

Active labour market policies in South Africa

NEVA SEIDMAN
MAKGETLA* questions whether active labour market policies can alleviate unemployment in South Africa and concludes that to succeed they must merge with broader policies of reconstruction and development.

Unemployment in South Africa has two faces. First, massive structural unemployment means that half the potential labour force has no formal employment. Those who end up in informal activities earn relatively little. Second, the formal sector shed around 300 000 jobs, or 4% of the total, between 1989 and 1994.

* Neva Seidman Makgetla is a senior researcher at the National Labour and Economic Development Institute (NALEDI). Thanks to Ravi Naidoo for assistance with editing.



Active labour market policies emerged in many industrialised nations as a response to the 1930s Depression experience and unemployment after World War II.

Active labour market policies are an attempt to deal with the individual, social and economic costs of short-term unemployment while raising productivity. The aim is to ensure that changes in the economy that cause retrenchments do not lead to permanent unemployment. To that end, the policies combine unemployment benefits, training and efforts to place unemployed workers in new jobs. In some cases, they also involve job creation schemes. Typically, they draw on the resources of government, employers and organised labour.

This article explores the relevance of active labour market policies to South Africa. It suggests that:

- Given high structural unemployment, conventional versions of active labour market policies will not directly help most of the unemployed, who have never had formal jobs. As a result, unless carefully designed, they could cause a conflict between formal sector workers and the

long-term unemployed and self-employed over the use of government funds.

- The existing active labour-market agencies arose to serve well-paid whites. Serving the majority, who have lower incomes and less stable employment, requires very different forms of funding, administration and services.

Debates on active labour market policies

Active labour market policies arise from a particular analysis of unemployment:

- Job losses turn into long-term unemployment, at least in part, because workers and employers cannot predict job availability and training needs, and, the longer workers remain unemployed, the more likely they are to lose those skills which employers demand

- Even if newly retrenched workers know about job openings, they don't have the necessary skills for the job

Obviously, this analysis does not apply well to structural unemployment in South Africa. Even in Europe, four major criticisms of active labour market policies have arisen.

As a result, European unions have an ambiguous attitude toward these measures:

1. Where total employment is shrinking, active labour market policies may justify weaker legal protection against retrenchment, without actually ensuring that workers get new jobs. In Europe, they have merged into a flexibilisation model, "in which attacks on standards of legal protection pave the way for less favourable terms in wage negotiations and company agreements" (Bosch, 1990, p 36).
2. The policies focus on wage labour. In the Third World, however, much of the labour force is self-employed in agriculture and micro-enterprise, or engaged in unpaid family labour.
3. Active labour market policies do not necessarily redress discrimination against groups historically excluded from stable employment. They focus inherently on those recently employed, particularly by large companies (where organising access

to the programmes is easier). The training component in the programmes has had the most success with more experienced, better educated workers, who need less government support in any case.

4. Even in relatively prosperous countries in Europe, critics questioned the use of such resources for the benefit of just one group of workers. In the Third World, where half or more of the labour force may never get a stable job, this criticism becomes even more relevant. And active labour market policies can cost extraordinary sums. In Sweden, government subsidies and investment to generate jobs for 3 000 workers retrenched from a single shipyard cost over R600 million.

Factors behind unemployment in South Africa

To understand the potential for active labour market policies in South Africa, we first explore the roots of unemployment in the structure of the economy and the labour market. In South Africa, we can conceptualise the labour market best, not as a single coherent whole, but as a set of interlinked labour-market segments. The segments differ in terms of level of unemployment, as well as the legal set-up, degree of unionisation and skills, gender and racial composition and wage rates. From this standpoint:

- the primary labour market — most of formal employment — is associated with relatively stable, formal attachments between workers and employers, with the bulk of remuneration in the form of cash wages; and
- the secondary labour market contains informal workers, many of whom work as unpaid family labour. We also include here unorganised and very poorly paid African workers in the formal sector, predominantly in agriculture, services and domestic labour. These workers enjoy limited legal or organisational protection; receive a relatively large share of their pay in kind; and often perform casual or seasonal labour.

