Unpacking Unemployment

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In recent months, the long-running debate on employment figures has taken a new twist. Haroon Bhorat (2002) suggests that the main way to alleviate joblessness is to focus on skills development, without discussing the prospects for restructuring the economy. By extension, the main causes of rising unemployment lie in inadequate skills, rather than in the failure of employers to create jobs.

This argument has quickly become the common wisdom. Thus, it is now fashionable in some circles of business and government to argue that older people who lack qualifications are simply unemployable. Presumably they can at best expect to live out their lives on charity – or, in Bhorat's argument, a Basic Income Grant (BIG).

Unfortunately, while we appreciate Bhorat's insistence that unemployment is a central problem as well as his support for improved welfare grants, his argument suffers from two important weaknesses. First, it ignores the inconsistencies in the *October Household Survey* figures on employment from 1995 to 1999, and in the subsequent *Labour Force Survey* data. As a result, the core observation – that employment, especially in skilled jobs, is on the rise – is open to question. Second, it contains an analytical fallacy. Even if more jobs were created for skilled than for unskilled people, it does not follow that increasing skill levels would in turn generate more jobs. While skills shortages are a problem, there is no evidence that they are the main obstacle to employment creation.

We here propose a more comprehensive analysis of the causes of joblessness, with a focus on the factors affecting demand for labour and not just supply. In particular, we argue that:

1. The current surveys are fatally flawed by the difficulty of defining employment where there is mass unemployment without welfare support for the unemployed. If we take into account the shortcomings in the data, there is no evidence of substantial job creation since 1995. Nor is there firm evidence that skilled jobs have grown more rapidly than unskilled ones.
2. The main causes of slow job growth lie in the difficult transition from the apartheid growth path. That pattern of growth was rooted in mining combined with substantial state intervention to support (white) capital, and associated with massive inequalities. Starting in the 1980s, social, economic and political factors undermined this growth path, leading to prolonged stagnation.
3. The solutions to mass unemployment thus lie in restructuring the economy to increase employment opportunities. Critical interventions must address the structure of capital as well as mass poverty in ways that increase economic dynamism and expand the domestic market. In particular, they must

- Direct growth to relatively labour-intensive sectors, both to meet basic needs locally (which should increase domestic demand) as well as by strengthening the value matrices[1] around mining, petroleum and agriculture.
- Ensure the poor have greater access to productive assets such as infrastructure and land as well as skills.

This approach means that social programmes aimed at alleviating poverty must help lay the basis for increased employment, both by expanding demand and by increasing the ability of the unemployed to participate in the economy.

The sector summits and the proposed Growth and Development Summit, which were agreed at NEDLAC, provide critical mechanisms for engaging organised business, labour and the state in restructuring the economy. For them to succeed, however, government must define more clearly what it expects capital to do to help overcome poverty and unemployment; and it must co-ordinate its own activities more systematically around developmental goals.

The first section of this paper analyses the shortcomings with the data on employment, which suggests that Bhorat's empirical conclusions are incorrect. The second part provides an alternative view of the causes of unemployment and, on that basis, strategies for addressing the problem.

1 Trends in employment and skills

There is little doubt that high and growing unemployment represents the most important social and economic problem facing South Africa today. The official unemployment rate has risen from 16% in 1995, when the figures were first published, to just under 30% in September 2001.[2] Joblessness is worst for young people, at 46% of those under 35 (using the expanded definition[3]) compared to 24% for older people. As a result, those under 35 account for 70% of all unemployed people. (Calculated from Statistics South Africa 1999)

Bhorat argues that high unemployment results from a lack of skills in the labour force. For evidence, he says that Statistics South Africa's *October Household Survey* shows growth in skilled and semi-skilled occupations between 1995 and 1998, and a decline in elementary jobs. As policy solutions for unemployment, he therefore proposes:

[1] We are indebted to the DTI for the concept of value matrices, which refers to the full range of linkages around an industry – upstream, downstream and sideways.

[2] Calculated from Statistics South Africa, 2001, Table 5.3, p. 48, for 1995; and 2002a, Table 2.5, for 2001

[3] The expanded definition of unemployment counts as unemployed workers too discouraged to seek work actively.

- Welfare grants for unskilled unemployed people aged over 40, who are – in this view – unemployable, and
- Improved skills development for the younger unemployed.

A deeper analysis, however, suggests that the facts do not support Bhorat's understanding of trends in employment, either overall or in terms of skilled work. In any case, even if skilled occupations had grown, that in itself would not support the contention that slow job growth results primarily from skills shortages.

1.1 The data on overall employment, 1995-2001

A key weakness in Bhorat's argument is his failure to critique the data on employment. As a result, he does not notice that the reported increase in jobs between 1995 and 1999 arises mostly out of a change in Statistics South Africa's definition of employment to include survival strategies that pay very little or even nothing.

