

# How to Deal with South Africa's Jobs Bloodbath

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Ten million unemployed and rising. South Africa (SA) has the deepest unemployment crisis in the world. In no other country has as large a proportion of the population been without work for as long. What to do about endemic joblessness has been the subject of presidential summits, government initiatives, National Economic Development and Labour Council (NEDLAC) debates, and projects run by the private sector and non-governmental organisations (NGOs), but the crisis has only deepened. The time has long passed for a new approach. If the country is serious about prioritising employment growth, then we need to grasp the depth and scale of the crisis, be honest about its causes, and act with urgency to implement the necessary reforms.

## What can be done?

Only 42% of adults work, a figure that compares poorly against norms of around 60% in the rest of the world, and higher in some developing countries. Of the potential workforce, 38% are unemployed, a figure that is among the highest in the world.

The situation is deteriorating and quickly. Since 2008, the number of working age adults has increased by almost seven million, but the number of people with jobs has increased by less than two million. Between 2008 and 2019, the number of people who want work, but cannot find it or have given up looking, rose from 6.5 to 10.3 million.

Thus, over the past decade, SA's working age population increased by nearly 1700 per day, but fewer than 500 found work. The situation for young people is even worse: between 2008 and 2019 people aged between 15 and 34 increased by 2.2 million, but the number employed actually fell - by more than 500 000.

One of the damaging consequences of a multi-generational crisis of joblessness is that it becomes

self-perpetuating. Insiders use their insider-status and power to ensure that the benefits of economic growth are captured by them rather than by expanded employment. The long-term unemployed also become increasingly ill-suited to the needs of the economy: their skills deteriorate, their training becomes less relevant, and their soft skills and workplace readiness deteriorate. Jobs are platforms for training and the acquisition of know-how. The unemployed are doubly disadvantaged: not only do they have no work, they are also not acquiring workplace experience and skills needed to compete for what jobs are available. The result is that employment tends to be concentrated in households in which previous generations were employed. This is a key reason why addressing unemployment needs to be tackled with much more urgency than it has been.

The central factor creating this crisis must be grasped: unemployment is high because economic growth is low. Growth has been low because governance - policy choices, delivery, institutional effectiveness - has been poor. Before 1994, apartheid was to blame and after 2008, state capture, increased antagonism towards business, and widespread corruption precipitated a near-fatal collapse of governance. Two other factors have been especially important. SA's multi-generational failure to educate its workforce and the spatial legacy of apartheid, which has imprisoned many in poverty traps and retarded urban growth.

High levels of unemployment are not just a consequence of low growth: policy choices have produced an economy that needs less and less of the one human resource that this country has in abundance, unskilled labour. Central to these government choices are those that have discouraged firms from hiring unskilled labour. Industrial policy has favoured skill- and capital-intensive sectors and, within sectors, has incentivised firms to embrace capital- and skill-intensive production techniques.

<sup>63</sup> This article is based on a new CDE publication, *Ten Million and Rising: What it would take to address South Africa's jobs bloodbath*, January 2020. See [www.cde.org.za](http://www.cde.org.za)

The wage-setting system has pushed up wages even in the presence of vast unemployment. Employment costs are pushed higher through a variety of non-wage risks and costs.

Given the depth of the crisis, there is no plausible strategy for dramatically reducing unemployment in the short term. There is, however, considerable scope for reforms that would improve the performance of the economy and deepen the inclusiveness of growth by increasing employment.

The key, of course, is faster growth: technological advance means that even a slow growing economy could shed jobs, so unless growth accelerates, employment growth is much harder to achieve. This is no small task because the constraints on growth are severe: Eskom can't produce enough power, the Passenger Rail Agency of SA (PRASA) trains can't get employees to work, the public sector is over-borrowed and deeply compromised, and emigration appears to be at a multi-decade high. Add to this the ruling party's embrace of policy ideas that can only harm growth and its inability to fix the schools or skills system, and one would be hard-pressed to tell an optimistic story about our near-term growth prospects. That being said, an economy that is on its knees may respond more rapidly to appropriate reforms implemented with speed and determination, than we anticipate now. We will only know if and when government stopped tweaking and tried to do the right thing.

But growth-accelerating reforms alone will not make any growth we get more inclusive. To achieve that, we need to address some of the reasons why too few jobs for unskilled workers are created. Here, the key problems lie in the labour market. Urgent reforms are required but they must be calibrated to minimise impact on the rights and living standards of existing workers, without making it even more difficult for firms to adjust to competition and the vicissitudes of the economy. We also need to get more out of our existing public employment programmes.

The Centre for Development and Enterprise (CDE) is proposing a set of plausibly implementable reforms that would create space for new, more labour-intensive activities to emerge and grow. Some examples are:

➤ SA needs to introduce legal exemptions for small and new firms from collective bargaining agreements to which they are not party. Collective bargaining structures should also be rebalanced to provide greater representation of small and new firms' interests and concerns.

➤ The balance of our industrial policy needs to shift from a bias towards supporting capital-intensive firms and investment in plant and equipment to one that is more supportive of employment growth, especially unskilled workers. One way to do this would be to expand and extend the employment tax incentive to a wider range of workers and for a longer period. Modest reforms to hiring and firing - making it easier and less risky for firms to terminate new employees during their probationary periods, for example - would help de-risk the employment decision for employers.

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

One way to test the potential impact of some of the changes CDE is proposing, would be to establish an export processing zone (EPZ) at Coega in Nelson Mandela Bay. This would be aimed at attracting labour intensive, low wage manufacturing firms, the output of which would be for sale exclusively to export markets. The firms would receive exemptions to key aspects of SA's labour laws, especially in relation to the outcomes of collective bargaining, but would be entitled to no incentives other than the employment tax incentive (ETI) which would need to be expanded as we have proposed. Given the limited experience of SA entrepreneurs in global value chains of this kind, concessions would also have to be made to immigration rules so that foreigners might invest in and manage these firms, and so that firms could attract the managers they might need.

SA's current approach to jobs is not working. A new approach is needed, one that is not focused exclusively on ad hoc projects or special initiatives. These can never reach the scale required and they divert leadership, focus and resources away from the country's key task - designing, implementing and successfully managing a policy reform process.

Politically difficult decisions will have to be taken if we are to achieve faster economic and employment growth. SA requires leadership, political will and astute political management if the country is to become serious about the ever-growing jobs crisis.