



Ten Million and Rising

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

Executive Summary



Employment matters

South Africa has the deepest and most persistent unemployment crisis in the world. After two decades of presidential summits, government initiatives, Nedlac consultations, and projects run by the private sector and NGOs, the crisis is deepening.

The time has long passed for a new approach. No magic wand is available to rapidly overcome this most pressing national challenge. However, with a package of realistic policies, progress can be made in stimulating growth and increasing employment. For this to happen, we have to grasp the depth and scale of the crisis, be honest about its causes, and implement the necessary reforms. CDE's report sets out to do these three things.

Only 42% of SA's adults work, a figure that compares poorly against an average of around 60% in the rest of the world. Of the potential workforce, 38.5% is unemployed, among the highest in the world. The challenge is greatly accentuated by the fact that, unlike most developing countries, SA does not have a large agricultural sector to absorb unskilled labour.

Unemployment matters because employment is the most important driver of development for individuals and nations. Jobs are a platform for training and acquisition of knowhow, so employment increases employability. Conversely, a multi-generational crisis of joblessness becomes self-perpetuating. The unemployed are not acquiring workplace experience, skills, networks needed to compete for available jobs. What skills they have erode over time and become less relevant.

Employment tends to be concentrated in households in which previous generations were employed. This is a key reason why addressing unemployment needs to be tackled with far more urgency.

The performance of the labour market is deteriorating and quickly. Since 2008, the number of working age adults has increased by almost 7 million, but the number of people with jobs has increased by less than 2 million. Between 2008 and 2019 the number of people who want work but cannot find it or have given up looking, rose from 6,5 to 10,3 million. Over

the past decade SA's working age population increased by nearly 1700 per day, but fewer than 500 found work. The situation for young people is even worse. Between 2008 and 2019, the population of young people increased by 2.2 million but the number employed actually fell by more than 500 000.

Why unemployment is so high

Unemployment is high because economic growth is low. This is largely because governance – policy choice, delivery, institutional effectiveness – has been so poor. Before 1994, apartheid was to blame, after 2008, state capture, increased antagonism towards business and widespread corruption precipitated a near-fatal collapse of governance.

Two other factors have been especially important: SA's multi-generational failure to produce an educated workforce and the spatial legacy of apartheid which has imprisoned many in poverty traps and retarded urban growth.

High levels of unemployment are not just a consequence of low growth. Policy choices have produced an economy that needs less and less unskilled labour, the one human resource SA has in abundance. 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 has pushed up wages even in the presence of vast unemployment, and non-wage employment costs have been pushed higher through increased regulation of employer-employee relationships.

Realism is needed in prescribing remedies for South Africa's poor growth and jobs performance. There is however considerable scope for reforms that would improve the performance of the economy and deepen inclusion by increasing employment.

Recommendations

SA has to prioritize accelerated growth if employment is to expand. This requires a range of reforms, many of them difficult and politically challenging. A succinct list of items to tackle would include securing more energy generating capacity, putting SA's finances on a sustainable footing,

tackling the skills crisis through fundamental reform of basic education and training, as well as encouraging as much skilled immigration we can attract. Policies that undermine property rights must be rethought and areas of policy uncertainty resolved in favour of growth friendly alternatives. Official attitudes to urbanisation must change to introduce new policies that support urban densification, improved public transport and better urban management in expanding cities. Without this, the country will miss out on the faster and more inclusive growth that is possible as populations urbanise.

Effective reform to achieve growth has to be underpinned by a new government attitude to business, the role of competitive markets and the size and professionalism of the state. These are difficult reforms to implement but tweaking around the edges or avoiding them will not result in faster growth. What growth we do achieve needs to be more inclusive by ensuring that it is more labour-intensive.

Growth alone will not make for a job-rich economy. To achieve that, we need to address some of the reasons why too few jobs for unskilled workers are created. Reform is needed urgently but must be calibrated to minimise impact on the rights and living standards of existing workers, without making it even more difficult for firms to adjust to competition and a changing economy.

CDE is proposing plausibly implementable reforms that would create space for new, more labour-intensive activities to emerge and grow. Some examples. Introduce legal exemptions for small and new firms from collective bargaining agreements to which they are not party. Rebalance collective bargaining structures to provide greater representation of small and new firm interests. Shift industrial policy from a bias towards investment in plant and equipment to one that is more supportive of employment growth, especially for unskilled workers.

Expand and extend the employment tax incentive to a wider range of workers and for a longer period. Modest reforms to hiring and firing – making it easier and less risky for firms to terminate new employees during their probationary periods – would help de-risk the employment decision. Test this new approach through the establishment of a globally competitive export processing zone at Coega in Nelson Mandela Bay aimed at attracting labour-intensive manufacturing firms producing for the export market.

The legislatively mandated annual review of the national minimum wage (NMW) must engage seriously with its potential disemployment effects in labour-intensive industries. The NMW exemption system needs to be accessible and affordable for smaller firms, the period of exemption not unduly short, and any upward revisions to the NMW must not simply be indexed to inflation or higher.

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, knowhow and a regular income. That is the best route to an inclusive society. We need to remove the barriers that prevent SA from generating more work opportunities.

Dealing with unemployment by avoiding essential reforms and focussing attention on ad hoc projects or special initiatives is not the answer. These cannot reach the scale required and divert energy, focus and resources away from the country's key task: designing, implementing and successfully managing a policy reform process.

Politically difficult decisions will have to be taken if the country is to stand a much greater chance of both faster economic and employment growth. SA requires leadership, political will and astute political management if the country is to become serious about the ever growing jobs crisis.

Ten Million and Rising: What it would take to address South Africa's jobs bloodbath

The following products are available on CDE's website (www.cde.org.za)

- CDE Report
- Executive Summary
- Background Report
- Infographic
- Key Facts