# THE UNEMPLOYMENT PROBLEM IN SOUTH AFRICA WITH SPECIFIC REFERENCE TO THE LEKOA VAAL TRIANGLE METROPOLITAN AREA (LVTMA)

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**Great things in life start with humble beginnings.**

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**ABBREVIATIONS**

| | |
|---|---|
| BCEA | Basic Conditions of Employment Act |
| B.O.P | Balance of Payments |
| CPS | Current Population Survey |
| CSS | Central Statistical Services |
| DTI | Department of Trade and Industry |
| EAP | Economically Active Population |
| EEA | Employment Equity Act |
| EVMS | Eastern Vaal Metropolitan Substructure |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GEAR | Growth Employment and Redistribution |
| GEIS | General Export Incentive Scheme |
| GGP | Gross Geographical Product |
| GNP | Gross National Product |
| ILO | International Labour Organisation |
| IMF | International Monetary Fund |
| LAC | Labour Absorption Capacity |
| LBD | Learn By Doing |
| VTMA | Lekoa Vaal Triangle Metropolitan Area |
| NSBASA | National Small Business Act of South Africa |
| NTB | National Training Board |
| OHS | October Household Survey |
| PWP | Public Works Programme |
| RDP | Reconstruction and Development Programme |
| SADC | Southern African Development Community |
| SARB | South African Reserve Bank |
| SASOL | South African Synthetic Oil Limited |
| SMME | Small, Medium and Micro Enterprise |
| SSA | Statistics South Africa |
| TBVC | Transkei, Bophutatswana, Venda and Ciskei |
| WEF | World Economic Forum |
| WTO | World Trade Organisation |
| WVMS | Western Vaal Metropolitan Substructure |

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# CHAPTER 1 **THE PROBLEM AND ITS SETTING**

## 1.1 **Introduction**

"Unemployment is a familiar affliction of our age, but its nature, causes and cures remain matters of dispute. As with many familiar things, closer examination leads to deepening mystery. Its pathology is complex, with social as well as economic ramifications" (Routh, 1986: 1). In the world of today which is characterised by globalization, the unemployment problem has become a worldwide problem. It is endemic in both developed and developing countries. But for developing countries, this problem brings more challenges (like increased poverty) and complications (like political and social instability). South Africa is certainly no exception. In South Africa, this problem is succinctly expressed by Barker (1992: 71): "Unemployment is probably the most severe problem South African society is experiencing and it is conceivably the root cause of many other problems, such as high crime rates, violence, abject poverty....Prominent leaders in and outside government have also stated that no government will be able to govern South Africa ...if this problem is not addressed effectively".

According to Hall (1997: 396), one of the overlooked aspects of the unemployment crisis in South Africa is the spatial distribution of unemployment within cities. Apartheid urban planning concentrated the black population in peripheral residential areas, where the majority of the unemployed population is found. In Gauteng, for example, unemployment rates (using the 1991 census) vary between zero percent in

former white suburbs and above thirty percent mainly in the former black townships. In addition to the apartheid urban landscape the recent trend of suburbanisation of economic activity, the decline in central business districts and the continued lack of development in former black residential areas may intensify the problem of unemployment. The long-term effects of these processes are far reaching, that is, they may result in profound labour market segmentation which may, in turn, negatively impact on urban development strategies aimed at reintegrating South Africa's cities and addressing the problems of poverty, unemployment, urbanisation and housing.

With the establishment of democracy in 1994, many South African unemployed people became hopeful that there was going to be employment for everyone. This was further reinforced by the adoption of the Reconstruction and Development Programme (RDP), and the promises made by the developed Western countries to assist South Africa in its development endeavours. In 1996, South Africa opted for a neo-liberal approach (which advocates for less government involvement in the economic activity) to economic development by adopting the Growth, Employment and Redistribution (GEAR) policy - which is a supply-side policy. The GEAR strategy calls for a minimalist state, restructuring of the economy like the elimination of export subsidies and the reduction of import tariffs to improve the competitiveness of South African industries in the global arena. In fact, to the contrary, at this stage, GEAR has not helped to stop the increasing tide of unemployment and retrenchments as industries are concerned with cutting costs(of which, labour costs are often the highest) to meet global competition. The cliche "lean is mean" has become

crucial in business decisions. The implication of this is that more people have been put out of work. The unemployment level in South Africa has reached endemic proportions. The problem is getting more complicated by the prospects of the closure of marginal gold mines due to the possibility of a weaker gold price and increasing costs.

## 1.2 The purpose and objective of the study

The purpose of this study is to look at the problem of unemployment in South Africa in general and to analyse the LVTMA unemployment situation within the national framework. Given the drive for globalization and integration, the industries in the LVTMA have been affected by this drive and the majority of them are restructuring their operations. The study attempts to give a "photographic" picture of how the labour market employment and the quality of life in the LVTMA townships have been or are likely to be affected by the liberalization process. The impact of industrial restructuring in the LVTMA is looked into through the restructuring of one of its main giants Iscor-Vanderbijlpark. The comprehension of the impact that is likely to result from industrial restructuring is very important, because it may help in identifying the necessary policy options and strategies to counter the negative effects of restructuring on the labour market.

## 1.3 Research Methodology

The method of research followed is basically the use of secondary sources such as textbooks, government publications and published reports as well as unpublished information like theses. Primary sources such as newspapers and periodicals are also consulted. A large portion on the study of the Vaal Triangle labour market has been done by several institutions and agencies(even the author's Honours research essay was on unemployment in the townships of the LVTMA), so this essay captures the salient issues from the different studies and offers an analysis of the situation.

## 1.4 Deployment of study



The study is divided into different chapters and the following is a brief outline of the entire study chapter by chapter. In Chapter 2 unemployment is defined so as to be able to differentiate between unemployment proper and non-employment. Furthermore, the most four noted types of unemployment are discussed. This will assist in identifying the kind of unemployment that is prevalent in South Africa and, therefore, the necessary strategies to fight it. Then the focus will be on the different methods that are used to measure unemployment, that is, looking into the reliability and the difficulties involved in using each of the four methods.

Chapter 3 focuses on the different causes of unemployment. The chapter outlines and assesses the factors, both conventional and unconventional, that are mostly responsible for unemployment in South Africa. Chapter 4 looks at the consequences or costs of unemployment (economic, social, psychological, etc.) that are likely to occur.

Chapter 5 focuses on unemployment in the LVTMA. The structure of the LVTMA economy and, therefore, the effects of restructuring on the employment levels and the quality of life in the LVTMA are analysed. Of all the sectors, manufacturing is the main employer throughout the LVTMA, and Iscor is the largest single employer and accounts for more than half of the turnover in the manufacturing sector and about one third of the total remuneration in the LVTMA. In this essay, therefore, Iscor is used to determine the effects of restructuring of the manufacturing industry on the LVTMA economy.

In Chapter 6 different employment creation strategies and policies are advanced. Chapter 7 summarises the essay and contains some recommendations.

# CHAPTER 2 **DEFINITION, TYPES AND MEASUREMENT OF UNEMPLOYMENT**

## 2.1 **Introduction**

The need to derive a definition of unemployment is an effort to distinguish those who are really unemployed from those who are non-employed. This exercise will be helpful in identifying the common traits which can be used as general criteria for the identification of the unemployed. The problems that are associated with the definition are also outlined in this chapter. Also, the different types of unemployment are looked into. This will be helpful in distinguishing the kind of unemployment that is prevalent in South Africa and thus help in prescribing appropriate policy options and strategies. Finally, the chapter looks into the four different methods that can be used to measure unemployment and problems associated with each one of them.



## 2.2 **Definition of unemployment**

Unemployment is a multi-dimensional concept. There are two definitions of unemployment, that is, the strict and the expanded definitions. The then Central Statistical Service (CSS) adopted the expanded definition of unemployment. This definition is in line with the standard definition as endorsed by the International Conference of Labour Statisticians in Geneva in 1982.

The strict definition states that(Barker, 1992: 81): "The unemployed are persons who, being fifteen years and older

★ were not in paid employment or self employment i.e. did not work for five or more hours for a wage or salary or for profit or family gain during the seven days preceding the survey;

★ were available for paid employment or self-employment during the reference week (the seven days preceding the interview); and

★ took specific steps during the four weeks preceding the interview to find paid employment or self-employment ; or

★ had the desire to work and to take up employment or self-employment."

This definition, however, has some shortcomings. The first shortcoming is that the criterion of seeking work is not always realistic in a developing country. Those who are unemployed might have become discouraged and do not for that reason take any steps to look for employment or it may be costly to take active steps to search for a job. The ILO has made provision for the problem by indicating that the definition can be applied by waving the criterion of taking steps seeking work. By relaxing this requirement, the expanded definition is arrived at. Therefore, other relevant tests to suit national conditions should be created (Barker: 1992: 83).

However, in 1998 the Statistics South Africa (SSA) reintroduced the strict definition of unemployment as the official definition of unemployment and the procedure to calculate the official unemployment rate for 1997 in South Africa. As a result of the change, the official 1997 unemployment rate was deflated from 37.6 percent using the

expanded definition to 22.9 percent using the strict definition.(See Tables 2.1, 2.2 & 2.3 for the differences in unemployment rates from 1994 to 1997 when the strict and expanded definitions are applied).

The Central Statistics Service (13 August 1998: 8)justifies this change in the definition as an attempt to be in line with widely accepted international practice (as more than eighty percent of developed and less-developed countries and South Africa's major trading partners are using this definition).

**TABLE 2.1 EMPLOYED PERSONS MEASURED BY OCTOBER HOUSEHOLD SURVEY (OHS) 1994-1997, AND LABOUR ABSORPTION**

| | | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| a | population 15-65 years[1] | 20,866m | 21,324m | 21,815m | 22,294m |
| b | Employed measured by OHS | 7,971m | 8,069m | 7,590m | 7,548m |
| c=100*b/a | Labour absorption rate | 32,2% | 37,8% | 34,8% | 33,9% |

**TABLE 2.2 OFFICIAL UNEMPLOYMENT RATE MEASURED BY OHS 1994-1997, AND COROLLARIES**

| | | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| d | Unemployed by OHS (Official definition) | 1,988m | 1,644m | 2,019m | 2,238m |
| e=b+d | Economically active | 9,959m | 9,713m | 9.609m | 9,787m |
| f=a-e | Not economically active[2] | 10,907m | 11,612m | 12,206m | 12,507m |
| g=100*d/e | Official unemployment rate | 20,0% | 16,9% | 21,0% | 22,9% |



**TABLE 2.3 EXPANDED UNEMPLOYMENT RATE MEASURED BY OHS 1997, AN COROLLARIES**

| | | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| h | Unemployed measured by OHS (Expanded definition) | 3,672m | 3,321m | 4,197m | 4,551m |
| i=b+h | Economically active | 11,643m | 11,390m | 11,787m | 12,100m |
| j=a-i | Not economically active | 9,223m | 9,943m | 10,028m | 10,195m |
| k=100*h/i | Expanded unemployment rate | 31,5% | 29,2% | 35,6% | 37,6% |

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1 The population figures are derived from preliminary estimates of Census 1996.

2 The not economically active including pensioners, full-time students, disabled full-time homemakers.

3 The respective labour force participation rate are 100*e/a and 100*i/a.

Source: **Central Statistical Services**. 13 August1998: 4.

According to Barker (1999: 7-8), this strict definition underestimates unemployment among women, rural women in particular, because these categories of persons find it very difficult to actually take steps to find a job. Using the strict definition, the unemployment rate among rural women was 35 percent, but 62 percent when using the expanded definition.

Although any factor of production (capital, natural resources, entrepreneurship and labour) can be unemployed, economists have accentuated the idleness or unemployment of labour because of the income, mental and physical sufferings and hardship experienced by the unemployed, their families and society at large (Sapsford & Tzannatos: 1933:335).The consequences of the unemployment problem to the unemployed, their families, society and the economy are outlined in Chapter 4.



## 2.3 **Types of unemployment**

A distinction should be made between four main different kinds of unemployment. This would help to give an indication of the causes of unemployment, the consequences of unemployment (given the differences in duration with regard to each type of unemployment), and also some ideas as to how to tackle this problem. These four different kinds of unemployment are namely: Frictional, Structural, Demand-deficient (Cyclical) and Seasonal unemployment.

### 2.3.1 **Frictional unemployment**

Frictional unemployment arises as a result of normal turnover that happens in any dynamic economy and the time lags involved in the re-employment of labour, that, is the labour market is always in a state of flux. Even when aggregate demand is high enough to employ all of the nations labour force and when those who are unemployed have skills that match those demanded by firms having job openings (vacancies), the nation's unemployment rate will remain positive because some people will be between jobs. This means that at any moment in time, there is considerable unemployment, that is, not all active job-seekers will have yet found employment and not all employers with job openings will have yet got suitable people to fill these vacancies. Frictional unemployment is thus unavoidable.



Ehrenburg and Smith (1991: 585-586) say frictional unemployment arises because labour market information flows are inherently imperfect. That is why it takes some time for reach each other the job-seeker and the potential employer. The level of frictional employment is determined by the turnover in the labour market and the speed with which the unemployed get jobs. This speed is influenced by the existing economic institutions and thus institutional changes can influence the level of frictional unemployment. Barker (1992: 73) says frictional unemployment normally has a relatively short spell and can be reduced further by improving information flows and placement services in the labour market, thereby eliminating the time lags involved in the re-employment of labour.

