

Ten Million and Rising

What it would take to address South Africa's
jobs bloodbath



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The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

Series Editor: Ann Bernstein

This report is based on considerable research over the past five years, Roundtable discussions with South Africa's leading experts on growth and jobs, and a number of publications on these issues which are available on CDE's website, www.cde.org.za.

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Introduction

South Africa has the deepest crisis of unemployment in the world. There is no other country where as large a proportion of the population has been without work for as long. Given its depth, along with its vast social and political consequences, joblessness is a crisis to which every politician and policy document refers. It is a crisis that has been the subject of presidential summits, government initiatives, and projects run by the private sector and NGOs. Despite all of this, unemployment in the country, apart from a brief period in the 2000s, has only increased.

If the country is to turn this around, we need, first, to grasp how deep the crisis is; second, to understand what accounts for it; and, third, a set of proposals that could help address it. All three of these are provided in this report, which, having documented the scale of the crisis, argues that it is the result of two forces – 40 years of slow economic growth and a range of factors (including policy choices) that have produced an economy that needs less and less unskilled labour – the one resource with which the country is amply endowed. Given the depth of the crisis and the potency of the forces that have created and deepened it, there is little prospect of its being resolved quickly. There is, however, considerable scope for reforms that would improve the performance of the economy and, critically, deepen the inclusiveness of growth by increasing employment.

Why employment matters

Employment is the most important driver of development, human and national. No human society has found a way of providing its members with decent standards of living except by having them engage in productive activities. Employment in these activities simultaneously makes possible the production of valuable goods and services and allows people to participate in the consumption of them.

In every society there are people who are not in paid work. Most of this population is made up of those who are too young or too old to work, but it also includes people engaged in non-market activities such as home-making. Collectively, this population is large and its needs are provided for largely by employed members of their families.

While societies can accommodate this form of unemployment, matters become more challenging as this population expands (e.g. the ageing population of Europe) and when a large fraction of able-bodied, working-age adults is unable to find productive employment, when providing support to the unemployed at any meaningful level rapidly imposes unsustainable costs on families, communities and society as a whole. Nor are the costs solely pecuniary: unemployment is highly correlated with a wide range of social ills from addiction and violence, to depression and suicide, to say nothing of political instability and disruption. Conversely, employment, by creating stability, structure and order in employed people's lives, allows for much higher levels of inclusion, participation and a greater stake in society and the main currents of family, social and political life.

“South Africa has the deepest and most persistent crisis of unemployment in the world: only 42 per cent of adults work”

This is the first and most important reason why employment is so important for development and prosperity: high levels of unemployment mean low levels of prosperity both because too little is produced and because providing support to unemployed members of society and households makes everyone else poorer.

A critical second reason why employment is so important is less obvious and is, all too often, neglected. Employment is also a form of education and training, providing the employed person with new knowledge, skills, disciplines and capabilities that cannot usually be provided for in schooling and through chalk-and-talk post-school education. These attributes are the foundation needed to acquire further skills, discipline and knowhow. In short, employment increases employability. Conversely, high levels of unemployment, and long spells of unemployment, reduce employability and make unemployment something of a self-perpetuating cycle. Tragically, this is one of the reasons why South Africa's unemployment crisis is as deep and persistent as it is. It is also a critical reason why addressing unemployment needs to be tackled with much more urgency than it has been.

“Employment is the most important driver of development, human and national. Jobs are a platform for training and acquisition of knowhow, so employment increases employability”

How bad is it?

South Africa has the deepest and most persistent crisis of unemployment in the world: only 42 per cent of adults work, a figure that compares poorly against norms of around 60 per cent in the rest of the world and higher in some parts of the developing world. Of the adults who are economically active, 38.5 per cent are unemployed, a figure that is among the highest in the world.

Not only is the proportion of adults who work low, it has been falling for more than a decade: in 2008, some 46 per cent of adults were employed compared to 42 per cent today. Since 2008, the number of working age adults has increased by almost 7 million, but the number of people who have jobs has increased by fewer than 2 million. The total number of people who want work but who cannot find it or who have given up looking rose from 6.5 million to 10.3 million between 2008 and 2019. That means that over that period South Africa's working age population increased by nearly 1 700 people per day, but fewer than 500 found work.

