a shortfall of 30 000 support staff, in addition to the generally recognised shortages of health, education and police professionals.

3.2.4 Reducing the cost of living

Measures to reduce the cost of living, and by extension the cost of employment, include:

- 1 Ensuring much more rapid densification of housing, rather than continuing to build settlements distant from work and economic centres. This requires a fundamental reform of the current subsidy-based housing policy, rather than just diverting a share of the available funds. Crucial steps are
 - a. Setting targets for densification in all new subsidised housing programmes.
 - b. Developing a framework for expropriating urban land, and restructuring the current subsidy system to support high and medium density housing.
 - c. Improving and extending on a mass basis programmes to rehabilitate housing in the CBDs. This should be included as a targeted investment under the Financial Sector Summit agreement.
 - d. Building multi-income neighbourhoods through densification in suburbs near city centres, using empty lots and rezoning of large lots.
- 2 Establishment of a clearer framework for user fees. Public general education should be free; uniforms should be standardised, cheap, and subsidised for poor households.
 - a. For water and electricity, general guidelines should be introduced to ensure that tariffs have a progressive incidence. For instance, a framework could ensure no payments, linked to reasonable minimum

service levels, for households earning under R1000; 1% of income for those earning from R1000 to R8000, then 2% of income. This would reverse the current regressive incidence. The slight increase in rates at the top would, at a national level, raise enough money to cover the fall in income at the bottom, but redistribution between municipalities would be necessary.

- b. In addition, there should be a clear policy that prevents evictions and cut offs of basic services for failure to pay. Less draconian measures can be used to deal with legitimate backlogs.
- 3 Ensuring affordable commuter transport, including through improved subsidies to public buses and rail transport. Targets should be set for the cost of transport as a percentage of workers' pay. The process of privatising and contracting out local bus systems should be reversed.
- 4 The escalating cost of medical aids must be controlled and funding for public health qualitatively improved. From this standpoint, the Taylor Commission recommendations are entirely unacceptable. In the longer term, labour supports a genuine National Health Insurance system to ensure adequate and affordable care for all our people.

3.2.5 Short-term measures

- 1 Publicly funded public works and community service programmes, especially for the youth, should create 500 000 person-years of positions, with a reasonable allowance. These employment programmes should provide:
 - a. Value added for communities in the form of services such as care for the ill, the elderly and children and ABET, and/or labour-intensive public works and environmental projects
 - b. Reasonably stable positions especially for young people, in order to integrate them into society and give them work experience
 - c. Some form of certification of training and experience from the work, and to link participants with potential employers
 - d. Some income relief.

These programmes should not displace permanent and more productive workers in either the public or private sector. Guidelines to achieve this aim should be consulted at the PSCBC.

The programmes should fall under the Department of Labour. Funding should be decentralised wherever possible, with projects proposed and managed by reputable civil society organisations and local government. For this purpose, funds should be provided through a separate funding agency outside of government. The programmes must be treated as emergency measures, where some inefficiency may be unavoidable but will be offset by the overall results.

If the allowance for these positions averages, say, R800 a month, the cost of allowances alone for 500 000 people would come to R5 billion a year. Administration costs will add to that. This is not an overwhelming amount relative to the funds already allocated for poverty relief.

- 2 More generally, government should ensure the social security system provides income relief for young unemployed people, who are currently not eligible for any systematic government support. As the following table shows, most very poor households do not receive government grants. For this reason, COSATU supports a Basic Income Grant

Share of income by source and income category, 2000

Monthly income	employment	investment and savings	social pensions	family and charity	total income
0-500	45%	7%	4%	6%	100%
501-1000	39%	7%	28%	4%	100%
1001-2500	65%	7%	13%	2%	100%
2501-4500	76%	9%	4%	1%	100%
4501-8000	78%	11%	3%	1%	100%
Over 8000 ^a	76%	11%	1%	1%	100%

Source: Calculated from, Statistics South Africa. 2002. Database on expenditure and income, 2000. CD-ROM. Pretoria. Note: a. average income in this category was around R200 000 a year.

- 3 Government and parastatal procurement practices must be aligned much more rapidly with the requirements of the Proudly South African campaign. Procurement practices should ensure the greatest possible support for domestic employment. In addition, these institutions should be required to support, as far as possible, the development of local producers to replace goods and services that they currently import.
- 4 Government and the main parastatals should in future ensure that any restructuring process contributes to job creation, at least indirectly and in the medium term. All current restructuring proposals should be researched rigorously to assess their net impact on jobs. If they will not ultimately contribute to employment creation at least indirectly, they should be revisited. We can no longer afford vague hopes of jobs based on projected, but unsubstantiated, efficiency gains. Experience with provincial parastatals in Limpopo has demonstrated that a real commitment to job creation and increased investment will generate more socially and economically beneficial options.
- 5 Formal employers should institute more active labour market policies, including:
 - a. Ensuring that restructuring retains jobs where possible, in line with the NEDLAC Social Plan agreement.
 - b. More should be done to publicise and ensure utilisation of the Workplace Challenge programme.

- c. SETAs should ensure that lower-level workers urgently get training in lifeskills and, if necessary, ABET. Sector summits should identify key future skills needs that are accessible to lower-level workers.
- 6 Government should explore ways to ensure a more stable exchange rate that is favourable to manufactured exports. The rand is currently overvalued, just as it was previously undervalued. This is likely to affect employment in both import-sensitive and export-oriented sectors, including clothing and consumer equipment. To limit the volatility of foreign portfolio investment, South Africa should institute “roadbumps.” That is, every investor in short-term funds should be required to commit a small share, say 5%, of their short-term holdings, to a longer-term investment. In the current situation, government should take the opportunity to reduce the Reserve Bank’s forward position and reduce foreign debt.

4 Labour’s commitments

In the context of an integrated development strategy geared to employment creation, labour will contribute:

- Continued strong engagement in the sector job summits. Labour has already dedicated considerable resources to this purpose, including establishing a special project with over five full-time policy analysts.
- When a clear perspective on areas for job-creating growth is agreed, we will work to establish appropriate investment vehicles and guide pension fund investments in that direction.
- Given a moratorium on retrenchments, work in public service and private sector to support progressive restructuring and productivity increases, including support for skills development and work reorganisation.
- Support for public works and community service programmes and for co-ops, in line with the proposals above.
- Continued proposals and innovative organising work to address the challenge of casualisation and the informal sector and mainstream employment into “decent work.”