	primary labour market			secondary labour market	
	management and professional	white workers	african workers in large companies	low-pay formal sectors	informal and casual
economic sectors	formal sector	formal sector, and especially public sector	formal sector, especially manufacturing, infrastructure	agriculture, domestic labour	informal sector, african agriculture; more self employment and unpaid labour
share of potential labour force	10 per cent	10 - 15 per cent	10 - 15 per cent	10 - 15 per cent	15 - 20 per cent
legal protection	high	high	high	weak	non-existent
skills	formal and high	formal, skilled, supervisory	often informal, unskilled to skilled	mostly unrecognised	mostly informal
unemployment levels	under 5 per cent	under 5 per cent	officially 15 per cent	very high	very high
unionisation	low	high	high	low	non-existent
gender	predominantly men	predominantly men	predominantly men, ex in clothing	disproportionately women	

Apartheid policies effectively shaped the segmented labour market. On the one hand apartheid compelled Africans into wage labour by denying them alternatives. The state expropriated land and other assets, and generally worked to reduce black business activity. It left most Africans with little alternative but to compete for wage labour. Then, from the mid-1970s, as employment growth slowed down, unemployment soared.

Within the formal labour market, racially defined labour policies reinforced segmentation

- White workers enjoyed considerable support with training, job placement and social security. Largely as a result, white unemployment is close to zero.
- African workers had access to very little training, unemployment support or job placement. The state expected unemployed Africans to obtain support from

their families in the rural areas. These policies ensured both that African under-employment continued and that it remained remote from the cities.

Even today, unemployment is highest in the provinces where homelands were located. In 1991, joblessness was under 30% in the Western Cape and the PWV, but around 45% in the Northern Transvaal and the Eastern Cape.

The labour market and the decline of apartheid

From the late 1980s, the state began to eliminate overtly racial laws. Most active labour market institutions opened up formally to black workers. But the disappearance of racial restrictions did not address structural unemployment in the African community. Most Africans remained in poorly paid, often unstable jobs.

Land ownership, residence, small-scale enterprise

The elimination of racial laws on residence and land ownership did not transfer productive assets to the un- and underemployed. As a result, the changes did little to reduce unemployment. Instead, they permitted a greater influx of work seekers to the towns. Growing competition for jobs in the primary labour market then began to threaten wages and conditions for all lower-level workers.