The numbers for young people (aged 15 to 34) are even worse. Between 2008 and 2019, the population of young people increased by 2.2 million, but the number of young people who were employed actually fell by 500 000. Thus, while the population of young people increased by about 560 per day, the number of young people in work fell by more than 100 per day. One of the under-appreciated features of South Africa's unemployment crisis is that a key driver of the crisis is the absence of large-scale agricultural employment. Our history of land dispossession combined with geo-physical constraints on small-scale agriculture mean that a much smaller proportion of people earn incomes from the land in South Africa than is the norm elsewhere in the developing world, where access to productive land is generally a major contributor to overall employment rates. In fact, our non-agricultural employment rates are actually quite similar to those found in middle-income countries.

Partly because of the absence of agricultural employment, and partly because apartheid trapped large proportions of the population in poverty-ridden Bantustans with few economic prospects, unemployment rates are significantly higher in rural areas than they are in urban areas. This is the case, even though the urban population is expanding more quickly than the number of people in rural areas. Between 2015 and 2019, employment in South Africa's metros rose by 9 per cent while populations increased by 8 per cent. Outside the metros, on the other hand, the adult population increased by 7 per cent but employment increased by only 3 per cent.

“Unemployment rates are significantly higher in rural areas than they are in urban areas”

Apart from differentials in employment (and wages) between urban and rural areas, there are other big differentiators in determining employment prospects in the country. Unemployment levels vary, for example, by race and gender. They also vary strongly by education: unemployment rates are much higher for people who have not completed school than for those who have obtained matric passes; while unemployment among those with tertiary qualifications is lower still. Between 2008 and 2019, the number of people who had passed matric and who had jobs increased by 2.4 million, while the number of people who had jobs but who had not passed matric declined by nearly 500 000.

One of the more insidious and damaging consequences of a multi-generational crisis of joblessness is that it becomes self-reinforcing. Insiders use their insider-status and power to ensure that the benefits of economic growth are captured by them through higher wages rather than by expanded employment, and the long-term unemployed become increasingly ill-suited to the needs of the economy: their skills deteriorate, their training becomes less and less relevant, and their soft skills and workplace readiness deteriorate. Jobs are platforms for training and the acquisition of knowhow, the absence of which makes people even less employable than they might otherwise be, an effect that is deepened when people live in households in which no-one works. The result is that employment tends to be concentrated in households in which previous generations were employed.

Unemployment is high because economic growth is low

Mass unemployment first emerged in the late 1970s, and has deepened ever since because – apart from a brief period in the 2000s – economic growth has been too slow to absorb new entrants into the labour market. The causes of slow economic growth are largely political, though the nature of the political constraint has changed. Between 1970 and 1994, the core political constraint was apartheid and the attendant instability and international sanctions; since 2008, the issues have been about the collapse in governance and outright looting that took place during President Zuma's tenure, and the deep hole into which we have fallen, which has rendered our recovery from the 2008 global recession non-existent.

Apart from political constraints, two other factors explain South Africa's disappointing growth performance over the past half-century. The first is the failure to produce a skilled workforce as a result, initially, of apartheid's determination to deprive black children of decent education, and later, of the post-apartheid state's inability to deliver quality education. Allied to this, apartheid-era workplace practices meant that

the transmission of managerial and entrepreneurial experience and knowhow was largely confined to white workers, resulting in significant scarcities of these, a deficiency that was deepened by apartheid's restrictions on black entrepreneurship.

The third major cause of the disappointing growth that has persisted for two generations can be found in the adverse spatial effects of our history. Spatial apartheid has resulted in a large proportion of the population living in the poverty traps of the former Bantustans or in towns and townships, many of which, because the skills pool is too narrow and too shallow, are barely more economically viable than the former Bantustans themselves. In addition, the spatial structure of the urban economy is much less dense than comparable cities, making our cities considerably less efficient, and their residents far less productive than could be the case.

More recent policy choices have deepened the challenge

The growth-retarding effect of these deep, structural features of the economy has been reinforced by a long list of poor policy choices that have reduced business's desire to invest, primarily by increasing the risks and costs, and reducing the expected returns, of doing so. Many of the policies that have had this effect seek to achieve desirable policy goals. Too often, however, they have been advocated and implemented without an honest discussion of the implications for investment and growth. Worse still, far too many policies – well-motivated or not – are implemented so badly that they impose further costs on the economy; frequently, they fail

even to achieve their stated goals. South Africa's state-owned companies are the clearest examples of this: whether one accepts the dubious contention that these entities are necessary for economic development, their management has generally been so horrendous that their contribution to growth is undoubtedly negative. Eskom, the most egregious example of this, now produces less electricity than it did in 2008 at considerably greater cost.