According to McConnell and Brue (1995: 545-546) not all frictional unemployment is of a search nature. In some instances, unemployed workers willingly wait to be recalled from temporary lay-offs or willingly wait in job queues to obtain union jobs which normally command relatively higher wage rates. Additionally, efficiency wages may attract workers into the labour force, who are then forced to wait for such jobs to open up. These types of frictional unemployment collectively might best be explained as "wait" unemployment.

### 2.3.2 **Structural unemployment**

Structural unemployment arises when changes in the pattern of the labour demand causes a mismatch between the skills demanded and the skills supplied in a given area or causes an imbalance between supply of and demand for workers across areas (Ehrenburg & Smith 1991: 58). According to McConnell and Brue (1995:547) structural unemployment shares many features with frictional unemployment but is differentiated by being long-lived. Therefore, structural unemployment can mean significant costs to the unemployed and substantial output loss to society. The extent of structural unemployment depends upon the degree of the compositional changes in labour demand and supply and the speed of the adjustments of the mismatches and imbalances. Efforts to shorten the spell of structural unemployment usually include the training and retraining of the unemployed so that their skills could match the existing vacancies.

Many economic opinion-makers have expressed concern about the apparently clear inappropriate factor mix in the South African economy. Mining, agriculture, construction and manufacturing, have shown to be becoming increasingly capital-intensive,

while labour unemployment has increased sharply. In other words, factor prices are distorted such that capital has come to substitute labour, thus affecting negatively the capacity of the formal economy to absorb more workers (Abedian & Standish 1989: 21).

Between 1994 and 1997 real wages increased by 2.6 percent and labour productivity increased more rapidly by 2.9 percent per annum. However, this increase in productivity was mainly achieved through the destruction of low productivity jobs, and the substitution of labour by capital. This is reflected by the decline in private sector jobs even though production has been increasing, the increase in capital intensity, and the decline in capital productivity. South Africa is thus moving away from a labour intensive growth path as envisaged in the GEAR policy (Barker 1999: 23-24). This problem is worsened by the fact that most of the capital is imported and this is likely to cause a deficit to the country's balance of payments which, in turn, hinders economic growth and employment in the domestic economy (Mohr & Rogers 1994: 314).

This capital-intensive production method has been adopted because of the growth of trade unionism and the increased trade union militancy. Unions in South Africa are relatively strong. In 1997 registered unions had a membership of approximately 3,4 million, which is approximately 46 percent of the labour force and 64 percent if agricultural and domestic workers are excluded. This is high by international standards and very high for a developing country. It is, therefore, not surprising to note that South African unions have a major impact both in the workplace and in a socio-political context.

As a result, union actions have resulted in higher wage differentials between unionised and non-unionised sections of the labour force than normally found in other countries. This has reduced employment by 6.3 percent (Barker 1999: 24-25).

According to Loots (1998: 328), the observation about the South African economy corresponds with the new growth or endogenous theories which conclude that modern economic growth creates employment for skilled people. The positive real economic growth of the past few years did not create net formal employment opportunities.

While from the point of view of cost-minimizing individual firms, the utilisation of capital-intensive methods of production has been a rational decision. However, from the point of view of society at large, the social cost of a large reserve army of underemployed and unemployed labour cannot be ignored (Cawker & Whiteford 1993: 34).



Several additional observations about structural unemployment deserve mention. First, higher levels of general education are associated with lower levels of structural unemployment. The reason for this is that highly educated people who are laid-off from their employment because of changes in the labour demand patterns have a wide range of job options and are more re-trainable than people with low levels of education. Second, structural and cyclical unemployment overlap. When the economy is in equilibrium and rapidly expanding, firms facing shortages of skilled labour often find it profitable to hire people who lack the required skills but who are trainable. This training will reduce structural unemployment, but during a recession, employers will largely employ skilled workers and the unskilled will remain unemployed for a longer period.

Finally, technological innovations are also cited as exacerbating structural unemployment. To fill the vacancies created by technological changes, employers may have to embark on more well-concerted on-the-job-training programmes(McConnell & Brue 1995:548).

### 2.3.3 **Demand-deficient(cyclical) unemployment**

Frictional and structural unemployment can appear even when aggregate demand equals aggregate supply. Cyclical or demand-deficient unemployment, on the other hand, is caused by a decline in aggregate demand which, in turn, causes a decline in the demand for labour in the face of downward rigidity of wages. This implies that the demand-deficient unemployment is associated with the short-term fluctuations in the level of the formal economic activity (a business cycle), hence cyclical unemployment (Ehrenburg & Smith 1991:591).



During recessions workers are laid off from their jobs because a lack of demand for the goods and services that they produce (the demand for labour is a derived demand). A crucial question that arises, however, is why, when aggregate demand declines, workers become unemployed rather than wage rates falling. At reduced wage rates producers would be able to produce goods more cheaply and could revise the demand for their products by selling them at a reduced price. This would sustain demand for the producers' output and so maintain the demand for labour.The deficient demand side of the problem can be related directly to the level of the average compensation of labour in the classical tradition or the demand for the output produced by labour in conjunction with the other factors of production which is usually represented by the gross national product (GNP) in the Keynesian theory.

Generally, the difference in approach can be tied to the fact that wages have both a cost and an income aspect and emphasis may rightly be laid on either of the two aspects (Sadie 1980: 330-331).

In the classical analysis, there is no cyclical unemployment. The classical economists believe that, if workers can only accept the going market wage rate, cyclical unemployment cannot be a problem. If, however, as a result of the minimum wage laws or wage maximizing activities of trade unions or personal inclinations, workers are not prepared to accept less than their reservation wage, this can be described as voluntary idleness and could be avoided by accepting the market wage rate. On the other hand, in the Keynesian model the downward rigidity of wages is not the cause of the fall in the demand for labour. The real wage is not a determinant but a determinate (Sadie 1980:341-343).



In South Africa the problem of cyclical unemployment has a dimension which makes it hard to combat it successfully, namely, that cyclical unemployment is constantly superimposed upon large-scale structural unemployment. Consequently, the unemployment problem becomes more acute and intricate and therefore difficult to address using orthodox fiscal and monetary policies(Barker 1992:73).

### 2.3.4 **Seasonal unemployment**

Seasonal unemployment is similar to cyclical unemployment in that it is also determined by changes in the demand for labour due to changes in the demand of output that labour produces. The fluctuations can, in the case of seasonal unemployment, however, be regularly anticipated as they follow a systematic pattern over the course of a year. For example, the demand for farm labourers falls after the planting season and increases during the harvest season (Ehrenburg & Smith 1991:600).

The incidence of seasonal unemployment can be quite high in countries with severe winters, but over time its importance has faded away in most developed countries. The reason for this is that the share of agriculture in the national product has declined substantially. Since it is recurring and thus anticipated, its incidence can be reduced by appropriate measures, for example, by producing for stock during off-seasons. Uncertainty about the ability to acquire enough labour during the peak seasons may lead to the hoarding of labour during the rest of the year (Sadie 1980:336).

## 2.4 **Measurement of unemployment**

Dawson (1992: 32) says that the main aim of measuring unemployment is to discover as to how many people satisfy the essential conditions of being without a job and being interested in finding one. However, Barker (1992: 75) says that the data concerning unemployment in South Africa is very unsatisfactory. This is typically the case in developing countries, but in South Africa there are additional shortcomings of the data. Firstly, there are no unemployment series for all population groups combined for any length of

time. Furthermore, individual series are not always comparable over time, because changes in statistical techniques and the exclusion of certain geographical areas, for instance the former TBVC states, in various years.

Despite all the above shortcomings, it is very important to continue measuring the extent of unemployment in the country. This could help in policy formulation and implementation. In this chapter the four broad approaches which can be used to measure unemployment are discussed. The methods are the census method, the difference method, the registration method and current population survey (CPS) method.

### 2.4.1 **Census method**

The census method is used to determine the economic status of the whole population by inserting certain questions in the population census questionnaire. However, this method is subject to severe shortcomings. Firstly, only a limited number of questions can be inserted in the questionnaire, and these questions are not detailed enough to indicate precisely the complex phenomenon of unemployment.

Secondly, the instructions given to those who do the counting can in some ways influence the data. For example, people working in subsistence agriculture can be classified as employed although they assume themselves as unemployed. As a result this might, in some cases, understate the level of unemployment (Barker 1992: 75).

### 2.4.2 **Difference method**

According to this method, unemployment is measured by subtracting the total number of persons actually employed in the formal sector from the economic active population EAP (Persons without a job in the formal sector =EAP minus formal job opportunities, including the job openings filled and vacant, in the formal economy).

If this method is scrutinised it can be seen that it tends to exclude people active in the informal sector and the subsistence agricultural sector, except if presumed estimates are made of the number of persons involved in these activities and if such persons are considered as having a job (Barker 1992: 76).

### 2.4.3 **Registration method**



According to this approach, the unemployed register voluntary with the Department of Labour. These statistics are obtainable from returns on a monthly basis by the different placement centres of the Department. Those who register do so because they hope to qualify for unemployment benefits. However, the registration method has some shortcomings too. First, the figures on registered unemployment do not correlate with unemployment as calculated according to the difference method. There are various reasons for this, the most important being that not all unemployed individuals register because they might be hopeless of being placed on a job by the Department or might be discouraged from registering because they do not qualify for unemployment benefits (Barker 1992: 77).

Another shortcoming of the registration method is that it is vulnerable to administrative revision. Moreover, authorities have two powerful incentives to alter the regulations on eligibility for unemployment benefits in a way that is likely to understate the true unemployment level. Firstly, by so doing, governments can reduce the fiscal costs attached to unemployment.

Secondly, they (the authorities) will enhance their popularity with their electorate by cutting the so-called "head-line" total of unemployment. Job creation and training schemes are, therefore, seen as efforts to remove their participants from the unemployment count rather than to provide "real" jobs or genuine training (Dawson 1992:33).

Nevertheless, in South Africa the number of registered unemployed whites, coloured and Asians is a useful indicator of short-term economic fluctuations and is normally used by the Reserve Bank and private sector economists as one input to measure business cycles. A decline in registered unemployment tends to lag behind an economic upswing as employers will first fully utilize existing capacities and workers before employing new workers. An increase in registered unemployment however, coincides with an economic recession, because sale and production levels are scaled down and some workers are laid off. The South African Reserve Bank (SARB) uses this index as a coincident indicator of the business cycle (Barker 1992:78).

### 2.4.4 **Current population survey (CPS)**

Current Population Surveys are conducted on a monthly basis by taking samples to determine current short-term information on the structure of the economically active black, Coloured and Asian populations. The survey is not conducted among whites. These samples are made on the basis of the various population census. However the release of CPS statistics for blacks was suspended in April of 1990, because of a continuous fall in the black unemployment rate which was not compatible with the general economic scenario.

Migration, especially to squatter areas, plus other measurement difficulties could have been responsible for the fall (Barker 1992:79,83). After some adjustments the survey for blacks was resumed in the 1994 OHS.



The official unemployment related statistics obtainable through the CPS system have got several virtues which can prove worthwhile to economists. First, the sampling technique is uniform throughout the nation and despite minor changes, it has remained consistent over the years. Second, the time-lag between the survey and the reporting of the data is short and the information is highly accessible through government publications. Third, the data is reported in both disaggregated and overall forms. This helps in the analysing of the distribution of the burden of unemployment. Finally the data give useful indications as to the direction of the aggregate economy during the course of a business cycle (McConnell & Brue 1995:548).

These official statistics, however, also have shortcomings of their own. The statistics could understate the extent of under-utilization of labour resources because they do not measure underemployment, those who were discouraged from actively seeking employment and those who are working part-time but who wish to work full-time. Furthermore, the unemployment statistics may overstate the unemployment rate by including people who have provided false information about their employment status, people who are prepared to work on a part-time basis and those people who are unemployed because they have a high reservation wage(McConnell & Brue 1992:549).

## 2.5 **Summary and conclusion**

In this chapter the two definitions, both the strict and expanded, of unemployment were given. The chapter also looked at the different types of unemployment and the four main methods that are used to measure unemployment. The definitions of unemployment reveal that unemployment is a complex phenomenon. Any change in the way unemployment is defined inevitably results in drastic change in unemployment figures, like in the case of South Africa when it adopted the strict definition to measure the 1997 unemployment rate. Because countries differ in terms of development, therefore, the strict definition concedes that it should be modified to meet the local realities of every country.

With regard to the different types of unemployment, the chapter has revealed that frictional unemployment is inevitable, and structural unemployment usually persists for a long time.

On the other hand, cyclical unemployment is associated largely with changes in economic activity, especially the change in demand in the output market. Seasonal unemployment can be anticipated and, therefore, contingency plans can be made to counter it.

In South Africa, the type of unemployment that is prevalent is structural in nature. Even the other types of unemployment are super-imposed on structural unemployment. The trend is that many of the major economic sectors are adopting labour-saving production methods, that is, capital increasingly taking the place of labour, thus negatively affecting the capacity of the formal economy to absorb more workers.

Trade union growth and militancy are also responsible for the decline in labour employment and growth in capital employment. The unskilled category of the labour force is the one that is mainly affected by this upsurge in unionism.



Finally, the chapter outlined the four different methods that are used to measure unemployment. It has been found that none of the four methods is purely reliable, each has its own shortcomings. The unreliability of the data is either caused by an act of omission (where the tools used are insufficient to gather most of the relevant information, like underemployment) or an act of commission (where the authorities have an incentive to tamper with the statistics to show a good public image and where individual respondents decide to give false information about their own economic status). Nevertheless, the data is very important to economists for projecting economic trends and important to public policy-makers for adopting relevant remedial policies.