Bhorat relies exclusively on a comparison of employment data for 1995 and 1999, without looking at the years in between. The increase in employment reported in 1999 over 1995 is central to his argument, since it underpins his contention that skilled occupations grew in the late 1990s.

In the event, as Table 1 demonstrates, Statistics South Africa's figures show a substantial decline in employment in 1996, followed by stagnation until 1999, when the figures jump by 10%. The first decline largely, although not entirely, reflects the use of the new Census for weights in 1996. The increase in 1999 is harder to explain, since the GDP grew by only 2,1% in that year and there was no change in the survey weights.

The employment data did not stabilise after 1999 – indeed, they became more unstable and inexplicable. Thus, after another massive increase in reported employment in 2000, Statistics South Africa reported an 8% decline in 2001. Again, as in 1998/9, the figures bear no relationship to broader economic trends.

Table 1. Reported employment and GDP growth, 1995- 2001

	total employment	% change from previous year	GDP growth
1995 - Statistics SA	*10,152*	*n.a.*	*3.1%*
1995 – Bhorat (a)	*9,399*	*-1.2%*	*4.3%*
1996	9,287	-8.5%	4.3%
1997	9,247	-0.4%	2.6%
1998	9,390	1.5%	0.8%
1999	10,369	10.4%	2.1%
2000	11,712	13.0%	3.4%
2001	10,833	-7.5%	2.2%

a. Bhorat (2002) recalculates the figures for 1995 using the 1996 Census weights, resulting in a substantially lower figure for employment in that year.
Source: For employment, Statistics South Africa, *October Household Survey, 1995*, Table 1.2.1, p. 5 for 1995; Bhorat 2002, table 1, p. 39; *October Household Survey 1999*, Table B, p. iv for 1996 to 1999; Labour *Force Survey September 2001,* Table H, p. xi, for 2000 and 2001. For GDP, figures at market prices in constant rand, from long-term time series on national accounts (electronic database), from South African Reserve Bank website (www.resbank.co.za)

How can we explain the peculiar fluctuations in employment figures? It seems that the reported increase in employment in 1999 largely reflects an effective change in the definition of employment used in the relevant surveys. Specifically, Statistics South Africa:

- Included more people in the informal sector; and
- counted "subsistence" farmers – mostly African smallholders in the former homeland areas – as employed, even if they reported no income at all.

As a result of these changes in the definition of employment, reported informal and agricultural employment rose extraordinarily rapidly between 1998 and 1999. (Table 2) The data indicate an (improbable) 31% increase in informal employment in that year alone. The data also showed that skilled agricultural employment – which included subsistence farmers – doubled in size. If we subtract the reported growth in the informal sector and subsistence farming, the figure for total employment rose by 2,3% in 1998/9.

Table 2.

A. Formal and informal employment, 1995-'9.

	informal sector	formal sector	total
Change in thousands			
1995-'98	325	-1087	-762
1998-'99	640	339	979
Average annual percentage change			
1995-'98	6%	-5%	-3%
1998-'99	31%	5%	10%

B. Employment by occupation, 1998-'99

Occupation	Number (000s), 1999	% change, 1998-9	% of job growth, 1998-'99
Total	***10 369***	***10%***	***100%***
legislator, senior officials and managers	684	-6%	-4%
professionals	554	9%	5%
high level	*1 238*	*0%*	
technicians and associate professionals	1 042	15%	14%
clerks	1 071	14%	13%
service workers and shop and market sales workers	1 225	6%	7%
skilled agricultural and fishery workers	469	107%	25%
craft and related trade workers	1 355	3%	4%
plant and machine operators and assemblers	1 092	15%	15%
skilled/semi skilled	*6 254*	*14%*	
elementary occupations	1 901	14%	24%
domestic workers	799	7%	5%
elementary plus domestic	*2 700*	*12%*	*29%*

Source: Calculated from, Statistics South Africa, *October Household Survey*, 1995, 1998 and 1999.

In effect, then, the reported increase in employment in 1995 to 1999 – which is central to Bhorat's argument - does not reflect a trend in employment, but rather changes in what is being counted. Both data sets may be correct on their own terms. They cannot, however, be compared to define the trend in overall employment over time.

The effects of including more informal and subsistence workers also emerge in the figures on earnings. These data were not published in 1999, but the trend is clear if we use 1995 and 2001. Unfortunately, the series do not use the same income intervals in real terms. Still, a rough comparison is possible. The figures report

- A ten-fold increase in workers earning nothing – from 28 000 to 326 000
- A decline in workers earning over R1000 only from 64% to 61%. Yet the real value of R1000 in this period dropped by 45%.[4] Thus, in September 2001, R1000 was worth R690 in constant 1995 rand.

[4] That is, the CPI rose 44,9% between October 1995 and September 2001.

These figures indicate a substantial real fall in incomes over this period. That is certainly not the experience of union members. Rather, it reflects the inclusion in employment statistics of survival strategies that, before 1999, were mostly excluded.

