



Structural Unemployment in SA

1. Introduction

Over the past twenty-three years, South Africa has made considerable strides in regard to social development and citizens' access to social and public services in general. However, the level of inequality remains high and unemployment, specifically, is becoming more politicized and is increasingly an election issue. On the other hand, a lack of interest in unemployment amongst those who do not experience it directly appears to be the norm. Suffice it to say that the urgency of the unemployment situation results from the fact that it has grown significantly since the early 1990s, and has been both a result of, and a contributing factor to, the country's worsening overall economic condition. Furthermore, following the alarming statistics recently released by Stats SA, it is clear that the country still has a lot of challenges to overcome in the current situation. This paper aims to demonstrate that unemployment is far greater and much more long-standing than is usually recognized; and that it is likely to get worse, not better, in the near future.

2. Current Unemployment Status

The level of unemployment is now at its highest level since 2003 – at 27.7% in the second quarter of 2017, the recent statistics show that a large section of the population is suffering from a continuous burden of being without a job. These statistics include the disturbing fact that 39% of all jobless South Africans have never worked before. In other words, one in every ten working-age people have never held a job. The statistics also highlight the fact that young people struggle to find their first job. The 'labour force participation rate', which measures the proportion of a country's working-age population that engages actively in the labour market, either by working or

looking for work, indicates the supply of labour available to engage in the production of goods and services, relative to the full working-age population. Labour force participation rates among youth are from 16 to 21 percentage points lower than those of adults over the period 2008–2015, signalling the poor labour market options available to young people. Additionally, in every province, the percentage of the working-age population that have jobs (the absorption rate) is substantially lower among youth, as compared to adults.

While employment gains were recorded in the informal sector, there was a marked decline in the formal, agricultural and private household sectors. Formal sector employment decreased by 144 000, agriculture decreased by 40 000, and private households shed 8 000 jobs.

3. South Africa vs The Rest of the World

It is difficult to make comparisons with semi-developed or underdeveloped countries due to the absence of statistics. Of the countries which do record unemployment, only a few have estimates which are readily comparable with those that have been made available by researchers in South Africa.¹ However, a 2016 World Bank report reveals that South Africa's unemployment rate is higher than other African nations which are also classified as upper middle-income countries. These countries include Botswana at 18.4%, Gabon at 18.5% and Namibia at 25.5%. The average unemployment rate for all upper middle-income countries for 2016 was 6.2%, while South Africa's rate for 2016 was standing at 25.9%, and is currently at 27.7%.²

Furthermore, according to the World Bank's data, South Africa's unemployment rate for 2016 was

extremely high compared to various highly-developed countries: Australia at 5.7%, Canada at 7.1%, Italy at 11.5%, Japan at 3.1%, and the USA at 4.9%.

4. The South African Economy

In the last few years, growth in the economy has been very disappointing. Weak consumer demand, persistently falling business investment, policy uncertainty, government mismanagement, and the prolonged drought have all weighed on economic activity. Despite the fact that power production has improved, important backlogs remain in infrastructure and costs of services keep going up, which increases the cost of inputs for firms. The unemployment rate and income inequalities remain wide due to the economic slowdown. Reviving economic growth is crucial to increase well-being, job creation and inclusivity and, as there is limited room for monetary and fiscal stimulus, bold structural reforms, supported by social partners, are needed to unlock the economy.

5. Challenges

High barriers to entrepreneurship, and limited access to business environments, still pose major challenges for people who want to get into business; and even though attitudes towards entrepreneurship have become more positive, knowledge and skills gaps persist. Also, red tape and licencing requirements constitute major burdens for small businesses. The regulation requirements in some sectors and services remain high, thus arguably increasing costs and reducing job creation. Furthermore, some economists argue that the proposed minimum wage risks adding to the hiring costs faced by small businesses.

On the other hand, further complicating matters, many poorly-educated workers have entered the labour force, leading to skills mismatches. Skills shortages and mismatches are key challenges to growth and inclusiveness. Access to higher education has improved compared to previous years, but remains limited. The economy is shifting towards more skill-intensive sectors like retail, financial services and telecommunications.³ Meanwhile, agriculture and mining, which had historically offered opportunities for unskilled labourers, are now in decline.

The Accelerated and Shared Growth Initiative in South Africa (ASGISA) plan mentions that a shortage of suitable skilled labour, amplified by the impact of apartheid spatial patterns, impacts on the costs of labour. Furthermore, as a result of Apartheid's deliberately inferior system of education for black people, South Africa lacks sufficient skilled professionals, managers and artisans; and indeed, the uneven quality of education remains a contributory factor. Lastly, the price of labour to the poor is increased by the fact many travel long distances from their places of work.⁴

6. Proposed Solutions

There are various proposed solutions that are targeted towards stimulating the economy, promoting entrepreneurship, reducing intra-regional trade, and addressing transport issues. All of these, it is hoped, will contribute to a reduction in unemployment.