# CHAPTER 3 **CAUSES OF UNEMPLOYMENT IN SOUTH AFRICA**

## 3.1 **Introduction**

Everybody agrees that unemployment poses serious problems to any nation. The question as to what causes unemployment is a question that has long both concerned and divided macro-economists. In this chapter, the different causes of unemployment in South Africa are discussed. Identifying the different causes of unemployment in South Africa is very important because that would help in choosing the right policy package and strategies in addressing the unemployment problem.

## 3.2 **Causes of unemployment in South Africa**

Cawker and Whiteford (1993:22) attribute the unprecedented high levels of unemployment in South Africa, both past and present, to the interaction of several factors. Some of these factors were beyond any government influence and others were largely associated with the policies of apartheid. Probably the most important factor has been the country's poor economic performance which can, in turn, be linked to a number of structural factors. In addition to the structural constraints, labour market policies, factor price distortion and transitional demographic factors also have a major effect on unemployment. This reflects the fact that the economy is in a transition, that is, changing from an inward-looking and protected to a globalized economy.

### 3.2.1 Poor economic performance

The Labour Absorption Capacity (LAC) of the formal sector has shown a noticeable fall. In the period 1965 - 1970 some 73 percent of all work-seekers could be accommodated in the formal sector. During 1975 to 1980 this percentage fell to 35.4 percent, between 1985 and 1990 it fell to 12.5 percent and in 1992 to one percent. This dramatic fall in the LAC needs to be understood against the fact that about 400 000 new job-seekers enter the labour market annually. In addition to the fall in the LAC, business failures, retrenchments and droughts contribute to the pool of the unemployed (Spier 1994:10-11).

Furthermore, according to the Boland Bank Economic Review (1998: 5),there has been a sharp decline in employment creation in relation to the growth in real gross domestic product (GDP). During the 1970s an increase of 1 percent in real GDP gave rise to 0.8 percent increase in employment. During the 1980s it dropped to 0.4 percent. Since 1990 the average real GDP has been 1.2 percent while more than 430 000 workers lost their jobs over the same period. This represents a negative production elasticity of the demand for labour. According to the GEAR policy (1996: 3), in the context of 3 percent economic growth, and without substantial advances in labour absorption coefficients, the unemployment rate would rise to 37 percent by the year 2000. These estimates take into account the 20 000 additional jobs created per annum in response to various employment-intensive public expenditure schemes. For the economy to absorb new entrants into the labour market a 6 percent growth rate per annum is needed.

Even the structure of formal employment has also changed. The private sector share of total non-agricultural employment fell since 1970 from 75 percent to 65 percent, while that of the public service increased from 25 percent to 35 percent. In 1996 public authorities provided most employment opportunities in the non-agricultural sector, about 1,8 million people, followed by manufacturing with 1,4 million. Since 1990 there has been major decline in employment in both the mining sector and construction sector. On the other hand, there has been an increase in the importance of the informal sector as a possible employment-creating sector. It is estimated that in 1995 about 15.2 percent of the labour force, that is 2,2 million people were active in this sector (Loots 1998: 326-327). This sector is going to be very important for some time as the economy continues to shed formal jobs.

Other major reasons for this poor performance of the economy are the very high tariff regime and various export incentive schemes during the economic sanctions against apartheid. A number of industries were built for strategic reasons without any consideration for comparative advantage (e.g. SASOL, ARMSCOR and MOSSGAS). Most of these investments were both highly capital and import intensive during the construction phase. Although most of these investments are still functional, the money involved in these projects could have been better used on more socially desirable projects that were labour intensive and used more local resources and products (Cawker & Whiteford 1993: 27-28).

Because of these high tariff walls and export incentive schemes, the South African economy and industries were shielded against the rigorous foreign competition. Because of this isolation, many South African companies could not take an

advantage of the technological boom of the eighties, new management expertise, and the establishment of new markets. With the establishment of democracy in 1994 and the subsequent acceptance by the world community, South Africa adopted an outward-looking economic strategy. Now South Africa has to conduct its economic activities according to GATT (now WTO) principles. This meant that the high tariff walls have to be reduced and the use of subsidies abandoned. The implication of all these changes means that South African industries have to face foreign competition without any assistance. Therefore, restructuring of industries to reduce costs is inevitable.

The unique thing about the restructuring of the South African economy is that it is happening under a depressed world economy, fluctuating confidence in emerging markets, fluctuating gold price and of other primary commodities. Under these conditions, the growth of the economy is below the desired level for net employment creation. According to the Gear (1996: 31), as South Africa continue with trade liberalization and adhere to global competition, downward pressure will be placed on unskilled wages. If this is not accommodated by the labour market, then unemployment will continue to increase.

### 3.2.2 **Structural constraints**

The most important structural factor that accounts for the poor performance of the South African economy is the balance of payments (BOP) constraints, including the export profile.

#### 3.2.2.1 **Balance of payment constraint**

The GEAR policy (1996: 3) acknowledges that the balance of payments is a structural barrier to accelerated growth. This is basically caused by the fact that the South African economy depends largely on imported capital and intermediate goods. Any cyclical upswing in the economy of above 3 percent will result in a deterioration in the current account. For the economy to absorb the existing unemployed workforce, it needs to grow, at least, at 6 percent per annum. This means, if the economy cannot sustain a 3 percent growth without incurring a deficit on the current account, the economy will continue to struggle for some time to create jobs for the large portion of the workforce that is currently unemployed.

In addition to this high propensity to import capital and intermediate goods, are the problems of a shortage of long-term capital inflows and instability in the financial markets. This shortage of long-term capital inflows has resulted in the BOP and the economy to rely on short-term reversible flows and consequently high interest rates which means further curtailment of growth. The exchange rate instability of 1998 in emerging markets presented further dangers of capital outflows and balance of payments problems. Consequently, growth was hampered thereby making structural adjustments under conditions set by the international agencies compulsory (GEAR 1996: 3).

### 3.2.2.2 **Export profile**

Given the high propensity to import, particularly imports of capital and intermediary goods, South Africa's export profile consists largely of primary commodities such as precious metals and other raw materials. This is perhaps one of the major constraints on economic growth in South Africa. In the last two decades, the general slump in the world demand for and prices of these commodities had a negative effect on the export performance of the economy and limited the country's foreign exchange earnings (Cawker & Whiteford 1993: 28).

In Barker (1999: 10) employment in the mining industry declined by 25 percent or about 150 000 jobs between 1996 and 1998. The future of the industry looks bleak, with the price of gold touching 20 year low prices and the announcement by a number of European countries and the IMF to sell a large stock of their gold reserves. In South Africa, the decline in the gold price is not only affecting jobs, but also foreign exchange earnings which are needed for importing the essential capital and other intermediate goods.

### 3.2.2 **Labour market policies**

According to Barker (1999: 13), labour policies introduced over the past few years have had a profound negative effect on both the cost of labour and the flexibility in the workplace, and consequently on investment and employment decisions. The main Act in the new Labour legislation that is controversial is the Basic Conditions of Employment Act (BCEA). This Act provides, amongst others, for longer annual, maternity and family responsibility leave.

The introduction of the BCEA increases both the direct and indirect costs of labour. Firstly, the increase in labour costs leads to an increase in the price levels. The increase in the price level, in turn, may lead to a decline in the international competitiveness and thus leading to substitution of labour by capital. Secondly, the substantial increase in labour cost caused by the new BCEA is the 12 percent increase in the overtime premium. This premium is comparatively higher than in countries with the same level of development as South Africa. Furthermore, the new legislation, in particular the BCEA, has given more power to the already powerful union movement in South Africa. The legislation has significantly shifted away from voluntarism and has curtailed, to a large degree, individual discretion regarding conditions of employment. This has placed more power in the hands of both unions and the government (Barker 1999: 17-19 & 24-25).



Another potentially negative effect of the labour policies on wage costs, is the provision relating to income differentials in the Employment Equity Act (EEA). In terms of the Act, employers are compelled to reduce "disproportionate" income differentials. Norms and benchmarks to reduce these differentials are to be set by the Employment Conditions Commission, and the Minister of Labour may set guidelines for employers to achieve this end. However, if this increase in wages for the lower paid workers is not linked to productivity, it may negatively affect competitiveness and jobs. What is also more likely is that employers may react to this legislation by retrenching their lower paid employees, for example, by eliminating or outsourcing the activities performed by these workers, thereby reducing income differentials but potentially also increasing unemployment (Barker 1999: 20).

Finally, another major effect of the existing labour legislation is its impact on the opportunity cost of management. Implementing and applying recent labour legislation needs a lot of management time and has direct cost implications (Barker 1999: 21-22). This may result in potential investors withdrawing their decisions to invest in South Africa, given the stiff global competition of trying to attract investment.

### 3.2.3 **Demographic transition**

One of the main causes of unemployment in many developing nations of the world is that their economies, which are often struggling, simply cannot provide employment opportunities for their rapidly increasing populations. Recent calculations put South Africa's annual population growth rate at about 2.3 percent and at 2.8 percent for blacks. This high population growth rate has contributed to the creation of a large pool of young, mostly unskilled, who cannot find employment in the formal sector of the economy. The high level of poverty associated with this large population growth rate is a major concern because poverty and a non-conducive social environment serve to reduce the potential of young people to become integrated into a complex industrialised society.

The dependence of the unemployed on their already impoverished communities further exacerbates the vicious circle of poverty and unemployment. Although an improvement in the socio-economic circumstances of black people as a whole is inadequate to reduce joblessness, it could be a critical condition of attaining higher levels of economic growth and employment in the economy (Cawker & Whiteford 1993: 35-37).

### 3.2.4 **Public safety**

According to Schoeman and Blignaut (1998: 307-308), the urbanisation process, particularly of low-skilled workers, causes an increase in the supply of urban labour that outstrips the demand. As a consequent, crime has worsened over the past number of years which, in turn, has detrimental effects on economic growth and employment. In a number of studies done by influential organisations like the American Chamber of Commerce, overseas investors believe that crime in South Africa is out of control and that they have little confidence in the capability of the police and the justice system. All these kinds of reports affect negatively on new investment and the expansion of existing investments.

This assessment of the impact of the crime situation in the country is further vindicated by the latest competitiveness report by the World Economic Forum (WEF). Out of fifty nine countries South Africa slipped five places from 42 in 1998 to 47 in 1999. The slide was caused among other things by low scores on the key indices of crime, unemployment and ineffectiveness of the public sector. The country was in the top five countries in which the police did not effectively guarantee personal safety and organised crime imposed significant costs on business (Star 14 July 1999:1).

Furthermore, in another survey conducted by Market Research Africa, a high incidence of criminal gangs is found in black areas. The consequence of this high incidence of crime, for black townships in particular, is that this kind of environment is not conducive to the improvement in human capital and hence will lead to a further deterioration in the socio- economic conditions (Schoeman & Blignuat 1998: 308).

The implications of crime for South Africa are serious and may result in a vicious circle where an increase in crime results in a further decline in investor confidence, and in turn, a decline in investment may result in fewer jobs being created and thus forcing many people to live on the wrong side of the law. Crime also leads into an exodus of people with scarce skills. Over the past few years South Africa has experienced a substantial "brain drain" to countries like Australia, Canada, etc., where people felt safer. The implication of this is that the country may lose its capacity to attract the necessary investment, because investment tends to be attracted to areas where there is a reasonable level of highly skilled human resources.

## 3.5 **Summary and conclusion**

In South Africa much of the unemployment is attributed to structural factors which have reduced the capacity of the formal sector to create more jobs. The balance of payments constraints make it difficult for the economy to grow beyond 3 percent per annum. This condition is made complicated by the export profile of the country, which are mainly primary products. Since the 1980s the prices of such commodities have been fluctuating. Even the investment decisions taken in the 1980s were not based on economic considerations, but mainly on strategic and political reasons. That meant that scarce resources were spent on unsustainable projects instead of spending them on socially admissible projects.

Most of the unemployment in South Africa can be traced to the lack of skills. Because of apartheid policies on education, the quality of black labour is still largely below par. As the economy changes from being an inward-oriented to an outward-

oriented which implies more implementation of sophisticated production methods, more skilled people are demanded and more technology is introduced. The result of this is that less skilled and unskilled people are the first to be laid off. This problem is compounded by the recent labour legislation which creates the perception to potential investors that the labour market is increasingly becoming inflexible.

Crime also plays an important role with regard to the attraction and expansion of foreign investment. This scenario tends to create a vicious circle where crime creates conditions for insufficient investment, and lack of investment create conditions for crime to flourish. Crime may indirectly affect the speed at which South Africa adapts to globalization. As crime increases, more skilled people are contemplating leaving the country to safer parts of the world. This exodus of highly skilled people means that the country will be slow in assimilating the advantages offered by globalization. Lastly, South Africa is facing a population growth rate that exceeds economic growth with the situation more chronic for the black population. This also reduces the labour absorption capacity of the economy.

# CHAPTER 4 **CONSEQUENCES OF UNEMPLOYMENT**

## 4.1 **Introduction**

Unemployment has significant social and economic costs to the unemployed individuals, their dependants and society. The economic costs of unemployment are shown by value of the output loss that the unemployed would have produced had they been employed. In other words, the economic costs are represented by the loss of the value of the potential marginal products of the unemployed. The social costs are more difficult to quantify, but they may be many and substantial (Eliot 1991:481).