Another reason for long-running growth disappointments is the degree of concentration in a range of economic sectors, many of which are dominated by a small number of firms. To the extent that concentration reflects barriers to entry, this means that competitive pressures are weakened, reducing innovation and advances in productivity.

Critical to any discussion of this issue, however, is an understanding of the origins of the barriers to entry that reduce competitive pressures. While these may originate in the abusive anti-competitive actions of dominant firms, there is every reason to suspect that the root cause in most cases is regulatory in nature. Many of the most concentrated sectors, for example, are dominated by firms that are either currently state-owned (electricity, public transport) or were state-owned when they were established and still enjoy the accumulated benefits of the protection then on offer (chemicals, steel). More generally, the high costs and administrative complexity of regulatory compliance mean that firms that are large enough to employ specialists (lawyers, accountants, HR practitioners, compliance officers, relationship managers) are better able to navigate regulatory minefields than are smaller firms. Add to this the extent to which government suspicion of, and hostility towards, business shapes the current policy framework and is understood by business to mean that future policy changes will make doing business even more costly and difficult, and it is little surprise that investment has flat-lined.

“A long list of poor policy choices have reduced business's desire to invest, by increasing risks and costs, and reducing the expected returns”

Serious as all these issues are, perhaps the most significant brake on faster growth at the moment are the hard constraints facing the economy, in particular the lack of sufficient electricity generation capacity and the scarcity of skills and knowhow (including managerial and entrepreneurial knowhow). These constraints make it much harder to envisage a sustained acceleration in growth.

Making employment unaffordable

If slow growth is the key reason that we have failed to create adequate employment for everyone who has entered the labour market since the late-1970s, the other critical factor is that the number of jobs created for each unit of GDP has fallen. This is partly because technological advances have meant that industries like agriculture and mining that used to employ large numbers of unskilled workers, now employ far fewer. But the impact of these changes has been accentuated by policy choices that have served to raise the cost of labour – especially of unskilled labour. These costs have risen in absolute terms, as well as in relation to productivity and to more capital- and skill-intensive production techniques.

Apart from the higher costs of employment attendant on the scarcity of skilled labour, three forces have pushed up the cost of employment in South Africa:

- Industrial policy has favoured skill- and capital-intensive sectors and, within sectors, has incentivised firms to embrace more capital- and skill-intensive production techniques;
- Wage-setting machinery that has the effect of pushing up wages at the bottom of the skill distribution even in the presence of vast unemployment, and
- A variety of non-wage costs of employment and compliance with employment law.

“Policy choices have served to raise the cost of labour – especially unskilled labour”

There is a large literature demonstrating that South Africa's industrial policy has historically favoured highly capital intensive sectors and firms, partly through direct subsidies and partly through indirect subsidies (e.g. the long period of under-priced electricity). Apart from the employment tax incentive (which encourages employers to take on young, unskilled workers), the current policy mix continues to favour the upgrading of firms' technology across the board, while the bulk of support is directed at the automotive manufacturing sector which employs 100 000 people, considerably less than 1 per cent of all employed people in South Africa.

The key commonality between South Africa's wage-setting machinery and the non-wage costs of employment is that they represent a deliberate choice to raise wages and to improve the conditions of employment of those who have (formal sector) jobs. The result is that employers create only jobs that generate a higher level of output, so fewer jobs are created in aggregate. The critical policy question, therefore, is whether the benefits of improved job security and higher wages for formal sector workers in compliant firms outweighs the cost of higher levels of unemployment.

Legislative constraints on dismissing workers have increased job security for those who are employed, but they have also increased the costs and complexity of the relationship between employers and employees. Even where concessions exist, such as the somewhat wider latitude employers have to dismiss unsuitable workers

during their probationary periods, the rules are more onerous than they need to be, and are constructed on the presumption that employers will act in bad faith. This has increased employers' reluctance to employ people, an effect that impacts disproportionately on low-skill, low-wage work-seekers, where the non-wage costs of employment are higher relative to the value that employees of different skill levels might be expected to generate.