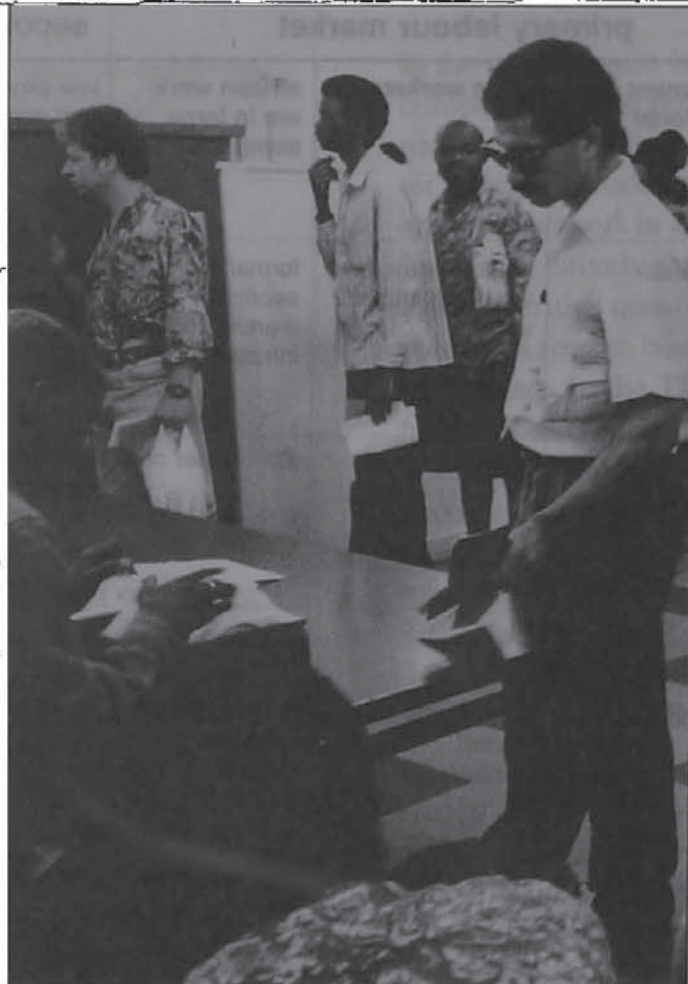
Career pathing and training

The end of apartheid laws did not create career paths for workers outside of management or end segregation in education or many training schemes. Training programmes remained white-dominated and largely directed at artisans.

In 1990, sectoral training boards replaced the Department of Labour as the main co-ordinator of training programmes. While they began an important restructuring process, they did not initially expand opportunities for Africans. Trainees remained disproportionately white, and African unions were excluded or underrepresented on the boards. The boards did not attempt to define broad industrial sectors, so that fragmentation of training and standards persisted. Finally, the system did not provide for the secondary labour market at all.

Opening up state welfare institutions

The end of apartheid did little to reshape welfare institutions for Africans, especially



The UIF does not cater for workers in the secondary labour market

in the secondary labour market. As before, when faced with unemployment, they had to rely primarily on their small savings and on their families. In 1994, the average African family received 13% of its income from welfare programmes, but four-fifths of those payments came from old-age pensions. In contrast, state old-age pensions accounted for less than half the government grants received by the average white, Asian or coloured household (calculated from SALDRU 1994).

Welfare systems in the public and private sector — the

Unemployment Insurance Fund (UIF), Workmen's Compensation Board and private plus social pensions — opened formally to African workers from the early 1980s. In practice, however, they did not restructure either their administration or policies to serve large numbers of poorly or irregularly paid workers. As a result, with the exception of old-age pensions, they excluded workers in the secondary labour market. Still, the costs to government soared and administration deteriorated.

Legal protection and industrial relations institutions

The break down in racial laws led to the extension of basic labour legislation to African workers in the primary labour market. Individual workers enjoyed more legal rights, while centralised bargaining extended gains even to non-union members in organised industries. But employers found ways to

change or circumvent the rules, such as subcontracting.

Economic restructuring

Industrial restructuring is now accepted as essential by labour, government and employers. The process of restructuring will increase demand for active labour policies to cushion the impact of retrenchments and minimise frictional unemployment. But, even with restructuring, most observers agree that the formal sector will not directly create many jobs in the foreseeable future (see Normative Economic Model; Industrial Strategy Project). In these circumstances:

- conflict seems inevitable over whether to use government funds for conventional active labour policies or for broader development programmes;
- the strain on existing labour market institutions will probably escalate.

External factors drive the existing industrial restructuring process. First, with the transition to democracy, the opening up of the economy has led to greater competition from abroad. Second, the main sources of foreign exchange and investment in the early 1980s — gold exports and parastatal investments — virtually dried up in the second half of the decade. This means finding alternative sources of foreign exchange is urgent.

On the positive side, the redirection of government expenditure and equalisation of incomes under the RDP could substantially reshape domestic demand. If government fails to encourage a new flexibility and innovative spirit, however, changes in demand could simply cause inflationary pressure to build up.

The (mostly spontaneous) restructuring of industry in response to external factors fed into the 1989/94 recession. Very high job losses in the primary labour market resulted. The existing active labour market institutions failed to protect most workers adequately.

Two sets of factors aggravated the loss of employment in the course of restructuring industry:

- In both the private and public sector, management did not have to review alternatives to retrenchment.
- Attempts to combine active labour market policies with industrial strategy ran into the classic criticism that they diverted resources from the long-term unemployed to the already employed. In both auto and textiles, sectoral forums proposed subsidies to employers and workers to help spread the cost of restructuring. In response, top government officials argued that their negotiators had been too liberal in promising national resources to limited constituencies.