In this chapter the economic costs which encompass output loss and the financial impact of unemployment are discussed. Furthermore the social or human costs which encompass the psychological impact, physical health, poverty and external costs of unemployment are also discussed.



## 4.2 **Output loss**

Mohr and Rogers (1995: 316) say, as far as macro-economic costs are concerned, no effort has been made in South Africa to quantify the costs of unemployment to society in terms of the output forgone, because the economy is working below full employment. Nonetheless, when unemployment increases above its natural level, resources are being wasted.

## 4.3 **Financial impact**

According to Dawson (1992:76-77), the main concept used in estimating the financial impact of unemployment on the unemployed is the replacement ratio, which measures the extent to which the loss of earnings caused by being unemployed is made good by benefits. In calculating the replacement ratio as a yardstick of the forgone income due to becoming unemployed, net income from the benefits while unemployed are expressed as a percentage of the income when last in full-time work. So an assumption has to be made about the level of preceding earnings. Furthermore, assumptions about the duration of unemployment, marital status, the number of dependants, and so on. These assumptions are very important to make because they influence the level of unemployment benefits. Although the average replacement ratio is normally used, it is not a sufficient informative instrument to measure the monetary cost of unemployment to the unemployed.



Sinclair (1987:35-36) says on the fiscal side, unemployment means a severe drain on the public finances. An unemployed person earns no wage which would otherwise be subjected to income tax. As a result, no contributions for social security are made by the unemployed worker or the employer. Furthermore, the unemployed person spends less on goods and services, so less is collected in indirect taxes. Finally, the unemployment benefits that the unemployed may be eligible to receive from the government may have to be supplemented with additional welfare payments in cash or kind.

This will imply that those who were fortunate to retain their jobs will be hard pressed to pay higher taxes to enable the government to provide welfare to the unemployed. According to Dawson (1992: 82), it is, however, very important to view the fiscal cost of unemployment not as an additional loss but as part of the incidence of output loss.

## 4.4 **Psychological impact**

Unemployment is more inclined to have devastating effects on the psychological well-being of the unemployed and their families. Those who suffer a substantial loss of income due to losing their jobs are likely to experience stress and conflicts as the struggle to survive intensifies. Job loss may mean losing friends and perhaps even losing one's sense of identity (self-identity), self-esteem and committing suicide.



It should, however, be taken into account that some unemployed persons appear relatively unperturbed by their jobless condition and some are more concerned. Consequently, the mental health of an unemployed person reflects that person's response to his or her situation as well as the situation itself, so it is not an objective measure of the psychological cost of unemployment. Nevertheless, an effort must be made to measure or estimate the degree and extent of psychological damage. There are, however, three difficulties in making that effort. First, instead of a simple dichotomy between those who are desperate for work and those who are happy about their jobless status, there is a continuum from those who are driven to mental collapse to those who do not want any work offers. Second, it is unlikely that the long-term unemployed will feel the same way about their unemployment after a year as they did on the day it began. Some different people will assume

different positions along the continuum at different times. Third, there is the likelihood that psychological impacts are part of the explanation of an individual's unemployment rather that some of its effects (Dawson 1992:88-89).

Psychologists have, however, done much to overcome these problems through longitudinal studies (where people are followed over a period of time during the time of losing their job and when they get employed again) using standardized questions. This assists in identifying people who are experiencing psychological problems which might be contributory in causing them to become unemployed and it enables the researcher to record changes on the psychological state of those who are subjected to long-term unemployment. However, the longitudinal studies have defects of their own. Those standardized questions can put words into the mouths of those being interviewed and the studies are conducted by using the sampling method and the results could not be reflective of the real situation. Nevertheless, longitudinal studies have made a significant contribution in understanding the psychological impact of unemployment (Dawson 1992: 89-90).



## 4.5 **Unemployment and physical health**

Micro data do not confirm that unemployment negatively affects the physical health of the unemployed. Worse health might affect one's chance of securing or holding on to his or her job, but there is no hard evidence that health deteriorates due to unemployment. Aggregative time series do, however, suggest some association between unemployment and other health factors particularly by the incidence of cardiac diseases. Furthermore, evidence has shown that there is a link between unemployment and infant mortality (Sinclair 1987:34).

However, even if unemployment is closely related to mortality and some specific causes of death, it still does not essentially imply that unemployment is a cause of ill-health and death. The reason lies in the philosophical problem of induction. Even if a correlation were to be found, it would be misleading. In conclusion,. it could be said that any changes in the unemployment rate are not compatible with variations in the mortality rate, and even if they correlate, they would be vulnerable to numerous contradictory interpretations. Therefore, because of the lack of consistent or reliable longitudinal studies of the impact of unemployment on physical health, there is no strong reason to believe that unemployment has a noticeable negative effect on the physical health of the unemployed (Dawson 1992:95).

## 4.6 **Unemployment and poverty**



According to Spier (1994:10), unemployment is closely associated with poverty. Even people who live below the poverty line believe that their plight can be eased through job-creation and training for work and entrepreneurship. According to Slabbert (1997: 69), given that labour is the major resource available to the poor, unemployment is one of the determinants of poverty. Employment or lack of it is, therefore, the most single determinant of poverty. This implies that there is direct relationship between unemployment and poverty. In South Africa, this argument is supported by Levin (1994:13-14) when he says that the poor urban areas are made of large number of unemployed people. Although urban incomes are more generally higher and services are more accessible, most impoverished town dwellers are likely to suffer more than rural dwellers from certain aspects of poverty. Usually, the urban poor live in slums or squatter

settlements where there is often over-crowding, bad sanitation and unclean water. Many of the poor are migrants from rural areas who came to the urban areas to look for better opportunities.

Furthermore, in Barker (1999: 9), a major reason for inequality in South Africa is the gap between the employed and the unemployed. The Gini coefficient could be minimised from 0,60 to 0,41 if the unemployed and people in the informal sector were excluded from the data, which shows how drastic inequality might be reduced if more jobs were created. Therefore creating more jobs even at lower wage rates will improve and lift a large number of people out of poverty.

Finally, Barker (1999:9) argues that it would even be very difficult to implement the affirmative action policies if there is no significant increase in employment. The implication of this is that the inequalities caused by apartheid policies are likely to remain for some time.



## 4.7 **External costs of unemployment**

Unemployment could have some devastating effects on people other than the unemployed and their dependants (hence external costs). According to Dawson (1992:95-96), much research has largely been dedicated to the alleged association between unemployment and crime. The principal assumption is that unemployment induces people, who would not otherwise become involved in criminal activities, to commit crimes because they spend much of their time idling or perhaps they are under financial pressure or they act out of frustration and anger.

The external costs would be reflected in casualties or material losses suffered by their victims (those who have been affected by the offences committed by the unemployed) and the monetary costs to the authorities for investigating these offences.

The impact of unemployment upon the youth, particularly those who were in the forefront of the anti-apartheid liberation struggle in South Africa, could be devastating. Many of these young people have been unemployed for six years or more. In Everatt and Sisulu (1992:39-40) these youths are seen as a potential threat with a capacity to terrorise their own communities. The continuing marginalization of such youths has helped to harness the growth of violent and criminal youth gang formations in the townships. The bellicose youth gangs which have increased over the past few years are concrete indices of marginalazation. Contrary to the belief that people join gangs due to indolence or inherent vice, the increase of youth gangs should be understood as a survival technique in a society which has relegated many of it's young to poverty and desperation. As a result, many youths have resorted to seeking social and economic relief from the wrong side of the law.

## 4.8 **Summary and conclusion**

This chapter has given attention to the impact of unemployment on the unemployed, their dependants and the larger society. Its impact on physical health is the most refuted consequence. The economic costs (output loss and financial loss) need to be understood in an opportunity cost analysis because an average person may not see such losses accruing.

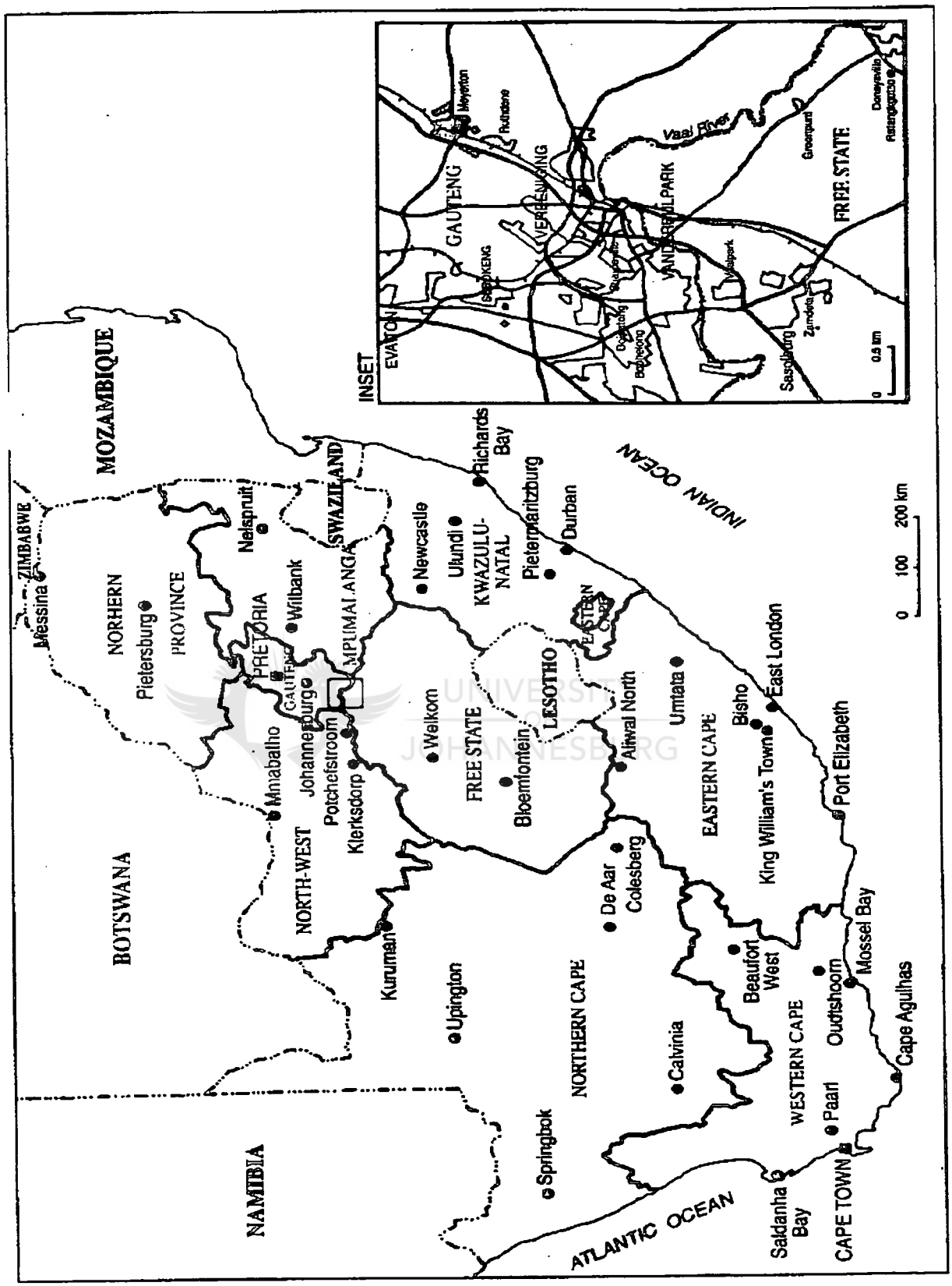
Unemployment is being mooted as one of the conditions that create fertile grounds for social and political instability. One major consequence of unemployment is its impact on the youth. Much of the youth's crime and violence is blamed on unemployment which goes hand in hand with marginalization of the youth. In Chapter 3 it has been argued that crime may lead to a decline in direct capital investment which may, in turn, reinforce the crime problem. This problem is more acute given that most of the youth have been unemployed for more than three years, and that most of them have a limited level of education. Given both the causes and consequences of unemployment, the major challenge is to find the necessary policy options and strategies to fight the unemployment problem and thus enhancing human development. Some of the policies and strategies to fight unemployment are discussed in Chapter 6.