Important as non-wage costs are, it is the high level of wages paid to unskilled workers, and the pace at which these have risen, that is the key factor in reducing the employment-intensity of economic activity in South Africa. This rise is not driven by the tightness of the labour market (which would imply very low levels of unemployment) or by rising productivity (which would presuppose very high levels of investment or rapidly improving infrastructure and/or education), but by deliberate policy interventions. These include

- The recent implementation of a national minimum wage
- Ministerial directives that impose minimum wages in sectors in which workers are deemed to be vulnerable
- The development of wage-setting institutions, a core feature of which is the strengthening of organised workers' bargaining position coupled with the statutory authority to extend agreements to non-parties in sectors in which representative bargaining councils are deemed to exist.

Two arguments are used to justify these interventions: that rising wages can accelerate growth and that rising wages reduce poverty and inequality.

The implausibility of wage-led growth

The first argument for pushing wages up through deliberate policy interventions is that raising wages is growth-enhancing because it shifts demand towards lower-income households who save less of their income and whose consumption is skewed to local goods and services. Together this increases aggregate demand and facilitates growth.

This argument is deeply flawed. One reason for saying so is that it could be true if and only if higher local wages did not translate into higher prices across the economy, which reduce the purchasing power of employees' wages, offsetting at least some of the gains they make through higher wages, while making unemployed people poorer. Nor is it clear that poor people devote a larger share of their budgets to local goods and services, especially since imported food (chickens), transport costs (petrol) and communications (cell phones) account for a significant fraction of their spending. Higher prices would also mean that local goods are less competitive on global markets, reducing exports, which would have another offsetting effect on growth.

“It is the high level of wages paid to unskilled workers, and the pace at which these have risen, that has reduced the employment-intensity of economic activity”

Apart from this, the logic of the model implied by proponents of wage-led growth is that growth is accelerated by shifting purchasing power from those who might not spend it (the rich) to those who would (the poor). The problem with this is that an increase in the overall rate of consumption means, by definition, that the savings rate must fall. South Africa already runs a current account deficit (which means we purchase more goods and services than we produce), so any increase in consumption/decrease in savings must, as a matter of mathematical certainty, be accompanied by either a reduction in investment (because of the decline in savings) or an increase in foreign borrowing, which, in turn, implies higher levels of imports. Thus any move to increase

consumption rates that is not accompanied by a decrease in investment (which is obviously undesirable) will imply an increase in imports rather than an increase in local production. Higher wages, in other words, cannot on their own accelerate economic growth.

Do higher wages reduce poverty and inequality?

A more plausible, though not unproblematic, justification for a policy approach that seeks to push up workers' wages is that this reduces poverty and inequality. Here, the core claim is that households are poor because too few people work and many of those who do work earn incomes that are too low to lift the household out of poverty. Raising wages would, therefore, reduce poverty by raising household income.

This would all be true if and only if the positive effect on poverty and inequality of higher wages is not offset by any negative effects. If higher wages lead to slower job creation – or, worse, to job destruction – then there is no guarantee that they will translate to lower levels of poverty and inequality even if they do reduce poverty in the households in which wage-earners enjoy higher incomes. Indeed, higher wages paid to those who are employed could actually increase both poverty and inequality if jobs are lost or job creation stalls.

“Higher wages paid to those who are employed could actually increase both poverty and inequality if jobs are lost”

Higher wages' effect on poverty and inequality is, therefore, ambiguous, making recipients better off and reducing the gap between their wages and those of people who earn more than them, but potentially leaving more people unemployed. Indeed, there is compelling evidence that the national minimum wage will have adverse employment effects in some labour-intensive industries. The converse, it must be said, is also true: lower wages might also increase or decrease poverty, depending on how they affect job creation.

If it is true that both higher wages and lower wages have potentially unintended and negative effects on poverty and inequality overall, it is reasonable to ask why policy-makers should favour one approach over the other. And whether it is justifiable to expect workers to accept lower wages if there is no way to be sure that this would not reduce the overall level of poverty.

In this context, it is worth affirming a strong preference for an approach to development that supports the fastest possible expansion of employment for unskilled workers, even if that is at low wages if only because employment is good for human and social development.

