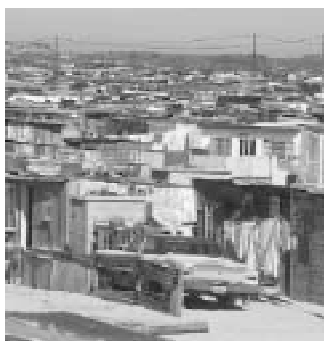


Chapter 6

Employment and Unemployment



6.1 Introduction

The Committee has focused on unemployment and the poverty and social consequences of low-wage, precarious employment, like much of that found in the informal sector.

Detailed analysis of employment and unemployment trends was provided earlier in the Committee assessment of the socio-economic context. Key findings based on that assessment are discussed below.

6.1.1 Key issues

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

- 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 problematic. 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. 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.
- The official unemployment rate may have stabilised (at about 26 per cent), but then again, it 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. A discontinuity in the official statistics 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 3 million to 4 million).
- 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 1 million since 1999, and by more than 2 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.
- In 1999, among 2,6 million officially unemployed for whom usable data on duration of unemployment could be extracted, some 40 per cent of the 1,17 million unemployed who had previously been employed, had been out of a job for

more than a year. Among the 1,47 million unemployed who had never previously been employed, 45 per cent had been unemployed for more than a year. There is widespread agreement that the long-term unemployed constitute a particularly difficult problem to resolve. The longer they are out of work, the greater the depreciation of human capital acquisitions. Among 4,58 million “expanded” unemployed Africans, only 1,24 million had previously been employed. Of the 3,34 million who had never previously had a job, considerably less than half (1,27 million) were younger than 25 years. This is cause for concern.

- The circumstances of many of the unemployed are so poor as to make it extremely difficult to insert them gainfully into the labour market, under existing economic conditions. Certain characteristics, among them that of being poorly-educated, long-term unemployed, located in a non-urban area and so on, are amongst the structural impediments to their obtaining jobs. Using these characteristics, and mindful of the extreme sensitivity of attempting to make such a calculation, the Committee has estimated that there may be as many as 1,5-2 million people who fall into the category of “difficult-to-place”. Some commentators assert that these people are unemployable. While the Committee would not necessarily want to go that far, the fact is that these people are extremely difficult to reach with empowerment and skills programmes. Their ability to earn even a modest living in the informal sector is probably minimal. Clearly, their plight is clearly cause for grave concern. It is the view of the Committee that some form of social assistance grant, concurrent with other socially integrative programmes, must be implemented for such persons.
- Despite dozens of Government poverty alleviation programmes at high cost, the available evidence suggests that poverty is getting worse. The available evidence, though difficult to interpret, indicates that the number of “workerless” households had apparently risen dramatically between 1995 and 1999. This, it would seem, is one

consequence of rising unemployment levels. In short, poverty alleviation programmes appear unable to keep pace with unemployment-induced poverty.

6.1.2 Implications for poverty

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 (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 much 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.

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 searching for work, 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 million people (of whom 10,2 million were African) living in workerless households where expenditure was less than R800 per month.

The cost of unemployment goes further than loss of income and even feelings of personal worth. South Africa’s failure to socialise many young men, which is evident in the high rates of crime, alcohol abuse, violence against themselves and women, and even in the spread of HIV/AIDS, creates a vicious cycle of family breakdown.

6.2 Recommendations

6.2.1 The appropriate form of social security

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. South Africa's unemployment problem is more structural than cyclical. Since UIF benefits are available for a maximum of six months they cannot deal with unemployment of this sort. 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 (that is, benefit entitlements are quickly exhausted). The degressive benefit schedule in the new Act is an improvement, but it cannot solve the problem of benefit exhaustion (as benefits apply for a maximum of six months).

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 (or massive public works programmes) is necessary.

In short, social protection must comprise the two "direct" forms, as well as the set of "indirect" 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:** These approaches, through the facilitation of favourable labour market transitions, should be fostered by the deployment of every policy instrument that can help to do so.
- **Monitoring and evaluation:** 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 the short to medium term in South African conditions, institutions to coordinate these policies so that their potential relationships are developed should be constructed.

6.2.2 Social insurance: The UIF

Due to the highly unequal distribution of earnings among those eligible to participate in South Africa's UIF, and because of the high propensity of poorly-paid workers to become unemployed, a contributor-funded scheme of this nature is vulnerable to fluctuations in the level of economic activity, possibly to the point

where it is structurally non-viable. State support may be required to keep the scheme afloat during crises. It is also the case that business and labour have on occasion agreed that increases in the contribution rate (the pay-as-you-go rate [PAYG]) were desirable to secure the financial health of the scheme. The proposed increases have been blocked by Treasury. By comparison with similar schemes abroad, the PAYG rate in South Africa is low. The Committee recommends that when agreement on the need for an increase has been reached, that after due investigation, such increase should be permitted by National Treasury.

Maternity benefits proposed under the revised legislation are inadequate. It is proposed that the income replacement rate should be raised on the degressive 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 be made.

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.

Regarding the inclusion of Government employees, the Committee is of the view that Government workers should be allowed to choose, through their representative organisations, whether or not to become contributors to the UIF.

The Committee has considered gaps in the new UIF Act. A significant omission is the absence of a clear principle for financing the UIF.

6.2.2.1 Financing principles for the UIF

The Committee has considered the complexities involved in the financing of the UIF and that the financing of the UIF 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 UIF remains vulnerable. Until the special conditions in which the UIF is required to operate are acknowledged, and appropriate Government top up funds (in the form of a regular contribution to the UIF) 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 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. From time to time, even wealthy economies experience difficulties 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 impossible. The Committee is of the view that insurance against mass unemployment (on the scale experienced in South Africa) is out of the question.

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 in South Africa the principles of social solidarity that underpin