# CHAPTER 5: **UNEMPLOYMENT IN THE LEKOA VAAL TRIANGLE METROPOLITAN AREA (LVTMA)**

## 5.1 **Introduction**

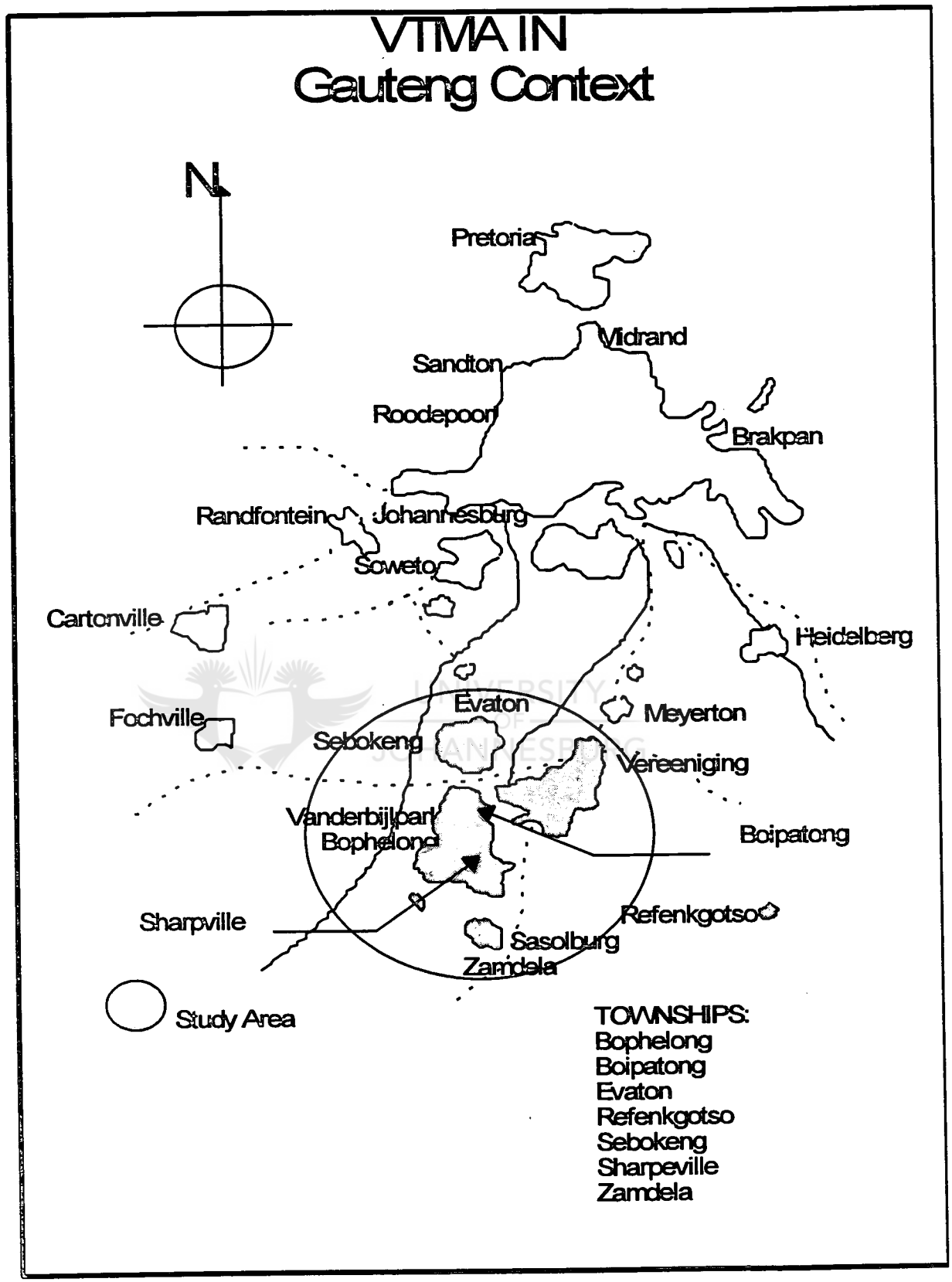
In this chapter, the historical background of the LVTMA is outlined and population estimates are given. The structure of the LVTMA economy and the linkages that exist between the different sectors of the economy is outlined. The profile of the employed people is given. The unemployment rate and the profile of the unemployed will also be outlined. The chapter concludes by giving an analysis of the impact of any restructuring by one of the major companies in the LVTMA, particularly companies in the manufacturing sector (e.g. Iscor).

Figure 5.1 THE LVTMA IN NATIONAL CONTEXT




Source: Slabbert, Van Wyk, Levin, & Coetzee. **Africa Insight1996**: 148.

**Figure 5.2 THE LVTMA IN GAUTENG CONTEXT**




SOURCE: **Vaalmet Consortium** 1995: Plan 2 (adapted).

## 5.2 **Historical background of the LVTMA**

The Lekoa Vaal Triangle Metropolitan Area (LVTMA) is situated in the south of the Gauteng Province and north of the Free State Province - as shown by two figures 5.1 and 5.2. The history of the towns of the LVTMA are closely related to the discovery of coal deposits at the end of the 19th century near Vereeniging, the establishment of iron and steel works by USCO-Iscor gave birth to the Vanderbijlpark town in 1941 and the Meyerton town later, and the establishment of the South African Synthetic Oil Limited (SASOL) Company led to the establishment of Sasolburg in 1954. These past economic developments in the region had been accompanied by the creation of corresponding black labour force reservoirs on the urban boundaries. The oldest township is Evaton (1904), followed by Sharpville (1941), Sebokeng (1965), Bophelong and Boipatong (1955) and Zamdela and Refengkotso (1970s).



With the establishment of democracy and the subsequent integration of municipal authorities, clusters of prominent urban areas in the study area include the following (Slabbert 1998: 3):

**Eastern Vaal Metropolitan Substructure (EVMS):**

Vereeniging and suburbs

Sharpville

Meyerton

Evaton

Sebokeng North (Zone3, 6, 7 & 8)

## 5.3 **Population estimates in the LVTMA**

The 1998 population of the VTMA is estimated at 991,284 persons as shown in table 5.1 and 5.2.

**TABLE 5.1: POPULATION ESTIMATES OF THE LVTMA (1998 ESTIMATES)**

| Area | Population | Households | Population Percentage |
|---|---|---|---|
| WVMS | 323, 070 | 63, 785 | 32.6% |
| EVMS | 559, 337 | 110, 433 | 56.4% |
| Northern Free State | 108, 877 | 21, 496 | 11.0% |
| TOTAL | 991, 284 | 195, 714 | 100.0% |

Source: Slabbert 1999: 2.

Table 5.2 shows that the majority of the population in the LVTMA is based in the former black townships. The EVMS has the largest population in the LVTMA. However, these population figures, per geographical distribution, are likely to change as people move from one substructure into RDP houses in another substructure.

| TABLE 5.2: GEOGRAPHICAL DISTRIBUTION OF THE LVTMA POPULATION (1998 ESTIMATES) | | | | | |
|---|---|---|---|---|---|
| **NORTHERN FREE STATE** | | **EVMS** | | **WVMS** | |
| SUBURB | POPULATION | WARD | POPULATION | WARD | POPULATION |
| Sasolburg | 34, 168 | 1 | 12, 722 | 1 | 7, 313 |
| Zamdela | 56, 596 | 2 | 12, 159 | 2 | 6, 592 |
| Deneysville | 861 | 3 | 9, 450 | 3 | 8, 315 |
| Refenkgotso | 18, 113 | 4 | 9, 330 | 4 | 5, 016 |
| | | 5 | 8, 648 | 5 | 6, 371 |
| | | 6 | 16, 015 | 6 | 8, 315 |
| | | 7 | 8, 248 | 7 | 5, 681 |
| | | 8 | 9, 565 | 8 | 7, 252 |
| | | 9 | 6, 543 | 9 | 7, 414 |
| | | 10 | 22, 613 | 10 | 14, 256 |
| | | 11 | 21, 724 | 11 | 16, 276 |
| | | 12 | 50, 854 | 12 | 11, 982 |
| | | 13 | 30, 155 | 13 | 52, 144 |
| | | 14 | 114, 010 | 14 | 46, 082 |
| | | 15 | 54, 345 | 15 | 33, 263 |
| | | 16 | 64, 411 | 16 | 18, 355 |
| | | 17 | 54, 345 | 17 | 43, 794 |
| | | 18 | 53, 300 | 18 | 24, 648 |
| TOTAL | 109, 738 | TOTAL | 559, 337 | TOTAL | 323, 070 |

Slabbert 1999: 3.

According to Mokoena (1994: 42-44) and Slabbert and Pelupessy (1999:2), the population growth in the LVTMA townships is accelerating and is above the national growth rates. This increase is not followed by an increase in employment and employment opportunities thereby leading to an increase in poverty. This drastically increase in population size has been caused by some of the following factors, inter alia, a decline in the infant mortality rate compared to a relatively constant fertility rate, life expectancy for the Gauteng area has risen to 65 for blacks, increased urbanisation and illegal immigration. The resultant population increase is putting a strain on the resources of the region. Given the high rate of poverty in this region, people compete for the few available jobs and this results in low levels of income and thus sustaining poverty.

## 5.4 A profile of the LVTMA economy



### 5.4.1 Structural composition

The EVMS is the largest economy with a 38.1 percent contribution into the LVTMA economy, followed by the WVMS with 31.2 percent and lastly Sasolburg with a contribution of 30.7 percent. Both the EVMS and the WVMS, with the exception of Sasolburg, have seen their contribution declining since 1990. The structural composition of the LVTMA economy can be described in terms of the main economic sectors namely, primary, secondary and tertiary sectors and trends experienced by these sectors (Slabbert 1999: 6).

The primary sector consists of two sub-sectors, namely agriculture and mining. Agriculture is a relatively small economic activity in the LVTMA in spite of its growing trend (it increased its contribution to the gross geographic product (GGP) from 1.3 percent in 1970 to 1.8 percent in 1995). Expansion in the agricultural sector is dependant on the increase in household income. According to Slabbert and Pelupessy (1999: 14), the agricultural sector of the LVTMA has a relative high employment multiplier. If urban agriculture could be stimulated, a large number of employment opportunities can be created at a lower cost than is the case with commercial agriculture. Even though backward linkages of agriculture are generally weak, they may be much stronger in the case of urban agriculture compared to commercial farming. The types of implements needed by a small urban farmer are of the nature that they can be produced by the SMMEs in the region while commercial farming inputs are mainly imported. So the stimulation of small farming can generate more income and employment in the LVTMA (Slabbert & Pelupessy 1999: 18).

The coal mines in the LVTMA sell 90 percent of their coal to local industries for power generation and for synfuel and petrochemical production. Backward linkages are, however, very small. This sector is not considered as a key-sector for employment creation and income generation particularly in the poor areas. The contribution of the mining sector declined from 5.5 percent in 1970 to 3 percent in 1995 ( Slabbert 1999: 10).

The secondary sector consists of three sub-sectors, namely manufacturing, electricity/gas/water and construction. Manufacturing is the largest contributor to the GGP of the LVTMA, about 55.2 percent in 1995, falling from 64.3 percent in 1980. Two main groups of industrial activities dominate the manufacturing sector, namely chemicals in Sasolburg and metals in the EVMS and WVMS. About 74.7 percent of the manufacturing activities are in the metal and metal product industries. This shows a strong dependence of the LVTMA on these industries Slabbert 1999: 10-11).

Manufacturing has strong backward linkages, mainly within the same sector, mining and agriculture, that is, about 85 percent of the inputs come from the LVTMA region. The local forward linkages are weak, because most of the outputs are exported outside the region. There is, therefore, sufficient scope for value-added production possibilities. On the other hand, an increase (or scaling down) of output by this sector will have major implications for employment opportunities in the LVTMA (Slabbert 1997: 184-185 & Slabbert & Pelupessy 1999: 14-15).

The construction sector has strong backward linkages with manufacturing, other construction activities, finance and professional services. Its local forward linkages are also very strong. This sector also has strong household income and employment multiplier effects. Even though its contribution to the GGP of the LVTMA declined from 4.6 percent in 1970 to 1.7 percent in 1995, it is expected to increase because of the construction of about 40 000 low cost housing units (Slabbert 1999:11).

The LVTMA is an important supplier of electricity and water in the Gauteng province(about 42 percent), and supplies gas to various industrial consumers within 100 kilometres from Sasolburg. The contribution of the electricity/gas/water sector to the GGP of the LVTMA has improved from 8.3 percent in 1970 to 11.6 percent in 1995. This trend shows that this sector is becoming very important in the LVTMA economy (Slabbert 1999: 11). However, the capital-intensive nature of this sector means less employment creation potential. Furthermore, the performance of this sector is derived from the economic performance of the other sectors, that is, it follows economic developments rather than initiating them.

The tertiary activities include the following sectors: Trade, transport, financing, personal and government services. Combined, the contribution of these sectors to the GGP of the LVTMA increased from 19.8 percent in 1970 to 26.7 percent in 1995. Of these tertiary activities, the trade sector has the highest employment multiplier in the LVTMA (Slabbert 1999: 11).

### 5.4 2 **Employment Profile**

The potential labour force of the LVTMA in 1998 comprised of 66.6 percent of the total population of the LVTMA, that is, 660, 171 persons. Most of the economically active population of the LVTMA, about 64 percent, is involved in artisan, production and clerical related jobs. These occupations reflect the characteristic of a region that has a strong industrial base.

| TABLE 5.3: LABOUR FORCE OF THE LVTMA (1998 ESTIMATES) | | | |
|---|---|---|---|
| **Activity** | **Numbers** | **Percentage Distribution** | |
| | | Population | EAP |
| Population | 991, 284 | 100% | |
| Less: Persons 0-14 years &65+ years of age | 331, 077 | 33,4% | |
| Potentially Economically Active | 660, 171 | 66,6% | |
| Less: Do not want to work | 249, 794 | | |
| Economically active | 410, 377 | 41,4% | 100% |
| Employed in the VTMA | 152, 652 | 15,4% | 37,2% |
| Employed outside VTMA | 35, 685 | 3,6 % | 8,7% |
| Other employed (informal/part-time) | 49, 562 | 5,0% | 12,1% |
| Unemployed | 172, 477 | 17,4% | 42,0% |

Source: Slabbert1999:19.

| TABLE 5.4: EMPLOYMENT PROFILE BY SECTOR (1998 ESTIMATES) | | |
|---|---|---|
| **ECONOMIC SECTOR** | **EMPLOYMENT** | **PERCENTAGE** |
| Agriculture | 3, 969 | 2.6 |
| Mining | 2, 595 | 1.7 |
| Manufacturing | 56, 939 | 37.3 |
| Electricity/ Gas/ Water | 4, 274 | 2.8 |
| Construction | 9, 922 | 6.5 |
| Trade | 32, 362 | 21.2 |
| Transport | 5, 953 | 3.9 |
| Financing | 6, 259 | 4.1 |
| Services | 30, 378 | 19.9 |
| TOTAL | 152, 652 | 100 |

Source: Slabbert 1999: 5.