High levels of unemployment impose pecuniary and non-pecuniary costs on others and on the communities in which the unemployed live. Employment helps make possible the accumulation of capabilities, skills and dignity that cannot be acquired through other means. These two facts mean that the maximum possible growth of employment is good for society even if it cannot be shown definitively that doing so will reduce aggregate levels of poverty in the short term.

Importantly, it is possible to design policy reforms that would largely protect the incomes of existing formal workers while introducing reforms that make possible the expansion of employment at wages that are lower than those currently mandated through collective bargaining.

What should be done?

The absence of growth is the principal reason for failure of the South African labour market to generate the jobs needed for the population. However, policies that raise the cost of unskilled labour both in absolute terms and relative to the cost of skilled labour/capital make it even harder to create the jobs we need for the millions of people who do not have qualifications or workplace-derived skills and knowhow.

Arguments that policies that drive up wages will spark growth and development by shifting demand from rich households (who tend to save a larger proportion of their incomes) to poor households are implausible. On the other hand, it is possible that these policies do reduce poverty and inequality, but this is true if, and only if, the increase in benefits enjoyed by those who have jobs and whose wages are higher than they might otherwise have been, exceed the costs paid by those who are unable to find work as a result of the higher wages. The fact that there are sectors in which we have evidence that higher wages lead to lower levels of employment should give pause to those who advocate unconditionally for higher wages.

The critical question, however, is whether a package of reforms can be designed that both maximise employment growth and minimise any negative effects on the wages of existing employees? This section seeks to answer this question. But, realism is needed: given the depth of the crisis, there is no plausible strategy for dramatically reducing unemployment in the short term, and any claims to the contrary should be treated with scepticism.

It is in this context that we should recall that the critical differentiator between South Africa and other developing countries is the marked absence of agricultural jobs, and that, if one looked only at non-agricultural activities, employment rates in South Africa are similar to those that prevail in middle income countries. Framed as starkly as possible, this means that if South Africa is ever to see 60 per cent of adults in employment, either employment in agriculture will have to grow enormously (reversing a decades' long downward trend) or we will have to create unusually large numbers of non-agricultural jobs. Neither task appears especially propitious.

While there are many advocates for extensive land reform, there is little evidence that there are millions of people both willing and able to farm, and certainly not that number willing and able to generate meaningful income in this way. South Africa is not an easy country in which to create vastly expanded opportunities for small scale, resource poor farmers, while commercial farming is becoming increasingly capital-intensive everywhere. Nor is it easy to imagine our overcoming all of the many obstacles confronting the fast growth of tradeable goods and services industries (the lack of skills and knowhow, our many infrastructural challenges, etc.) except in the medium to long term. Given this, it is vital to think incrementally and to define success carefully. We need also to seek solutions that do not rely unduly on reducing the incomes of those formal workers whose current incomes mean that they and their families are vulnerable to slipping back into poverty. We cannot protect every person from every change that a dynamic economy will experience (because doing so would make it impossible to achieve the requisite level of dynamism), but a strategy that reduces the incomes of large numbers of people is both politically infeasible and economically undesirable.

“There are sectors in which we have evidence that higher wages lead to lower levels of employment which should give pause to those who advocate unconditionally for higher wages”

CDE Recommendations

We are proposing a set of reforms that are an appropriate and realistic response to the scale and depth of SA's ever-deepening crisis of unemployment. If they were all to be adopted and implemented the country could start to turn the dial on this most pressing and important national challenge.

Prioritise faster growth

The main reason why we have so much unemployment is the disappointing growth performance of the economy over the past two generations so accelerating growth must be at the core of any programme to increase employment. This requires:

- A different attitude to business and the role of competitive markets from government. The degree to which policy makers have expressed scepticism to the point of hostility about the motives, commitment and patriotism of business has shaped policies that raise the costs of doing business and lead investors to expect more of the same.
- Action along a broad spectrum of policy priorities beginning with the hard constraints on growth (the scarcity of skills and the inadequacies of South Africa's power supply) and the unsustainable trajectory of our public finances, which create risks that are slowing investment.
- Action to rollback policies that threaten property rights, weaken key institutions in our capital markets, and impose unnecessarily onerous conditions on business while resolving policy uncertainty in favour of growth-friendly alternatives.
- Fixing the failing SOCs that are necessary for economic activity, especially Eskom and Prasa, while restructuring and selling the bulk of the rest of them.
- A great deal of work is needed to rebuild the state, key institutions, the quality of governance and the efficiency of services.