Table 3. Earnings by income category, 1995[a] and 2001

Note: The cut off point of R1000 in nominal terms in real terms means a 45% lower income in 2001 than in 1995. R1000 in 2001 was worth only R690 in 1995 rand.

Income category	Total, in thousands		% of total	
	1995	2001	1995	2001
R0	28	326	0%	3%
R1-R999	3 653	3 932	35%	36%
over 1000	6 619	6 575	64%	61%
Total	*10 300*	*10 833*	*100%*	*100%*

Note: a. the figures for 1995 used the published data, without reweighting in terms of the 1996 Census.

Source: For 1995, Statistics South Africa, *October Household Survey, 1995*, Table 2.3; *Labour Force Survey September 2001,* Table 3.10.

In sum, there is a distinct break in the employment series between 1998 and 1999. As a result, the data are not useful for understanding trends between 1995 and 1999. The data also appear to fluctuate in strange ways since 1999. This suggests that the new definition of employment makes the data since then generally less consistent.

The definitional problems are not incidental. Rather, they reflect the difficulty of defining "employment" and "unemployment" unambiguously in developing economies. As the UNDP points out (UNDP 2002, p. 144) where the unemployed get no government support, they must resort to survivalist measures, such as begging, subsistence farming, casual labour and hawking. This type of self-employment does not return enough to support families or raise productivity; but it is not pure unemployed, where a person has no earnings at all.

Thus, according to the UNDP,

> The concept of unemployment is not always meaningful in developing countries… [T]he problem in developing countries is often summarized as underemployment—a partial lack of work, low employment income and underutilization of skills or low productivity—rather than unemployment as normally measured. (UNDP 2002, p. 144)

The definitional problems around unemployment reflect the delinking of data collection from the underlying social problem. Unemployment is important, not as an abstract number, but because it means individuals earn no or only very low incomes and must thus depend on transfers from family members and the community.

It follows that it is more important to track incomes, and distinguish earnings from transfers, than to debate the "correct" definition of unemployment or underemployment.[5] By extension, Statistics South Africa should focus more on improving and analysing income data – which are notoriously difficult, but critical for analysing developmental needs.

In short, the break in the employment data in 1999 means that we are really dealing with two data series, which effectively measure two different types of employment. In contrast to Bhorat's argument, it is not possible to use these figures to define trends in overall employment in the 1990s.

1.2 Trends in employment by occupation

Central to Bhorat's argument is that employment in skilled and semi-skilled occupations grew rapidly between 1995 and 1999, while unskilled occupations shrank. He argues that this indicates potential for greater expansion in employment if the necessary skills were available.

In the event, the purported increase in semi-skilled jobs seems to reflect the inclusion of lower-paid informal workers in these categories, rather than genuine growth. The data do point to a decline in lower-level formal positions – an important fact for understanding how the structure of the economy has led to slow job creation, as we discuss in the next section.

Table 4 compares the growth in employment by occupation category with changes in earnings. It shows

- Contrary to Bhorat's conclusions, the reported growth in skilled and semi-skilled occupations reflects the redefinition of the categories to include informal, largely survivalist activities, rather than an actual increase in jobs. This follows for the severe fluctuations in growth rate and rapid decline in income reported for these occupations. Thus, skilled and semi-skilled employment reportedly dropped 2% in 1995 to 1998, then grew by 6% in 1998/9, and by 3% in 1999-2001. At the same time, the reported percentage earning under R1000 climbed from 21% to 26%.
- A substantial increase in the higher level managerial and professional occupation in 1995-'99 was reversed in 1999-2000. Incomes apparently did increase in nominal terms in this category, with 54% earning under R8000 in 2001 compared to 67% in 1995. This nominal increase clearly does not reflect the real increases in income at this level. By extension, the reported growth in these occupations in the late 1990s was probably somewhat exaggerated.
- Formal elementary work apparently did decline. Thus, the narrow category "elementary workers" experienced mostly stable pay, while the numbers fell sharply in the 1990s. We discuss explanations for this fall in the next section.
- The broader data for elementary workers, which we would define to include domestic workers and subsistence farmers, are heavily affected by Statistics South Africa redefinition of "employed" in 1999. As a result, the whole group

[5] For its part, the UNDP argues that developing a consistent definition of underemployment, and collecting data on that basis, can resolve the dilemma. (UNDP 2002, p. 144)

of elementary workers in fact grew – but as in the other categories, incomes fell dramatically. Bhorat excludes domestic workers and subsistence farmers from his elementary category, because the data on these groups jump around so much. That is inconsistent, however, since the same argument applies to almost all the semi-skilled occupations, especially those that grew most rapidly.