The LVTMA specializes in certain sectors namely: First, the manufacturing sector of basic metals, metal products, and chemicals. These activities constitute about 80 percent of all manufacturing employment opportunities. Second, the trade and services activities account for about 84 percent of tertiary employment. The employment profile in Table 5.4 shows that labour is highly involved in manufacturing (37.3 percent), followed by trade (21.2 percent) and service related activities (19.9 percent).

### 5.4.3 **Unemployment rate in the LVTMA**

Table 5.3 gives the unemployment rate in the LVTMA according to the expanded definition. Since 1993 the unemployment trend has been showing a sustained increase in the unemployment rate in the LVTMA. According to Slabbert (1999: 6), most of the unemployed have been unemployed for more that three years. This is a cause for concern, because the skills of such persons may easily depreciate thereby diminishing their chances of finding employment. It is also likely that the same group is moving upwards in the age categories annually without finding employment. About 26 percent of the unemployed have less than five years of formal training, implying that they are functionally illiterate. Given the level of sophistication of the modern formal economy, this category of the unemployed people has a slim chance of finding employment.

| TABLE 5.5: UNEMPLOYMENT RATE IN THE LVTMA (1993-1998 ESTIMATES) | | | | | | |
|---|---|---|---|---|---|---|
| Year | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
| Unemployed as % of population | 13,5% | 13,8% | 14,7% | 15,6% | 16,5% | 17,4% |
| Unemployed as percentage of EAP | 32,5% | 33,2% | 35,5% | 37,5% | 39,7% | 42,0% |

Source: Slabbert 1999: 5.

According to Slabbert and Pelupessy (1999: 4), in the period of 1993-1998 the labour force in the LVTMA increased by 7 percent while the number of unemployed increased by more than fourteen percent. Even the number of those who are working outside the LVTMA region declined by about ten percent. The main reason for this general decline in employment and job opportunities has been the industrial restructuring taking place in the Vaal region.



Considering only the EVMS and WVMS townships and towns, in 1998 formal jobs were virtually absent in the townships where the majority of the population resides. The total participation rate of the townships between 1993 and 1998 fell almost by a half from 0.81 to 0.44 percent in terms of business turnover, whereas the three towns continued to dominate in terms of economic activity and business turnover(Slabbert & Pelupessy 1999:5).

### 5.4.4 **Education facilities**

The discriminatory policies on education during the apartheid era negatively affected the quality of black labour. This is also true for black people in the LVTMA. According to Mokoena (1994:45), education in the LVTMA townships, like in many other townships, suffered from violence where schools were disturbed on a regular basis. This left many young people out of school with no prospects of good employment. Those who managed to pass their secondary education were, most of all, unprepared for university and technikon studies because of the huge backlog in their school careers.

According to Slabbert (1999: 3), the shortage of teachers, classrooms and equipment are constraining factors in both primary and secondary education especially in the LVTMA townships. Nevertheless the region appears to have enough tertiary education facilities (Vista University, Sebokeng Campus, Potchefstroom University Vaal Campus, Vaal Triangle Technikon and a number of technical colleges) and is closer to other tertiary institution within the Gauteng Province.

## 5.5 Implications of restructuring

| Table 5.6 TOTAL REMUNERATION PER SECTOR FOR THE LVTMA (1998 ESTIMATES) | | |
|---|---|---|
| **ECONOMIC SECTOR** | **TOTAL REMUNERATION PER YEAR R'000** | **PERCENTAGE** |
| Agriculture | 18, 168.73 | 0.4 |
| Mining | 199, 607.85 | 4.4 |
| Manufacturing | 2, 529, 892. 92 | 55.7 |
| Electricity/Gas/Water | 164, 188.52 | 3.6 |
| Construction | 141, 155. 21 | 3.1 |
| Trade | 543, 691.69 | 12 |
| Transport | 117, 866.21 | 2.6 |
| Financing | 241, 145.98 | 5.3 |
| Social services | 35, 244.27 | 0.8 |
| Government | 441, 685.22 | 9.7 |
| Other | 108, 726.42 | 2.4 |
| TOTAL | 4, 542, 183.00 | 100 |

Source: Slabbert 1999: 6.



As mentioned in section 5.4.2 and Table 5.4, manufacturing is the biggest employer in the LVTMA and, within the manufacturing sector, Iscor is the largest single employer. The total remuneration in the manufacturing sector amounted to R2.52 billion which is more than half (55.7 percent) of the total remuneration in 1998 (see Table 5.6). Of the contribution of manufacturing, Iscor accounted for more than half of that, about R1.401 billion. In the entire LVTMA economy, Iscor accounted for over 30 percent in 1998.

These figures about Iscor and the strong backward linkages that manufacturing has with all the other sectors indicate that any scaling down of production activities by Iscor will have large ramifications for the LVTMA economy.

Before the opening up of the South African economy, Iscor enjoyed high protective tariffs, as high as 40 percent on all imported steel. This effectively shielded Iscor against any foreign competition. Furthermore, Iscor got support from the government in the form of rewards for exports through the general export incentive scheme (GEIS) which was helping Iscor to the tune of R150 million a year. The opening up of the South African economy and its membership of the WTO, however, saw a drastic reduction in import tariffs on steel and the GEIS discontinued. All these changes implied that Iscor had to adapt to meet global competition, particularly from the British and the South Koreans, who employed fewer workers than Iscor and still achieve the same level of output. The first adaptation is to cut costs and that could be achieved mainly by cutting the workforce (Sunday Times 10 January 1999: 15).

Another problem, as Iscor was trying to reposition itself in the global arena, was the Asian crisis of 1997-1998 which significantly reduced the world demand for steel. Even the subsequent decline in the value of the Rand could not make the demand for South African steel competitive. Instead, the price of steel plunged further from $380 in 1996 to $180 per ton in 1999, fast approaching a point where Iscor would not make any profit. Even within South Africa, the prospects for growth in sales for Iscor are bleak. For Iscor to sell the same amount of steel, at least a 2.5 percent GDP growth per year is needed and GDP growth for 1999 is less than the required level

(Sunday Times, January 10, 1999: 15). This implies a further reduction in production and inevitably on employment. Given the strong forward linkages and the employment multiplier of the manufacturing sector and the contribution of Iscor in the LVTMA economy, the further projected decline in Iscor activities implies huge problems for the LVTMA economy. These impending consequences call for the identification and support of new growth areas in the LVTMA which can take the place of industrial giants such as Iscor.

According to Slabbert (1999: 12), the measures that are needed to counter the decline in economic activities and employment creation include the formulation of a regional economic policy (REP). The REP should be aimed at stimulating those sectors which have high employment- and income-multipliers. For this purpose a regional input-output model of the LVTMA economy needs to be constructed. Such an initiative has been taken by the three tertiary institutions in the LVTMA (Vista University, Potchestroom University, Vaal Triangle Technikon) in collaboration with two European Universities namely, Tilburg Universtiy of the Netherlands and Molde College of Norway as well as the Lekoa Vaal Triangle Metropolitan Council. The research project started in 1998 and is expected to be concluded in 2001.

## 5.6 **Summary and conclusion**

In the LVTMA the problem of unemployment resembles the national one. Unemployment calculated by using the expanded definition in the LVTMA is over forty percent, which is slightly above to the national figure of 37.6 percent using the same definition. Most of the unemployment occurs in black

townships where the majority of the LVTMA population lives. The most critical area is that the quality of black labour has been affected by poor education, and in this era of globalization the economy needs highly skilled people. This is more true for an economy with a strong industrial base like the LVTMA economy.

The manufacturing sector is the biggest employer, has the highest turnover, and all the other sectors are feeders into this sector. Within the manufacturing sector, Iscor is the largest single employer, contributing more than half of the total remuneration by this sector and accounting for more than thirty percent of the total remuneration in the LVTMA economy. Because of the globalization process and the world-wide decline in demand for steel, it is inevitable for Iscor to scale down some of its activities. Given the importance of the manufacturing sector in the LVTMA economy, Iscor in particular in terms of income, employment and backward linkages, any scaling down of production activities by this sector is likely to send negative vibrations throughout the LVTMA economy. Restructuring is inevitable, therefore, and for the LVTMA economy to enjoy sustainable growth, efforts should be made to diversify the economy as far as possible. Some of the policies and strategies that the authorities can adopt to improve the state of the LVTMA economy and the employability of the workforce are discussed in the subsequent chapter.

# CHAPTER 6 **EMPLOYMENT CREATION POLICIES AND STRATEGIES**

## 6.1 Introduction

Given the intricate nature of the unemployment problem, it needs an integrated approach to solve it. An integrated approach to fighting unemployment means understanding that employment and unemployment are central components of the economy. In this chapter the different policies and strategies which can be adopted to solve the unemployment problem are outlined.

## 6.2 Reducing the rate of job elimination

**"In my government all ministers are ministers of full-employment"- Olof Palme, late Swedish Prime Minister**

The central issue here is the gap between the number of eliminated and newly created jobs. Between 1990 and 1998 about 430 000 jobs were eliminated and the economy has been unable to replace even half of those jobs. What can be observed in South Africa is that the restructuring and privatization processes have made insufficient allowance of the human factor and the need to give the people made redundant hope and opportunities for re-employment (Boland PKS 1998:7).

How to reduce this rate of job elimination is the crucial question for economic policy. Kabaj (1995: 225-226) suggests the following three principles which any restructuring process or privatization process should follow:

★ Principle One: Any restructuring programmes must take full cognisance of the human factor, providing opportunities for

employment, retraining and fuller utilization of available labour resources.

★ Principle Two: Any planned restructuring should be preceded by a comprehensive cost-benefit simulation analysis. Depending on the outcome of such an analysis, the proposed programmes can be accepted, modified or abandoned.

★ Principle Three: should it turn up that there is no chance for doing something useful or that the aggregate costs of eliminating jobs will exceed the expected benefits, then alternative solutions should be investigated.

## 6.3 Stimulating foreign trade

If South Africa is to be part of the globalization process, both trade liberalization and economic restructuring are inevitable. It is, therefore, important for South Africa to adopt and implement an aggressive export-oriented growth strategy as envisaged in the Gear policy. As mentioned in Chapter 3, South Africa's export profile consists mainly of primary products (whose world prices are fluctuating) and its import profile consisting mainly of intermediary and capital goods (which are expensive) causing problems in the country's current account of the balance of payments, thereby hampering both economic growth and employment creation. It is, therefore, important for the country to establish a strong manufacturing base that will be export-oriented. According to van Rensburg and Naude` (1999: 271), the endogenous or "new" growth theories suggest that exports may raise productivity. Productivity growth is linked with increasing returns to scale, learning by doing (LBD) and "spill-over" effects of export expansion.

In van Rensburg and Naude` (1999: 271-272), the following related arguments are advanced on the positive relationship between exports and productivity:

★ Exports may help in the allocation or reallocation of investment in the most efficient and competitive way amongst sectors of the economy. The resultant increase in specialization in export-oriented sectors may stimulate productivity in those sectors.

★ Higher export growth may enable manufacturing firms to achieve economies of scale because of the increased access to international markets and can thus make larger scale operations profitable.

★ Domestic firms are exposed to international competition and, as a result, they may be forced to keep costs relative to outputs low. The need to keep costs low may necessitate the introduction of new technology which improves productivity.

★ The growth of exports may result in a positive influence on productivity of the entire economy via externalities of exports on other sectors.



★ Export-led productivity may result in an increase in foreign contributions to the local stock of knowledge as the number of transactions between the domestic and foreign agents increase.

★ An increase in exports may result in an increase in foreign exchange earnings, which facilitates domestic growth through improved availability of essential imports.

## 6.4 Stimulating investment

Connected to foreign trade is the stimulation of foreign direct investment. As mentioned in Chapter 3, due to isolation, South Africa could not take advantage of the technological boom of the 1980s, and the investment made

during that decade in South Africa was for strategic and not for economic reasons. Given the current conducive political environment in South Africa, strategies and appropriate policies need to be put in place in order to attract direct foreign investment (FDI). In the long run, the rate of employment increase will depend largely on investment both in the private and public sector. The propensity to invest is mainly hampered by high rates of interest and low rates of return. In such circumstances, promoting investment by various means, particularly through a properly designed tax policy, is crucial.

According to the GEAR policy (1996: 27), FDI plays an important role in encouraging growth through:

★ Modern technology which is frequently transferred through new investment flows;

★ transfer of essential skills, management expertise and high levels of training;

★ access to international sources of finance and

★ access to global markets.

According to Okeahalam and Bah (1998:377), attracting foreign investment is essential for economic growth, reform and development. The global economic reforms which are taking place and the transition of a number of economies to transparent market principles have rendered the demand for private sector investment highly competitive, and Sub-Saharan Africa (including South Africa) attracts a small amount of the global private capital flows.