Entrepreneurship in South Africa is low compared to other emerging economies. Slowing growth has compounded an already difficult environment for new and small businesses and, while numerous steps have been taken to make it easier to start a business, red tape remains a burden. The quality of the education system and lack of work experience also contributes to gaps in entrepreneurial skills. There is a need to increase the sources of funding for small businesses to allow them to employ more people. Government policies should provide more financial and non-financial support for small businesses. However, a lack of co-ordination and evaluation hinders effective policy-making.

In addition to this, the removal of barriers to intra-regional trade within the Southern African Development Community (SADC) would also be beneficial to small business. Adopting a simplified single set of rules of origin in a free trade area within the SADC region would allow small business to trade with each other more freely within the region. Upgrading information technology at customs posts, and improving the interconnectivity of customs systems within SADC, would allow a quick and smooth flow of goods.⁵ Providing special economic zones with better infrastructure, and developing linkages with local economies by creating a regional fund for infrastructure development, with increased

private sector participation, could all help to create jobs.

Public transport in South Africa is not exactly the embodiment of efficiency. Many people travel far to drop off their job applications, to access free Wi-Fi zones where they can research job opportunities, and to their places of work. The cost and inefficiency of public transport is a significant obstacle in the path of job-seekers. Some progress has been made by the City of Cape Town in this regard. Mayor Patricia de Lille has announced a subsidy scheme on the Myciti buses for unemployed people. In her statement she said, "We want to implement this initiative to take away that obstacle of travel costs, which can prevent people's access to job opportunities."⁶ Job-seekers who qualify will receive a free *myconnect* card, worth R35, loaded with a special travel package. This will allow two free one-way journeys every week on any *MyCiti* route.

Finally, the proposed minimum wage promises to reduce inequalities and 'in-work poverty', but the adjustment to the higher minimum wage might be complicated by labour market inflexibilities and weak skills matching.⁷ Despite these challenges, government is committed to introducing a minimum wage to reduce poverty amongst workers and to make growth more inclusive. Furthermore, if government continues with the introduction of a minimum wage, and at the same

time develops apprenticeships and internships to foster the inclusion of youth, it might have an impact on the economy in the medium- and long-term.

7. Conclusion

After even a brief summary of structural unemployment it can be concluded that the South African government is not doing enough to eradicate this crisis. Its efforts to create jobs, especially for young people through tax incentives, have not had much impact. In addition, it is also clear that entrepreneurial activities deserve urgent attention, including increased government and private-sector support for entrepreneurial and skills training. We also need to create a well audited and monitored system of access to finance that will foster an enabling environment for business development. All in all, we must accept that some of our biggest traditional absorbers of labour – mining, agriculture, manufacturing – no longer hold the promise of full employment; and therefore we must become more creative and innovative in our approach to job-creation.

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¹ Hindson, D.C. "Structural Unemployment in Southern Africa".

<http://www.sahistory.org.za/sites/default/files/DC/remar78.5/remar78.5.pdf>

² Statistic Release PO211, Quarterly Release Labour Force Survey 2017.

³ Aalia Cassim "If you're South African, under 35 years old and looking for a job, you're in for a tough time. There are 3.3-million unemployed South African youth making up an eye watering 70% of the total unemployed population. This means more young people are jobless today than ever before.

<https://www.thedailyvox.co.za/sa-youth-unemployment-whats-the-problem/>

⁴ Accelerated and Shared Growth Initiative, A Summary.

<http://www.treasury.gov.za/publications/other/OECD%20-%20South%20Africa%20Economic%20Assesment.pdf>

⁵ OECD Economic Surveys South Africa. <https://www.oecd.org/ec/surveys/2017-OECD-Economic-Survey-South-Africa-overview-2017.pdf>

⁶ Re'assa Pather "Jobless Capetonians to get free MyCiti bus trips, says De Lille". 2017. <https://mg.co.za/article/2017-05-30-de-lille-confirms-cape-town-to-pay-for-myciti-bus-trips-for-unemployed-people/>

⁷ Gilad Isaacs "A national minimum wage would cut poverty and boost growth in South Africa".

<https://theconversation.com/a-national-minimum-wage-would-cut-poverty-and-boost-growth-in-south-africa-63094>