Table 4. Change in employment and incomes by occupation, 1995-2001

	average annual % change[a]				**% earning under R1000[a]**		
Occupation	**1995-1998**	**1998-1999**	**1999-2001**	**1995-2001**	**%, 1995**	**%, 2001**	**Change in percentage, 1995-2001**
Total	**0.0%**	**10.4%**	**2.2%**	**2.4%**	**36%**	**39%**	**4%**
high level							
professionals	16.3%	8.8%	-6.4%	7.0%	3%	0%	-3%
legislator, senior officials and managers	13.0%	-6.0%	-1.7%	4.6%	7%	2%	-5%
skilled/semi skilled							
service workers and shop and market sales workers	2.7%	6.3%	6.8%	4.6%	30%	41%	11%
craft and related trade workers	6.3%	3.1%	2.9%	4.6%	27%	35%	8%
technicians and associate professionals	-5.1%	15.0%	4.9%	1.3%	4%	7%	3%
clerks	-5.8%	13.6%	1.4%	-0.4%	12%	12%	0%
plant and machine operators and assemblers	-4.5%	15.3%	-0.3%	-0.1%	30%	29%	-1%
elementary (b)							
skilled agricultural and fishery workers	45.3%	106.6%	0.0%	36.0%	28%	74%	46%
elementary occupations	-17.9%	14.0%	5.5%	-5.7%	76%	66%	-10%
domestic workers	n.a.	6.7%	7.1%	n.a.	n.a.	92%	n.a.
high level	*14.3%*	*0.1%*	*-3.8%*	*5.6%*	*6%*	*1%*	*-4%*
skilled/semi skilled	*-2.1%*	*5.6%*	*3.5%*	*1.0%*	*21%*	*26%*	*6%*
elementary (b)	*-5.0%*	*19.9%*	*5.1%*	*2.1%*	*73%*	*74%*	*0%*

Notes: a. For 1995, figures for employment use Bhorat's recalculation according to the 1996 Census weights; figures for income use the published data. b. "Skilled agricultural and fishery workers" increasingly consists of subsistence farmers. For this reason, they are included under "elementary" work. The concept of elementary work refers primarily to the market value and formal qualifications of an occupation, rather than the inherent skills level. *Source:* For employment, Statistics South Africa, *October Household Survey, 1995*, Table 1.2.1 for 1995; *October Household Survey 1999*, Table B, p. iv for 1996 to 1999; Labour *Force Survey September 2001,* Table H, p. xi, for 2000 and 2001.

1.3 Logic

Bhorat's argument runs essentially as follows:

1. The demand for skilled labour has risen.
2. Therefore skilled workers can get jobs.
3. Therefore if more workers got skills, they could get jobs.
4. By extension, the main reason for slow job creation is a lack of skills.

There is an elementary confusion here between supply and demand. If the demand for skilled labour has risen, there is still no evidence that increasing skills levels will in itself lead to a substantial improvement in employment levels. In the event, there is no evidence that the skills shortage in itself is a major factor behind weak job creation.

The evidence certainly do not bear this argument out. In particular, the education level of the unemployed has been rising steadily, even as the unemployment rate has risen. Thus, the share of the unemployed without secondary education has declined from 41% to 35%. (Table 5) That in itself seems to refute the contention that low skills is the primary cause of unemployment.

Table 5. Unemployment by skills level, 1995 to 2001

	1995[a]	1998	1999	2001
total (b)	***100.0%***	***100.0%***	***100.0%***	***100.0%***
none or only elementary	41.1%	38.4%	35.3%	35.4%
high school	56.3%	58.0%	61.0%	60.3%
above high school	2.6%	3.6%	3.7%	4.3%

Note: a. figures have not been reweighted by the 1996 Census. b. not including unspecified.
Source: Statistics South Africa, *October Household Survey,* 1995*,* Table 4.3, for 1999; Statistics South Africa, *Labour Force Survey September 2001,* Table 4.7, for 2001.

1.4 Conclusion

While Bhorat's article has some important insights, its basic conclusion – that the lack of skills is the main cause of unemployment – does not follow from the available information. By extension, a narrow focus on improving skills will not relieve employment. The next section provides an alternative analysis of the factors behind high unemployment, and on that basis proposes a more complex strategy to address it.

2 Toward employment-creating growth

We here use the concept of the growth path to set an agenda for analysing job loss and potential employment growth. This concept identifies the main structural issues in the economy in order to support a strategic understanding. Although it should derive from in-depth analysis, the description of a growth path typically aims for simplicity and conciseness.

The key dimensions that define a growth path are:

Relationships between the main economic sectors, and how they fit into an accumulation structure that shapes the investment structure and incomes.

The nature of the main markets, including the articulation with the regional and international economy and whether production targets basic necessities or the high-income group.

Regional development in terms of both spatial development within the country, which is particularly important for developing economies, and links to neighbouring economies.

Class and economic power – that is, the nature of ownership and control - which determine key decisions on investment and markets as well as who benefits from growth.

The state typically plays a critical role in sustaining and directing the growth path, by defining property and power relations, and by how it directs services spatially and sectorally. This role is most important in countries in transition from one socio-economic order to another.