For Sub-Saharan Africa to attract more private investment, countries in this region must find ways of countering the negative perception of rampant corruption which investors have about the region. This calls for the establishment of self-regulatory incentives and appropriate regulations to uproot corruption and build investor confidence.

## 6.5 Promoting small, medium and micro enterprises (SMMEs)

In Joubert, Schoeman and Blignaut (1999: 24)"SMMEs are defined in the National Small Business Act of South Africa (NSBASA)as distinct business entities, which are not part of a group of companies. If an SMME does have subsidiaries and branches, they must all be included when measuring size. An SMME should be managed by its owner or owners, and can be a natural person, a sole proprietorship or partnership, or a legal person like a close corporation or a company".



Internationally (both in developed and developing countries), a number of initiatives exist to promote small business. For an example, in the United States of America, the Small Business Administration serves the needs of relatively small firms and small development centres exist nationwide. In Germany, laws and institutions exist to assist SMMEs at federal, provincial and local levels. In the Far East, South Korea's Bureau of SMMEs provides similar services. Brazil has a programme for fostering small-scale industries in an attempt to absorb the unemployed and crime-disposed 'street boys'. In Africa, countries like Zimbabwe, Togo, Uganda, Ghana, Cote d'Ivoire, Nigeria, Kenya, Malawi and Burkina Faso have their own SMMEs programmes and/or regulatory frameworks. In developed countries, like the USA and UK, SMMEs occupy an

important but minority position, accounting for about a third of employment and a lower share of output. However, in developing countries, SMMEs probably outnumber large firms by a bigger margin, hence their prosperity is considerably more important for a developing country (Rwigema and Karungu 1999: 111).

The rationale for assisting the development of SMMEs includes the following (Schoeman, Blignaut & Joubert 1999: 30. & Rwigema & Karungu 1999: 111):

★ SMMEs have shown a relatively strong labour absorption capacity, especially the unskilled.

★ SMMEs are usually locally owned or controlled, and can, therefore, be helpful in strengthening the extended family and other social fabrics and cultural traditions.

★ In South Africa, the establishment of SMMEs can be used as a vehicle of empowerment of the previously marginalised communities.

★ SMMEs provide a good breeding ground for entrepreneurship and innovation.

★ The products of SMMEs are inclined to reflect local technology and are more likely to satisfy the needs of poor people than the products of large enterprises and foreign technology.

In South Africa, as in the rest of the world, SMMEs play an important role in job creation and will be instrumental in empowering the previously marginalised section of the population. In South Africa, about 90 percent of formal business is supposed to be small, medium and micro, excluding informal business and survivalist activities. Therefore, the need to vigorously promote SMMEs in South Africa is being

recognised. In 1996, the National Small Business Act was passed and its aim is to create an enabling environment for a dynamic SMME sector. The Act also provides for the continual review of laws which have detrimental effects on SMMEs. In 1995 the Department of Trade and Industry (DTI) established a number of agencies (like the Centre for Small Business Promotion, Khula Enterprises Finance Ltd, Ntsika Enterprises Promotion Agency and the National Small Business Council) to stimulate and coordinate the SMME sector. Local governments, on the other hand, are attempting to emulate this with programmes of their own. They, too, have a direct stake in SMME development, because a strong business sector benefits the fiscus, creates jobs and can be useful as a medium of empowerment (Rwigema & Karungu 1998: 113-115).

Given the strong forward and backward linkages of the trade sector with the other major sectors in the LVTMA, stimulating trade in the townships could lead to an increase in employment opportunities as well as household income. Therefore, existing SMMEs in the trade sector should be assisted to supply products to households in the townships in such a way that would entice households to buy mainly from such SMMEs. This calls for improved infrastructure, training facilities and enhanced social conditions to stimulate the productive absorption of relatively cheap labour in these areas. There is, therefore, a need to identify, encourage, guide and support potential and existing SMME entrepreneurs to enable them to enter into ventures with strong employment multipliers. However, caution should be taken that the region does not compromise its competitive industrial base (Slabbert, & Pelupessy, 7-8 April 1999:16 & 22).

## 6.6 Labour market reforms

According to the GEAR policy (1996: 31), greater labour market flexibility has emerged in many countries, improving the prospects of the unemployed finding work but widening the wage distribution. The collective bargaining system must strike a balance between improving working conditions and promoting training and productivity growth while at the same time ensuring labour market flexibility. Furthermore, according to Barker (1999: 11-12), international evidence shows that trade liberalization and other economic reforms should be accompanied by greater labour market flexibility. Competition on the basis of labour costs has become increasingly important in international trade, which means that appropriate labour policies play a central role in the ability to adjust to and withstand international competition. Australia is the best example in this regard. In addition to the internalization of the economy, far-reaching labour market reforms which had the support of the trade unions were put into place. These policy changes helped the Australian economy to quickly adjust to international competition, and most of the negative employment effects of globalization were avoided.

However, this call by the GEAR policy for flexibility of the labour market is contradicted by the Employment Equity Act which makes employing new workers burdensome to potential employers. Even sectors, like the SMMEs, which are highly regarded as having the highest labour absorption capacity are not exempted from the provisions of the Act (Boland PKS 1998:9). Many politicians and labour unionists argue that the labour laws are in line with international practice. However,

in the light of global competition to attract FDIs, there is a need for the government to review the Labour legislation to make the necessary adjustments which can help to improve the flexibility of the labour market, thereby improving employment creation opportunities, especially in the SMME sector.

### 6.7 Tourism

This industry is still under-developed in South Africa, and indeed throughout the Southern African Development Community (SADC) region. It has the potential to expand and become the major employer. According to Futter and Wood (1997a: 61), the contribution of the tourism industry to GDP in South Africa shows a consistent increase, and is greater than the contribution of the energy and agricultural sectors. It is estimated that its contribution to GDP will increase to 7 percent by the year 2000. In Futter and Wood (1997b:50) it is estimated that about 810 000 people in South Africa are directly and indirectly employed in the tourism industry and, if the expected and potential growth in tourism is realised, about 350 000 extra jobs could be created by this industry.

Most of South Africa's exotic areas are in the provinces where unemployment and poverty are rife. So by strengthening the tourism industry and the use of local resources in those provinces it can benefit areas such as the LVTMA, because it will mean less migration into the cities. This will, in turn, mean less pressure on urban resources, thereby enabling proper urban development and planning processes to be effective. Furthermore, urban tourism should also be encouraged not only because of the need to increase employment but also to diversify the economy as wide as possible.

However, if any success is to be registered in as far as tourism development is concerned, the issue of crime should be addressed decisively by all layers of government. Furthermore, to ensure that any tourism strategy benefits local people, thorough social and economic impact assessments should be done.

## 6.8 **Development of human capital**

"An education system should be responsive to the needs of the economy. As such, it should provide the economy not only with enough well educated people, but also with people who have the appropriate qualifications and skills ...." (Cawker & Whiteford 1993: 70).

According to Fredderke, Luiz and de Kadt (1998: 71), the modern growth theory in economics places investment in human capital (education) at its core. In Rodgers (1995: 38) investment in education is viewed as a potent instrument for reducing inequality and for improving the productivity and earnings of the poor. According to the GEAR policy (1996: 14), comparative studies consistently reflect that progress in education is an important determinant of long-run economic performance and income redistribution. However, according to Fredderke, Luiz and de Kadt (1998: 71), in terms of developing human capital, South Africa has been a consistent failure. This is reflected by years of unsatisfactory matric results particularly in former black schools, as well as the decline in the number of pupils who take mathematics and physical science subjects.

Improving education in South Africa does not necessarily need increased expenditure, but focussed expenditure. Already, public expenditure in South Africa is higher, about 7.1 percent of GNP compared to countries such as Malaysia, South Korea and Brazil who are spending about 5.3 percent, 4.5 percent and 3.6 percent of their GNP respectively and still realising a good value for their money (Fredderke, Luiz & de Kadt 1998: 73). In the GEAR policy (1996: 14), the government is determined to redirect resources to historically disadvantaged communities, and calls for reduced subsidisation of the expensive parts of the education system as well as increased private sector involvement in higher (tertiary) education.

Finally, education and training must be able to keep up with technological changes to minimise the possibility of increased structural unemployment. Cawker and Whiteford (1993: 76-77) list the following four recommendations of the National Training Board (NTB)as far as training and technological changes are concerned:

★ Computer literacy should be introduced at all schools and high-level human resources training institutions.

★ There should be close cooperation between industries and training organizations to ensure that training is compatible to developments in industries. Arrangements should be made to give trainees some "hands on" experience during their training period. Furthermore, according to *de* Barros and Carmago (1995: 34), employment services and training institutions should devise a counselling service to the unemployed on the kind of retraining they should undertake to increase their employability. This is particularly essential in structural adjustment periods when the structure of demand for labour is

changing and there is a high rate of obsolescence of human capital.

★ The exclusivity of academic institutions should be changed as far as possible to accommodate technological studies.

★ Production workers should be retrained often to keep up with technological changes and to reduce the threat of redundancy in the face of ever-changing technology.

## 6.9 Public Works Programmes (PWPs)

According to *de* Barros and Camargo (1995: 32-33) PWPs can be a powerful instrument to reduce poverty generated by transitory unemployment. Many Latin American countries used PWPs to reduce the negative effects of structural adjustment programmes. Countries like Bolivia, Mexico and Honduras implemented PWPs during the period of structural adjustment to reduce the rate of unemployment and to increase political support for the adjustment process. For such programmes to be successful, labour-intensive technology should be chosen using the discount rate as a policy variable to make the technological choice. Furthermore, the "price of time" is an imputed price and a decision variable in the case of public facilities which are mainly non-tradable and non-competitive. The effect of these policies can be enhanced if they are planned and executed at local level.

In South Africa there is scope for PWPs because of the lack of basic infrastructures in the disadvantaged areas. In the LVTMA as in many regions of Gauteng, such projects have been undertaken.

In the townships, one of them, is the Vusani Amadolobha project which is aimed at improving the social infrastructure in the disadvantaged communities (Slabbert & Pelupessy 1999:20).

However, according to Kabaj, (1995: 221-222), unlike PWPs, the most effective method of limiting unemployment is to increase productive employment. Notwithstanding their social relevance, however, PWPs cannot, on their own, solve the unemployment problem that has its roots in deep recession and the transformation of the economy. Rather, they must be combined with other tools designed to increase the productivity of the jobs generated in the long-run.

## 6.10 **Policies aimed at reducing the supply of labour**

According to Cawker and Whiteford (1993: 58-59), in developing countries the problem of unemployment emanates from the supply side where the increase in the number of job opportunities rarely keeps pace with the rapid growth of the labour force. The effect of the demographic transition puts more pressure on those nations' ability to achieve high employment rates.

Even the developed nations, which have stable and low population growth, are faced with increasing unemployment levels. This implies those developing countries, like South Africa, must endeavour to keep the present and future labour force as small as possible.

Policies which developing countries can adopt to reduce the size of the labour force can be divided into three categories, namely, policies aimed at reducing the birth rate, policies to keep the EAP as small as possible, and policies aimed at spreading the available job opportunities as wide as possible.

### 6.10.1 **Policies to reduce the birth rate**

For any economy to achieve a sustainable growth path, the economy itself should increase at a faster rate than the population growth rate. This condition is important to reduce the size of the labour force and thus decrease the number of jobs that the economy has to create.

According to Cawker and Whiteford (1993: 59-60), in the South African context, policies to reduce the birth rate will only be of benefit in the medium and long-term, as the size of the labour force for the next fifteen years has already been determined. Nevertheless, attempts to reduce the birth rate during this period will serve to reduce the number of dependants on economically active members, and assist to stabilize the size of the labour force in later years. Furthermore, an immediate reduction in the birth rate would help to reduce the need for social service such as housing, education and health services and reduce the pressure placed on the country's environment and natural resources.

However, according to Cawker and Whiteford (1993: 59), the danger exists that these policies could be perceived as being similar to the past policies of social engineering and an effort to bring down the numbers of the non-white population. Therefore, policies of this nature need to be handled

sensitively as they are mainly aimed at the "non-white" population whose numbers are still very high. Furthermore, factors such as the cultural and economic importance of large families to some people, as well as religious or other objections should also be accommodated and handled sensitively when undertaking to encourage people to have smaller families.

### 6.10.2 **Policies to reduce the EAP**

Measures to reduce the EAP include, *inter alia*, the following (Cawker & Whiteford 1993:60-61):

★ Delay an individual's first-time entry to the labour market. Measures to achieve this includes raising the age of compulsory school attendance, expanding educational and training facilities and the establishment of institution of compulsory community service work for all youths. In Slabbert (1997: 201), of the poor unemployed in the LVTMA, using 1994 calculations, 65 percent are below 35 years of age. Many of these young people are unemployed straight after school as they find it difficult to obtain employment. If they could remain in school for a longer period, this would not only help to reduce the supply of labour, but simultaneously help to improve the quality of their labour before joining the labour market. Given the high incidence of poverty in South Africa, this measure could only be successful if it is supplemented by social welfare measures.

★ Encouraging individuals to exit from the labour market at an earlier age. One measure to realise this is to legislate a lower pensionable age and to encourage early retirement. The problem with such a policy is that for it to succeed pension payments would have to be high so that early retirement could be attractive.

★ Encouraging temporary exits from the labour market. This could be achieved by promoting further adult education and training on a full-time basis. This action could, beside temporarily reducing the labour force, increase the quality of labour in the long term. All the above policy options to reduce the EAP would be both expensive and mean an increased financial burden. Therefore a careful cost-benefit analysis should be done to ascertain whether or not the partial alleviation of unemployment would justify the increased state spending.

