

ATI Research Note

The Unemployment Dilemma in South Africa

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Having a job or being your own boss (self-employed) is an important feature of life. Work is not only a means to earn a living but also affords human beings the opportunity to express their creativity and derive a sense of meaning. For most of us the world of work – be it formal or informal – forms an essential part of who we are and those unable to work must develop other avenues to express a part of themselves (although our work should not define or be the main determinant of who we are as human beings).

It is however no surprise that employment statistics and the creation of jobs feature high on the agendas of most governments, even though both private businesses and governments do not employ people for the sake of having them in employment but for the contributions such individuals can make to the enhancement of the objectives of the entity that employs them. From a socio-economic and political perspective, it is not only desirable but imperative to create a conducive environment where the majority of citizens of working age (15 to 64 years) are gainfully employed. High levels of unemployment or underemployment can lead to dissatisfactions, and to social and political instabilities.

The level of economic activity in a country broadly measured by the gross domestic product (GDP) is a rough indication, or at best a proxy, of economic progress and wellbeing. The shortcomings of GDP have been acknowledged and measures such as the Human Development Index (HDI) have been developed to supplement macroeconomic measures such as GDP in order to provide a better picture of human development.

Reasonably reliable macroeconomic statistics on the South African economy is available since 1946. For a high-level overview of the macroeconomic performance of the South African economy we can divide the period from 1946 to 2018 into three periods of roughly twenty-four years each: 1946 to 1970, 1970 to 1994 and 1994 to 2018. The latter period commenced with the first year of democracy (universal suffrage) in South Africa and can be divided into two subperiods; 1994 to 2008 and 2008 to 2018; 2008 was the year of the great world financial crisis, which in the case of South Africa is reflected in the recession in 2009. The period 2008/09 to 2017/08 is also referred to by some as the (nine) lost years for South Africa under the Presidency of Mr. Jacob Zuma.

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The South African economy grew on average by 4.9, 2 and 2.8 percent per year during the three periods 1946 to 1970, 1971 to 1994 and 1995 to 2018. The first period (1946 to 1970) was one of high economic growth and coincided with the post-war boom in which mining and manufacturing were the key drivers of the economy. All the other sectors of the economy also recorded strong growth. This was also the period during which the policies of Apartheid were entrenched and attempts were made to crush all forms of resistance to what the majority of the people of South Africa viewed as an oppressive regime. The second period (1971 to 1994) started off on a strong footing from a macroeconomic perspective but turned into a prolonged recession during the latter part, during the late 1980s and early 1990s. Of the three twenty-four-year periods this second period on average recorded the lowest annual growth rate of around 2 percent per annum. During the third period, the post-apartheid era, economic growth improved to an average of 2.8 percent per year. Although still significantly below the “golden years” of the economic boom between 1946 and 1970, this was deemed a respectable economic recovery from the doomed days of the latter years of the second period.

The third twenty-four-year period (the entire period under a fully democratic government) can for the purpose of this article be divided into two sub-periods and the differences in the macroeconomic figures during these two sub-periods are quite stark. Between 1994 and 2008 the economy grew by an average of 3.7 percent per year compared to the 1.5 percent per year between 2008 and 2018. The substantially lower growth rate during this latter period might be due to the challenges experienced with the recovery from the worldwide financial crisis but is also, some would say to a larger extent, due to the toxic political management and increased levels of corruption and policy uncertainty during this period.

Mining performed very well during the period 1946 to 1970 but has since then, on average, recorded negative annual real growth rates, barring a few exceptional years. Whilst Construction recorded on average zero growth during the period 1971 to 1994, it recovered strongly to an average of 4.2 percent per year between 1994 and 2018. Manufacturing grew by a paltry 0.2 percent annually during the sub-period 2008 to 2018, whilst the Utilities sector (Electricity, Gas and Water) contracted during this ten-year period by 2.4 percent, or 0.2 percent per year. The Financial sector and General Government sector recorded the highest annual average growth rate of 2.3 percent between 2008 and 2018.

There has been a positive relationship between changes in the level of economic activity as measured by GDP and employment levels. Higher levels of economic activity (economic growth) are associated with higher levels of employment and are therefore desirable and deemed a necessary, although not a sufficient condition for job creation. During the period 2008 to 2018, a one-percent increase in the level of employment was associated with an increase of less than 0.4 percent in annual economic growth. This estimate takes into account that changes in fixed capital stock (and technology) are major contributors to changes in output levels. During the same

period a one-percent increase in annual economic growth was associated with an average annual increase of around 0.75 percent in the level of employment.