We first examine South Africa's growth path under colonialism and apartheid.

2.1 The apartheid growth path

Most economists agree on the nature of the South African growth path from at least the turn of the century until the middle of the 1980s. We here analyse in terms of the categories outlined above.

Main economic sectors: Exports of gold and other minerals essentially financed the growth of import-substitution manufacturing as well as infrastructure, and paid for the imports these industries needed. To this day, over half of all exports are minerals based. From this standpoint, South Africa was a classic resource-based economy, using its abundance of minerals and energy for large scale, often relatively capital-intensive export production. It had weak downstream linkages from minerals beneficiation and did not create enough employment. But it generated substantial investible surpluses. Upstream, mining led to the establishment of advanced but narrowly focused inputs industries.

Markets: Gold and other minerals were exported internationally. Domestic demand was limited due to unusually large inequalities in income. Manufacturing focused on relative luxuries for the high-income group, with exports centred disproportionately on southern Africa.

Regional: Spatial inequalities were integral to the apartheid growth path. On the one hand, the homelands stood apart both administratively and economically. They became extraordinarily impoverished regions with particularly corrupt, underfunded and understaffed government services and weak infrastructure. On the other hand, South African mining capital and trade dominated much of the region, while from the mid-'70s military attacks undermined neighbouring economies.

Class power: Mining-based economies are typified by relatively large-scale production and capital-intensive refining. These factors tend to generate substantial inequalities in income and wealth, which apartheid aggravated. Mining and agriculture relied on cheap unskilled labour generated largely through the migrant labour system, with the concomitant impoverishment of black rural areas. A narrow complex of mining and financial capital dominated the economy. State-owned enterprise organised vast new manufacturing and beneficiation ventures by supplying infrastructure and capital. Commercial agriculture also enjoyed substantial state support. Foreign investment was large compared to the rest of Africa, mostly in the form of loans, holdings of gold shares, and direct investment, especially in mining, manufacturing and the financial sector.

Role of the state: State action largely shaped the growth path, providing cheap labour, investment capital, subsidised infrastructure and energy, and tariff protection for domestic manufacturers.

Various structural elements in this growth path laid the groundwork for high unemployment.

- Mining and luxury production, which characterised much of formal production, are inherently capital intensive. Except in the period of rapid expansion in the 1950s and '60s, they did not create much in the way of new formal jobs. But unusually large inequalities in incomes limits domestic demand, especially for basic goods and services whose production is relatively labour intensive.
- Massive inequalities in access to productive assets, including land, and infrastructure meant workers had to accept lower wages – but produced mass unemployment if the formal sector did not offer jobs at any wage. The apartheid system notoriously strengthened long-standing colonial restrictions on black land ownership. In addition, under apartheid black households and communities had very limited access to basic infrastructure, limiting the potential for small and micro enterprise. In the mid-1990s, South Africa still had lower levels of piped water, sanitation, electricity and access to transport than most other middle-income countries.[6]
- Apartheid policies sought to reduce black access to qualifications so as to prevent competition with white skilled workers. Most studies show that South Africa still has a lower level of training than other countries at a comparable level of GDP, despite the substantial improvement in education amongst younger workers. According to the UNDP, while South Africa ranked 29th in terms of GDP amongst over 100 developing countries in 2000, it still ranked only 39th in terms of adult literacy. Although low skill levels are not the primary cause of unemployment, they certainly make employment creation harder.
- Apartheid spatial policies added to the problem. It pushed the un- and underemployed to remote rural regions; and located working class housing far outside of city centres and industrial areas.

The structural factors inhibiting employment creation came to the fore when the apartheid growth path ran into trouble, especially from the mid-1980s. Gold mining faced a decline at least from the early 1980s. In 1985, the economy suffered a massive outflow of foreign capital, essentially as the result of popular opposition to apartheid. Then, starting in 1989, with the transition away from apartheid, the economy became increasingly open to foreign trade and investment. Finally, from the mid-1980s and especially after 1994, the state ended or reduced many long-standing forms of support for (white) capital,

[6] For instance, in terms of GDP per capita South Africa ranked 29th of over 100 developing countries included in the UNDP *Human Development Report 2002*, but only 43rd in terms of access to piped water.

including parastatal investment in infrastructure, tariff protection, laws that suppressed labour and agricultural marketing.

2.2 Challenges from 1994

The disintegration of South Africa's historic growth path meant the democratic government had to manage immense changes in the economy as well as political and social conditions. The main factors dampening investment and growth included the unavoidable and rapid exposure of the economy to international markets after 1989; big capital's distrust of the democratic system and the associated changes in society and work organisation; and continued stagnation in gold mining. In these circumstances, low investment aggravated the structural factors that prevented rapid job creation. Moreover, investment often went to increase efficiency rather than output, leading to further job losses especially in manufacturing and mining.