“Accelerating growth must be at the core of any programme to increase employment”

Skills and skilled migration

South Africa's skills constraint must be addressed through the steady improvement of the quality of basic and post-school education and training. This will be accelerated if we deal with the main sources of inefficiency and ineffectiveness in the use of the resources allocated to education, and if government and business can develop an effective partnership to strengthen post school training.

However effective the vital process of fast tracking change in the education and training system, in the short and medium terms, the only way to address the skills constraint is to encourage much higher levels of skilled migration to the country. This is something about which there is apparent agreement, but action is exceptionally slow and has often been distracted by attempts to define (as narrowly as possible) the "critical skills" we need, rather than recognising that any and all skilled migrants would be much needed and welcome additions to the workforce.

The critical role of urbanisation

One of the most challenging legacies of apartheid is the adverse spatial distribution of people and economic opportunity. Far too many people live in rural areas in which there is little prospect of meaningful economic development, while many more live in denser settlements that are deemed urban, but which lack the diversity of skills and economic activities that are essential for producing the kinds of productivity accelerations that

cities might otherwise make possible. Unless official attitudes to urbanisation change, and unless that change in attitude is supported by changes in policy that support urban densification, improved public transport and better urban management in expanding cities, South Africa will miss out on the faster and more inclusive growth that is possible as populations urbanise.

Better urban policies are desirable because they will boost growth. They are also desirable because, by making cities more attractive, they will draw in more people who currently live in places in which there is no plausible path to prosperity. This is critical to jobs and unemployment precisely because the low levels of employment in rural South Africa, and the absence of substantial agricultural employment, are among the most important features of our labour market.

Heightening competitive pressures in the economy and cutting red tape

Increasing competition in the economy would also raise long-term growth. To date, the approach to achieving this has been focussed on seeking out abusive practices by dominant firms, though seldom has this been targeted at state-owned companies, many of which exhibit all the worst features of monopolistic firms. To this, we must add the importance of a dedicated focus on removing the regulatory hurdles, the compliance costs of which prevent newer, younger firms from competing with incumbents. The most urgently needed reforms include:

- Improving the pace and predictability of tax administration, registering property, obtaining municipal clearance certificates, zoning approvals and construction permits, and securing connections to power and water networks;
- Reducing complex and onerous labour laws and regulations (see below); and
- Rethinking legislation relating to economic transformation.

Many of the other issues about which businesses complain relate to the functions of local government, where governance and administrative deficiencies are widespread, and where the infrastructure for which they are responsible increasingly seems to be on the point of collapse. This, too, needs to be a higher priority.

Essential labour market reforms

South Africa's labour unions wield de facto veto power over large swathes of public policy, especially in relation to the labour market. Confronting this power is essential if South Africa is to create a labour market regime that is conducive to growth that absorbs larger numbers of unskilled workers. Achieving this does not require root-and-branch reforms, but it does require the creation of a range of exemptions for small firms and newly formed firms, such as:

- A legal exemption from agreements reached at collective bargaining councils for small and/or newly formed firms that are not party to the agreement
- Provisions inserted into an amended Labour Relations Act (LRA) to ensure greater representation by small and medium-sized firms' employers at bargaining councils, together with provisions ensuring that bargaining council procedures are more sympathetic to the needs of those businesses.

“Government needs a different attitude to business, the role of competitive markets and the size of the state”

Changes should also be made to provisions of the LRA governing the dismissal of workers, especially during probationary periods, in order to de-risk the employment decision. In addition, the imposition of a penalty on the bringing of frivolous cases to the CCMA might discourage some abuses of the process by dismissed workers. Restrictions on the use of temporary employment services firms (labour brokers) should also be rethought.

Giving smaller, newer firms some exemptions from some of the strictures of the laws governing the labour market would help lower the current cost and expected future cost of labour. The absolute value of this reduction is important, but so too is the lowering of the cost of unskilled labour in comparison to the costs both of skilled labour and of capital equipment. This trend could be strengthened by shifting the balance of industrial policy from supporting capital-intensive firms and investment in plant and equipment to supporting employment, especially of unskilled workers. This could be achieved by expanding and extending the employment tax incentive to a wider range of workers and for a longer period (as opposed to 'merely' extending the life of the existing legislation, as recently occurred).