★ The EAP could be reduced by working out stricter control over immigration into South Africa. This would help to prevent foreigners from taking jobs that would otherwise have been taken by unemployed citizens. In Loots (1998: 334-335) it is estimated that there could be between 2,5 million an 4,1 million illegal foreigners who live in South Africa. These foreigners may take a large number of informal job and income earning opportunities from South Africans.



According to Slabbert (1997: 203), given the high rates of poverty and unemployment among blacks in the LVTMA townships, it would be difficult to reduce unemployment in the LVTMA if all efforts to alleviate poverty through employment creation and other programmes are done within an environment where there is a persistent influx of immigrants into the region. However, according to Cawker & Whiteford (1993: 61-62), any immigration measures should be selective given the nature of South Africa's unemployment problem where there is a large surplus of unskilled labour resources, and a large shortage of highly skilled human resources. Furthermore, it will take time for the education system of the country to reduce the backlog

in high level human resources. Therefore, immigrants with rare and required skills could be accepted, whereas those with little or no skills could be subjected to careful screening.

### 6.10.3 **Policies to spread the available employment opportunities more evenly ("work sharing")**

According to Cawker and Whiteford (1993:62), the concept of "work sharing", where a greater number of people share the available employment opportunities, has been applied in many other countries as an attempt of giving relief to the unemployed. Such a policy has not yet been tried in South Africa.

Work sharing can be implemented through the following three basic methods:

★ Reduction of the standard work-day or week in order to allocate work-time to the unemployed.



★ Reduction of the amount of overtime which can be worked. Taking into account the overtime nature of employment opportunities in the manufacturing sector in the LVTMA and the fact that it employs more than any other sector (about 57 000 people in 1998), work sharing can have a major impact on employment creation (Slabbert 1997: 202).

★ Job splitting. This involves splitting a full-time job into two part-time jobs, which meets the needs of persons who wish to work fewer hours and the needs of the unemployed persons who see a part-time job as better than being without a job at all. According to Slabbert (1997: 202), job splitting in the

LVTMA can make a significant contribution to alleviating poverty, particularly for poor unemployed households who will consider a part-time job more valuable than having no job at all.

## 6.11 **Restructuring of public expenditure**

Public expenditure can be restructured in such a way that the same work is done for the same amount of expenditure, but more employment opportunities are created in the process. The critical proportions of unemployment, and the mainly structural nature of the problem, necessitate a revaluation of policy measures in order to promote a pro-poor growth and development process in South Africa. Restructuring rather than an expansion of the public sector expenditure programme can result in lasting employment effects.



This argument should be followed up where it concerns expenditure programmes by local governments in the LVTMA. Attempts should be made to give contracts(like garbage removal and routine road maintenance) to small contractors who are more likely to be labour-intensive in their activities than big contractors who are more likely to be capital-intensive and to be from outside the area. Training and assistance of small contractors as well as simplifying tendering procedures may open opportunities for small contractors using labour intensive techniques, thus increasing the capacity of the LVTMA economy to absorb labour. Because the labour-intensive nature of investments in urban areas is often not considered, there is, therefore, a need to ensure that such projects are labour-intensive as far as possible. A way of facing this problem in the LVTMA may be to set up an office to appraise

the extent of labour content of urban projects (Slabbert 1997: 208-209).

## 6.12 **Construction of houses**

In Schoeman, Blignaut and Joubert (1999: 27) the shortage of formal housing in the urban areas of South Africa is estimated to 2,2 million units. This shortage increases by about 200 000 houses every year. This means the shortage by the end of 1999 may reach 2,4 million units. In addition to this figure is a further 400 000 housing units needed in rural areas.

Given this large housing shortage in South Africa, there is, therefore, significant scope for employment creation in the construction industry. The construction industry's job creation could be fully exploited if SMMEs in this industry were targeted and supported. Increased employment would, in turn, improve the scope for the generation of skills and knowledge in the South African economy. Furthermore, the link between productivity, motivation and living conditions should not be overlooked. This means that improving the housing conditions for the millions of people living in informal settlement should also improve the quality of their labour, general welfare and economic conditions (Schoeman, Blignaut & Joubert 1999: 27 & 29).

The spinoffs (like additional state tax revenue) from this initiative are likely to outweigh the extra costs of subsidizing preferential housing credits as the multiplier process continues to increase both the tax base and the tax revenue (Kabaj, 1995: 228-229).

In the LVTMA, the construction industry has strong stimulation effects on the economy through forward and backward linkages and has a high employment multiplier. An increase of R1 million in final demand by this industry could lead to the creation of about 48 new jobs in the local economy. Using a local contractor, as opposed to an outside contractor, with a payroll of R1 million can generate about R4.34 million of income in the LVTMA. Therefore, for the Lekoa Vaal region to benefit from the employment opportunities offered by the construction industry, policies should be designed to ensure that the leakage of income from the region is kept to a minimum in order to retain most of the spinoffs from any investment within the region. This calls for the use of local contractors and resources as far as possible (Slabbert & Pelupessy 1999:15-16).

## 6.13 **Supporting the informal sector**



According to Loots (1998: 327), much controversy beleaguers the informal sector, and it is often seen as a "residual sponge" for those who are unable to access formal employment and as an alternative to wage labour, or as a serious part of the total strategy to the problem of unemployment. Despite this controversy, the informal sector offers the most employment opportunities, particularly for those who lost their jobs as a result of the restructuring of the economy. According to Levin (1994: 51), the importance of this sector lies in the fact that it addresses the problem of economic inactivity, it focuses on self-employment, and it serves as a safety net for the unemployed poor.

There is, therefore, a need to support the informal sector. According to Levin (1994: 32), policies which can help the people engaged in informal sector activities are those that make it possible for businesses to grow from informal to formal and to create sustainable jobs. To realise these policy objectives, the following two methods to strengthen the position of the poor need to be taken into account: First, increase the accessibility of the poor to productive assets, for example, by extending land rights to the poor. Second, the return on the assets which the poor hold must be improved. This can be realised by reducing input costs, for instance by improving roads, communication, water, electricity, etc. However, the success of these attempts to improve the informal sector depends on the success of macroeconomic policies. If macroeconomic policies succeed in creating rapid growth at the upper end of the formal sector, a "vacuum" will be created which attracts the fittest candidates of the informal sector into the formal sector onto a higher level of the business pyramid.

## 6.14 Summary and conclusion

The consensus is that the South African economy is in transition and, therefore, most of the unemployment problems (both in South Africa and the LVTMA) are basically of a structural nature. This means both orthodox monetary and fiscal policies, on their own, will not be enough to combat the unemployment problem. This chapter looked at a number of policies and strategies which can be adopted to address the unemployment problem at its root.

In the long-term South Africa's economic growth potential and thus its employment creation ability, like any other developing nation, depends largely on the quality of its human resources. A nation that is rich in highly skilled labour is a magnet for foreign investment, a fertile ground for the development of entrepreneurial talent and low population growth. For such a nation, the globalization process is likely to have minimal effect on its welfare, particularly if it has a flexible labour market.

# CHAPTER 7 **SUMMARY AND CONCLUSIONS**

## 7.1 **Summary**

This essay set out to evaluate the unemployment problem in general with some particular references to the LVTMA. Chapter 2 looked at the definition aspects, different types of unemployment as well as the different methods that are used to measure unemployment.

Chapter 3 looked at the different causes of unemployment in South Africa. Chapter 4 focussed on the different consequences of unemployment on the unemployed, their dependants, the economy and society at large. Chapter 5 looked at the unemployment problem in the LVTMA and the effects of restructuring of industries like in the manufacturing sector. Given the high unemployment rate both in South Africa and the LVTMA as well as the consequences of unemployment, Chapter 6 focussed on the strategies and policies that may be adopted to fight the problem.



## 7.2 **Conclusion**

The unemployment problem was examined in this essay. The analysis started with the definition of unemployment, using both the strict and expanded definition. It was revealed that the strict definition of unemployment is not applicable in many developing countries, but needs to be adapted to local circumstances. Despite the problems that are associated with the strict definition, in 1998 the SSA decided to abandon the expanded definition to be in line with international practice.

As a result, the unemployment rate for 1997 dropped from 37.6 percent using the expanded definition to 22.9 percent using the strict definition. Discouraged workers, who are mainly the poor, have been excluded in this definition.

It was also pointed out that unemployment can be frictional, structural, cyclical or seasonal in character. Frictional unemployment has been found to be inevitable, structural unemployment is more likely to persist for a long time, cyclical unemployment is prevalent when aggregate demand is in a slump because wages are downwardly inflexible, and seasonal unemployment can be anticipated with some degree of certainty because it follows almost a similar pattern every year. The measurement of unemployment is done by using any of the four methods, namely, the CPS, census, registration, and difference methods. All these methods cannot be claimed to be accurate, each has its own shortcomings. Nevertheless, authorities and economists do use the data obtained through any of the four approaches to formulate economic policies.



The consequences of unemployment can be devastating. Output and tax revenues are foregone because of unemployment. The unemployed are also likely to suffer at personal level by being abandoned by friends and relatives which may lead to self-rejection. The unemployed are also likely to suffer from mental illness but the impact of unemployment on the physical health of the unemployed cannot be substantiated. Crime, particularly, among the youth, poverty and public discontent tend to increase when the unemployment rate is high.

The problem with crime is that it can create a vicious circle, that is, more crime may lead to a further decline in investment, and less investment means less employment and less employment may lead to more crime and so on.

In South Africa most of the unemployment is attributed to structural factors as the economy moves from an inward-looking (with high protective tariffs and economic unsound investments) toward an outward-looking (with reduced tariffs, reduced exchange controls, globalization, etc.) economic regime. Furthermore, this structural unemployment problem is also exacerbated by the high population growth rate, and low levels of skills in the economy which makes it difficult for the formal economy to absorb most of the new entrants in the labour market. What the economy needs is not just many workers, but a highly skilled workforce. This calls for well-concerted effort to improve the quality of and access to education and training. A country with a strong skills base is more likely not only to adapt to globalization, but also to quickly take advantage of the opportunities (such as new technology, new production techniques, financial sources, new information, etc.) offered by this process.

Furthermore, South Africa's export content consists mainly of primary commodities whose world prices have been declining. Coupled to that is the country's high import propensity (which consists mainly of expensive intermediary and finished commodities) which causes a deficit in the balance of payments. One of the strategies suggested to improve the balance of payments position of the country is the adoption of an export-led economic growth strategy in which the manufacturing sector should play a prominent role.

For the economy to be able to improve its international competitiveness, it is crucial that all economic reforms should be complemented by reforms which improve the flexibility of the labour market. The spinoffs for an economy that has both high levels of skills and a flexible labour market are considerable.

The unemployment problem in the LVTMA townships depicts that of South Africa as a whole. Using the expanded definition, unemployment in South Africa was 37.6 percent and 39.7 percent in the LVTMA in 1997. The problem has been aggravated by high population growth rates, immigrants from other parts of the country and illegal immigrants from other parts of the African continent as well as the restructuring of economic activities. The education in the LVTMA townships, like black education all over South Africa, was affected by apartheid policies hence the education level in the LVTMA townships is very low and has, to a large degree, affected the quality of black labour. The duration of unemployment in the LVTMA is also similar to that experienced by other people in other areas of South Africa, where some people have been unemployed for more that three years. The impact of restructuring by Iscor-Vanderbijlpark has been used as a case study given the importance of the manufacturing sector to the LVTMA economy, Iscor in particular. The findings are that any scaling down of Iscor activities will have profound negative effects on the economy of the LVTMA and, therefore, new ways are needed to stem the tide. Given these similarities of economic conditions in the LVTMA and the rest of South Africa and the fact that the LVTMA falls under two provincial governments, any attempt to address unemployment in the LVTMA should form part of a national policy.

In conclusion, it should be reiterated that since this essay was not empirical, it was not possible to include all facets of measurement of unemployment in the region. Empirical studies can better quantify the findings in this essay.

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## GLOSSARY

The following list explains the terms and concepts used in the study .

**Affirmative action**

This includes any action aimed at removing discrimination previously experienced.

**Balance of payments**

A measure of the difference in the flow of money into and out of a country.

**Competitiveness**

The ability of a country to create added value and thus increase national wealth by managing assets and processes, attractiveness and aggressiveness, globality and proximity, and by integrating these relationships into economic and social models.



**Elasticity**

A measure of the responsiveness of one variable to a change in another.

**Globalization**

It refers to the widening and deepening of international trade, finance, information, and culture in a single, integrated world market. This will be achieved as natural and artificial barriers which separate national markets are removed or reduced.

**Gross domestic product**

Total value of final goods and services produced by its permanent residents during a given period, before making provision for depreciation.

**Informal sector**

That sector of the economy which is not statistically recorded, i.e, all economic activities not reflected by SSA.

**Labour absorption capacity**

The percentage of new labour market entrants able to find employment in the formal economy (marginal).

**Labour productivity**

A measure of the increase in output per unit increase in labour input.



**Multiplier effects**

The multiplier effects refer to the fact that a change in expenditure will cause a change in GDP which is greater than the initial expenditure. This increase in GDP usually has corresponding benefits such as increase in employment levels.

**Primary commodities**

Raw materials to which little or no value has been added.

**Public works programmes**

State initiated programmes aimed at increasing employment, e.g. the construction of socially valuable assets such as roads, schools, etc.