The liberation movement had historically argued that growth and redistribution must go hand in hand, since the extreme inequalities in income, wealth and skills inherited from apartheid both constrain domestic demand and undermine productivity and employment. Experience from around the world, and particularly from South East Asia, has demonstrated that sustainable and robust growth requires more equitable distribution of incomes and wealth.[7] Successful economic strategies must thus ensure that growth helps strengthen the domestic market by raising living standards and increasing the assets of the poor on a mass scale.

From this standpoint, government policy after 1994 was rather contradictory. On the one hand, it established a number of strongly redistributive programmes; on the other, particularly after the adoption of the GEAR in 1996, it increasingly looked to free markets and competition to grow the economy, and cut back on its own spending and economic power.

Redistributive strategies included:

1. Laws protecting workers' rights to organise and strike, and to minimum conditions of service.
2. Efforts to target social services and household infrastructure increasingly at poor communities, although total expenditure on these functions fell in real terms between 1997 and 2000.
3. A large-scale skills development programme.
4. Land reform and support for small and micro enterprise, both on a fairly small scale.

Strategies geared at freeing up markets included:

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[7] The UNDP found that South Africa's income distribution ranks third worst in the world, following Brazil and Uruguay. In the early 1990s, the richest 10 per cent of South Africans got around 45 per cent of the national income, compared to between 30 and 40 per cent for almost all other middle-income developing countries, and 24 per cent in South Korea.

1. Limits on government borrowing and taxation, based on a "crowding out" argument,[8] which led to real cuts in government spending between 1997 and 2000. This fiscal policy tightly constrained redistributive efforts and the capacity of the government to intervene to restructure the economy. It led to a particularly sharp fall in government investment, which is easier to cut that recurrent expenditure.
2. Substantial reductions in tariffs. While deep cuts were required when South Africa joined the GATT (later the WTO), in clothing and machinery, at least, tariff cuts were sharper than required. Moreover, a series of bilateral agreements have led to further cuts, usually little if any research into employment effects.
3. The introduction of supply-side measures primarily to expand exports, with virtually no support for production for the domestic market.
4. The very rapid reduction in support for white commercial farmers and the institution of a free market in agriculture.
5. The restructuring of state-owned assets. Despite a few exceptions, the thrust of the restructuring was:
    - To introduce market pricing into the provision of basic infrastructure, despite some limited and not very successful efforts to cross-subsidise the destitute.
    - To close down or sell off government's productive assets, such as the forests and various provincial agricultural projects.

This combination of strategies meant that government could not adequately address the factors underlying high unemployment. On the one hand, growth remained slow and investment stagnated at between 14% and 18% of the GDP. On the other, massive job losses occurred amongst unskilled workers in mining,[9] the public sector and commercial agriculture; while skilled and semi-skilled workers in manufacturing always saw substantial lay offs.

2.3 Toward a new growth path.

The analysis provided here suggests the need for substantial restructuring in order to create jobs on the necessary scale. Only more coherent government interventions, which explicitly prioritise employment creation, can achieve this

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[8] That is, a belief that higher government spending – and therefore borrowing and taxation – cuts into the resources available for private investment.

[9] Bhorat (2002) argues, using OHS data, that employment in mining grew in 1995-'99. The Survey of Employment and Earnings (SEE), which presents information from the Chamber of Mines, suggests a continual fall in employment in gold mining from 1987, when it peaked at 561 000, to 2002, when it fell to under 200 000. At the same time, employment in non-gold mining fluctuated between 198 000 and 214 000. (Statistics South Africa 2002b) The question of whether the OHS or the SEE is more reliable is always vexed. For mining, given the relatively strong organisation of employers, the SEE seems a better choice – even if it were possible to read trends off the OHS for 1995-'99.

aim. We here explore the general direction required in terms of the key dimensions of the growth path.

a. Production structure

To create jobs, the trajectory of growth must shift toward relatively labour-intensive industries, and away from the current emphasis on mining and refining plus relatively high-class consumer durables.

Viable labour-intensive industries include both potentially competitive activities, that can produce for export or to replace imports, and sectors that are largely directed at domestic production and consumption.[10] Potentially job-creating competitive sectors include:

- food production and processing, especially in horticulture;
- the fabrication of metals and chemicals based on downstream linkages from minerals and petrochemical refineries;
- many services, including tourism and communications; and
- cultural industries.

Labour-intensive sectors oriented to the domestic market and to some extent the region include:

- most construction of housing and infrastructure,
- production of basic food, appliances and services,
- the retail sector and
- commuter transport.

These industries provide opportunities for micro and small enterprise, both as producers and by providing key inputs for home-based production of goods and services. Available estimates suggest that they have the greatest potential for creating employment, especially in agriculture (with land reform), construction and services.[11]

b. Markets

South Africa must engage with world markets both because it depends on some imported inputs, including petroleum and many capital goods, and to keep up with technological advances. At the same time, international markets remain unstable, speculative and subject to unfair trade practices. By extension, we must find ways to ensure more robust domestic markets, providing greater stability, while increasing the value added of exports.