Detailed employment data for the period 2008 to June 2019 are available as published by Statistics South Africa. During the quarter April to June 2019, 16 313 000 people were employed in South Africa. The formal sector (non-agricultural) employed 11 172 000 individuals (68.5 percent of all employed individuals), the informal sector (non-agricultural) employed 3 048 000 (18.7 percent), private households employed 1 251 000 (7.7 percent), and the agricultural sector employed 842 000 (5.2 percent) individuals. The Community and Social Services sector (of which General Government is the biggest component) and the Trade sector (Wholesale and Retail) accounted for most of those employed, 22.2 percent and 21 percent respectively. They are followed by the Financial and the Manufacturing sectors, employing respectively 15.3 and 11 percent of total employment. Men accounted for 56.3 percent of those employed and women for 43.7 percent.

During the eleven-year period from April-June 2008 to April-June 2019, South Africa's economy created 1 729 000 (11.9 percent) new jobs, on average only an additional 1 percent per year. Most of these were in the Community and Social Services (837 000) and the Financial (683 000) sectors. Employment in Manufacturing decreased by 310 000 (down by 14.7 percent) during these eleven years. In relative terms, the Utilities sector (Electricity, Gas and Water) created the most jobs (an additional 43 000 jobs, constituting an increase of 39.1 percent), whilst the sector's value added contracted by 2.4 percent. It should also be noted that the fixed capital stock of the Utilities sector increased by a massive 155.5 percent during the ten years from 2008 to 2018, or 9.6 percent annually. This points to a massive misallocation or an underutilisation of both labour and capital. Also between 2008 and 2018, the value added in Manufacturing increased by a modest 2.1 percent (0.2 percent per year) while fixed capital stock and employment in this sector decreased by 16.3 percent (that is, negative annual growth of 1.8 percent) and 15.8 percent (negative annual growth of 1.7 percent) respectively, implying some productivity improvements in both capital and labour in the Manufacturing sector during this period. This is a positive development for long-term growth, but does not bode well for employment opportunities in Manufacturing over the medium term if the sector's output growth is going to remain modest.

The high unemployment rate of 29 percent in the quarter April-June 2019, an increase by 6.4 percentage points from the 22.6 percent in the quarter April-June 2008, does not appear to fully convey the enormity of the crisis that we are facing. Whilst 1 729 000 (11.9 percent) additional jobs were created during the eleven-year period (on average just 1 percent per year), the number of unemployed during this period increased by a massive 2 388 000 (56 percent), by 4.1 percent per year on average. In addition, the number of discouraged work-seekers more than doubled by 1 648 000 (149.7 percent), on average by 8.7 percent every year. The combined unemployed and discouraged workseekers increased by 2.33 times (calculated as 4 036 000

divided by 1 729 000, which is the additional employment during the eleven-year period April-June 2008 to April-June 2019). Of the 2 388 000 (or 56 percent) additionally unemployed in 2019 compared to 2008, 925 000 completed secondary schooling (71 percent more than in 2008) and 391 000 completed tertiary education (up by 190 percent from 2008). These figures paint a very gloomy picture about the ability of our economy to create jobs and the resulting socio-economic implications for so many who are unable to find work or who have given up looking for work or are unable or unwilling to become self-employed.

More research needs to be done to fully understand why our economy is not growing in a socially and environmentally sustainable manner and at high enough rates to absorb more of the ever-larger numbers of unemployed South Africans. Some of the reasons that have been raised in the public debate include policy uncertainties (with regard to mining, telecommunication, land reform, etc.), the uncertain (an unintended) economic and employment impact of broad-based black economic empowerment over the medium term (although BBBEE is deemed necessary for socio-political reasons), the extent to which aspects of labour legislation might discourage small and medium-size business to employ more workers, the concentration of product markets (limited competition), and the paralysis at many of our State-Owned Enterprises. The increasing number of unemployed South Africans with high school and post school qualifications should send alarm bells ringing. Is there something amiss with our educational outcomes, given the shortage of skilled workers in the midst of such high levels of unemployment?