“The current approach to jobs is not working. The goal must be to get as many people as possible into formal jobs, where they can acquire work experience, useful knowhow and a regular income”

In addition, it is critical that the annual review of the national minimum wage (NMW), required by law, engage seriously with its disemployment effects in labour-intensive industries. Care must also be taken to ensure that the system for evaluating requests for exemption from the NMW is accessible and affordable for smaller firms, that the period of exemption is not unduly short, and that any upward revisions to the level of the NMW are made with exceptional care, and are not simply indexed to inflation or, worse, set at a level that is above inflation.

An EPZ for Nelson Mandela Bay

One way to test the potential impact of the changes proposed above would be to establish an export processing zone (EPZ) at Coega in Nelson Mandela Bay. This would be aimed at attracting

labour-intensive, low-wage manufacturing firms, the output of which would be for sale exclusively to export markets. The firms would receive exemptions to key aspects of South Africa's labour laws, especially in relation to the outcomes of collective bargaining, but would be entitled to no incentives other than the ETI. Given the limited experience of South African entrepreneurs in global value chains of this kind, concessions would also have to be made to immigration rules so that foreigners might invest in and manage these firms and so that firms could attract the managers they might need.

Jobs and informality

The goal must be to get as many people as possible into formal jobs, where they can acquire work experience, useful knowhow and a regular income. That is the best route to an inclusive society. To achieve it, we need urgently to remove the barriers that prevent our society from generating more work opportunities. Informal jobs do not provide the same stability and paths out of poverty, and they are nowhere near as desirable as formal jobs. We cannot afford to destroy the opportunities that the informal sector currently creates, however. Instead, we need to make it much easier and more lucrative for informal businesses to transition into the formal economy, where they will be able to benefit from the protection of the law and find it much easier to thrive and expand.

Public employment schemes

The depths of the crisis of unemployment means that the country must also continue with public employment schemes such as the EPWP. However, the considerable resources devoted to these schemes should deliver more employment since it appears that some measure of exaggeration has crept into the accounting of the number of "work opportunities" created through them.

Concluding remarks

South Africa's unemployment crisis is the consequence of decades of inadequate growth coupled with some of the effects of globalisation, technological change and bad policy choices. There are limits to the pace at which this can be rolled back, so realism about how quickly the crisis can be resolved is needed.

At the same time, the scale of unemployment has been greatly magnified by policies that have increased the cost of labour, especially unskilled labour, both in absolute terms and in comparison with the costs of mechanising firms' operations. The result has been not just slow growth, but growth that has absorbed less and less unskilled labour. Determined action is essential if we are to have any chance of building a more inclusive economy.

Reforming labour markets is always politically difficult, but South Africa has no real choice. Even if growth were to accelerate, it is unlikely to generate enough jobs to absorb new entrants into the labour market (let alone the 10 million who currently want work) unless that growth can be made substantially more labour-intensive than it has been for at least two generations. The reforms suggested here are not politically easy, but they are also not so implausible as to make it unreasonable to think that they might be implemented by a government with the requisite political will.

Although a rapid resolution of the unemployment crisis is not possible, real progress is.

To achieve this, government has to grasp that politically difficult decisions will have to be taken. Were all the recommendations made here implemented, South Africa would stand a much greater chance of both faster economic and employment growth. How these reforms are implemented matters, of course, and the greater the level of consensus across our society and among "social partners", the better. It is, however, abundantly clear that significant portions of the ruling alliance, especially members of the trade unions and the Communist Party, are irreconcilably sceptical of making any of these changes. If government allows this scepticism to continue to veto all progress, then there is no prospect of South Africa's changing the dire trajectory along which we are currently going. Dealing with unemployment by avoiding these essential reforms and focussing attention on ad hoc projects or special initiatives is not the answer. These can never reach the scale required and they divert energy, focus and resources away from the key task: designing, implementing and successfully managing a policy reform process. Similarly, exhorting business not to retrench in the face of deepening economic difficulties is not sustainable. At best, such calls distract from the need for reform; at worst, they store up costs that will slow any future recovery should that ever occur.

"Labour market reform is required urgently. It must be calibrated to minimise impact on existing workers without making it even more difficult for firms to compete"

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