[10] Sometimes called "non-tradable" sectors.

[11] Estimates of potential employment growth by sector kindly supplied by Dr Miriam Altman of Wits P&DM.

Given low incomes for the majority, expanding domestic markets requires greater emphasis on providing basic goods and services. Redirection of investment to these ends should gradually lower the cost for most South Africans of food, infrastructure, transport, pharmaceuticals, and domestic goods and appliances. If combined with measures to fight poverty, including an increase in the social wage, this strategy will over time expand the domestic market. It should also cut the cost of living, leading to a more efficient economy overall.[12]

A critical element in this strategy is to rethink the provision of household infrastructure to expand demand for domestic inputs while maximising the overall employment effect. Infrastructure must increase opportunities for home-based production by improving the supply of electricity, basic telephony and water. Moreover, housing must be located close to jobs, rather than – as is now often the case – far from the industrial centres.

It is also essential to secure a sustainable expansion of trade with the region. For many industries, especially manufacturing as well as some services and infrastructure, the rest of Africa already forms a critical market. But it is plagued by political and economic instability, and has a significant trade deficit with South Africa. We need to find ways to increase two-way trade and support sustained growth in the region. In the short run, that means supporting imports from neighbouring countries in ways that increase total employment in the region.[13] Food and electricity have potential in this context. In the longer term, we need to develop more integrated production structures that support southern African development. That requires improving regional infrastructure, including communications and transport links.

Last, trade with the rest of the world cannot be neglected. Gradually, exports should include more relatively labour-intensive products using local raw materials – essentially agricultural and fabricated metal goods, services and cultural products. The industries upstream from mining – capital goods and chemicals, in particular – can provide another basis for increased exports. Tourism should also form a growing source of foreign income.

To take advantage of domestic and export markets requires a strategy for redirecting and strengthening retail trade. This is a particular problem in townships and rural areas, where informal marketing is associated with a high mark up, raising the cost of living and cutting domestic markets. Retail also forms an essential link between micro producers, including farmers and cultural workers, and consumers at home and abroad. A policy in this area should cover

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[12] An example of the importance of targeting basic needs emerges in agriculture, where a strong link to ensuring food security for all households leads to very different measures from an approach that only focuses on already recognised demand. Similarly, in auto production, it would suggest a need for measures to support the production and financing of taxis.

[13] Some proposals to increase trade within the region, for instance by relaxing the rules of origin on wheat, could actually displace more jobs in South Africa than they create in neighbouring countries.

measures to reduce the cost of basic necessities to households, support small and micro enterprise, and market manufactures and services abroad.

c. Regional development

Overcoming the apartheid past is particularly urgent in respect to the former homeland areas. These regions are characterised by weak social and economic infrastructure and services and dependence on survival and micro enterprise.

Generally, we need to integrate sectoral strategies and regional development programmes, including Spatial Development Initiatives (SDIs), local government Integrated Development Plans and the integrated rural development strategy.

More explicit policies must manage rapid rural-urban migration, as well as ways to accelerate rural development. We need to assess the effectiveness of the integrated rural development strategy in addressing this problem. Effective measures must include much more rapid extension of basic infrastructure (which has cost implications), a clearer programme on land reform and agricultural development, and much more attention to the provision of education and skills.

d. Class

To achieve dynamic growth linked to more equality in incomes and wealth, the new growth path must transform both capital and labour. That means

1. Making existing large-scale capital in the private and public sector more accountable;
2. Developing a co-op movement;
3. Supporting the growth of small and micro enterprise;
4. Restructuring financial investment; and
5. Building a skilled labour force with far higher levels of employment.

Most of **big capital**, in both the public and private sector, has not transformed its operations to ensure that the economy empowers the majority. The main components here are the financial institutions, mining companies and state-owned enterprise. Thus, of the top 15 companies in South Africa in 2000, 12 are financial institutions, two – Anglo American and De Beers – are mining companies, and one, Transnet, is a parastatal.

All three components of big capital are undergoing massive changes.

The financial institutions and mining companies are engaged in a complex process of mergers, restructuring and internationalisation. This has led to a substantial outflow of capital both on the capital and on the income account, as the following table shows.

Table 6. Investment and income flows into and out of South Africa, 1990-2001

	1990	1995	2000	2001
Investment abroad by South African companies	1,234	12,589	28,453	83,497
Investment from abroad into South Africa	2,625	32,370	28,779	99,355
net investment flows	**1,391**	**19,781**	**326**	**15,858**
Investment income received from abroad	1,420	3,827	15,191	17,813
Investment income paid abroad	9,858	12,496	35,212	48,913
• direct investment income	2,486	1,939	16,200	24,406
• non-direct investment income	7,372	10,557	19,012	24,507
net income flows	**-8,438**	**-8,669**	**-20,021**	**-31,100**

Note: 1. The figures for investment in 2001 are heavily distorted by the restructuring of Anglo American, which resulted in its listing in London and a change in the nature of its shareholdings in De Beers. *Source:* calculated from SARB, Long-term data on balance of payments (www.resbank.co.za).