Some directions for change

Active labour market policies in South Africa have already run into competing demands for funds as well as problems in serving large numbers of poorly paid workers. To succeed, they need a more explicit link to reconstruction and development. Above all, they must tie in to measures to raise job security and incomes in the secondary labour market.

Conventional active labour market policies may ease the pain of restructuring for some workers, but their ability to address structural employment on their own seems limited. To that end, the focus must be on the development of new, smaller-scale and more labour-intensive activities.

Both land reform and support for micro-enterprise could play an important role in providing employment, but neither will prove easy. At least initially, the activities they generate typically prove both precarious and badly paid. Estimates suggest that new farmers will earn under R500 a month for the foreseeable future.

Support for small enterprises and new farmers also requires an understanding of specific training and resource needs, as well as measures to strengthen linkages to formal industry and financial institutions. Moreover, even minimal social security and investment in training and production in the secondary

labour market will cost huge sums, because participants cannot afford to contribute much.

Subsidies to informal producers and small-scale farmers should benefit, not only employers, but also employees. That means finding ways to improve the position of unpaid family labour as well as wage labour in the secondary labour market. Generally, policies should encourage rising standards and wages throughout the economy.

Higher incomes and employment in the secondary labour market should provide indirect benefits for workers in the primary labour market. Above all, they should reduce competition for formal jobs and increase demand for industrial goods and services.

While employment creation on a large scale seems most likely in the secondary labour market, raising national productivity will also require more appropriate policies for training, job search and social security in the primary labour market. Otherwise, restructuring could fail as skills bottlenecks emerge while social conditions deteriorate (compare Mhone 1994, pp 21-22).

Funding strategies

The high financial and administrative costs of active labour market policies represent a serious weakness. This problem is particularly urgent because the direct benefits accrue to workers in the primary labour market, whom some politicians already label prosperous compared to those in the secondary labour market.

To reduce the potential for conflict between active labour market policies and broader measures aimed at reconstruction and development requires, above all, a well-defined government strategy on the allocation of resources between the primary and secondary labour markets.

Programmes that do not extend beyond individual sectors will face serious political difficulties in obtaining substantial government funding. Rather, the government could provide basic levels of support, which communities or industries could enhance through their own contributions. Where possible, sectoral programmes should be partially open to

related groups, for instance, local communities.

Measures to link sectoral and national programmes should reduce the divisions between the primary and secondary labour markets, rather than aggravating them. They could, then, make it easier to get government support for some aspects of unemployment support and social security in the primary labour market.

Programmes for which the government should take primary responsibility include most measures to raise incomes in the secondary labour market. They include: land reform and other programmes that shift productive assets and training to the secondary labour market; adequate formal education for all; the development of a national training framework and qualifications board; and social security programmes and improved social and economic infrastructure for the unemployed and the secondary labour market.

Employers and workers could take greater responsibility for programmes aimed at the primary labour market.

Restructuring existing institutions

We need a thorough re-examination of existing labour market institutions, notably training boards, the UIF, state and private job-placement mechanisms and tripartite forums.

Some institutions seem incapable of expanding service beyond the most stable segments of the primary labour market. In that case, they should be relegated to sectoral level and supplemented by targeted measures for people in less favoured positions. For instance, the existing UIF could be formally limited to better-paid workers. But the government must then provide support for those excluded, for instance through improved social pensions and an enhanced social wage. ☆

REFERENCES

- Bosch, Gerhard 1990 *Retraining — Not Redundancy* Geneva: International Institute for Labour Studies
 Mhone, Guy, 1994 *Labour Market Policy and Structural Adjustment in Zimbabwe Implications for Integrating Economic and Social Policy*. Cape Town: Labour Law Unit, UCT.
 SALDRU, 1994 *South Africans Rich and Poor. Baseline Household Statistics* Cape Town: SALDRU