State capital, which was largely corporatised in the '80s, is being subject to measures that, as noted above, have tended to make it increasingly subject to market dictates. As a result, it has both downsized substantially – especially at provincial and local level – and become less able to undertake developmental efforts.[14]

For big capital in both the public and private sectors, we need to ensure that restructuring contributes to overall development, empower the majority and support the democratisation of the society as a whole. As a rule, the large size of the enterprises concerned reflects economies of scale for production and investment in their sectors relative to the economy. Often, we must use their capacity to restructure the economy. That means solutions must look to regulation and changes in accountability structures, not to downsizing or divisions in either the private or public sector.

In this context, the restructuring of state-owned enterprise must do more to ensure affordable household infrastructure and to support for labour-intensive activities and small and micro enterprise. That will require a reversal of the current programme of commercialisation and at least partial privatisation.

A **co-op movement** provides a further way to develop new centres of capital. Such a movement involves an array of interdependent co-operatives and service organisations in establishing a new, dynamic sector. To set up such a movement, we need a consistent framework to support producer and consumer co-ops, including more appropriate legislation, definition of their role in sectoral strategies, and priority access to programmes to support small enterprise. In addition, unions can establish consumer co-ops, reducing the cost of living to members and providing an outlet for domestic producers.

In an economy dominated by capital-intensive sectors, it is virtually impossible to imagine substantial growth in **small and micro enterprise**. Opening the door to

[14] For a more detailed description of the changes in state capital, see COSATU 2002.

smaller scale production requires accelerated development of the more labour-intensive sectors of the economy, particularly in manufacturing, services and agriculture. Sectoral changes must be accompanied by measures to encourage smaller producers of goods and services. This process must be linked to rising employment and growth, or we risk merely replacing better-paid formal jobs.

We also need stronger strategies to upgrade survivalist and informal enterprise. In this context, the development of the co-op movement should provide the basis for greater economies of scale. Additional steps include:

- The expansion of household infrastructure, especially water, electricity and telecommunications.
- Transformation of the retail sector, both to market the outputs of SMMEs and to supply them with necessary inputs. The common practice of oligopolistic pricing by the minerals and petrochemicals refineries (that is, import-parity pricing or IPP) needs to be addressed.
- Transformation of the financial sector to ensure credit becomes available to smaller borrowers, including home-owners, micro enterprise and co-ops, and to support land reform and improvements in infrastructure. That requires a review of ownership and operations in the banking sector.

Land reform is often presented as the critical way to create jobs and expand the asset base of the poor. The current process, however, is far too slow to dent unemployment; and it is not clear that the unemployed are interested in farming. We need urgently to clarify what we expect from land reform.

The establishment of a high-productivity, high-wage **labour force** is also necessary to ensure growth benefits the majority of our people. This is only possible if the economy is restructured to expand employment on a mass scale. It also requires accelerated implementation of the skills development strategy.

2.4 Strategies to restructure the economy

Perhaps the most important obstacle facing the shift to the new growth path remains resistance from capital. To overcome that resistance requires a combination of popular pressure and government intervention with efforts to demonstrate that a more equitable and job-creating growth path is in the long-term interests of all South Africans.

This approach requires an institutional arrangement to promote the development of a shared vision amongst major shareholders, with agreements on how to achieve it. It means that all stakeholders, and especially big business, must face pressure to adopt long-term strategies to maximise overall social gain as opposed to short term measures for individual benefit.[15]

[15] In effect, to some extent all participants must accept “second-best” solutions from their standpoint in order to maximise overall social gains.

A central focus of engagement must be at the sectoral level. International experience has shown that virtually all successful industrial strategies internationally have largely derived from consultative structures at sectoral level.[16]

The agreement reached at the Presidential Jobs Summit in 1998 committed parties to engage in sector summits. This commitment has been reaffirmed in NEDLAC. To date, sector summits have been held for mining, clothing and textiles, the public service, information and communications and the financial sector. While none of the agreements has been perfect, in each case an institutional structure was initiated that can lead to stronger sectoral strategies in the future.

3 Conclusions

The main sources of un- and underemployment in South Africa lie in the structure of the economy and the society inherited from apartheid. In itself, increasing skill levels – while clearly desirable and important in the along run – will not be adequate to address rising unemployment. Rather, we need strong and co-ordinated measures to restructure the economy in ways that will support employment creation. Effective interventions must be geared consistently and systematically toward the new growth path. Far-reaching restructuring of the economy cannot be achieved if we frequently change direction because of lobbying or hopes for short-term gains.

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[16] See Campos and Root 1996.

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