

Two economies mistaken idea

In a 2003 speech President Thabo Mbeki introduced the idea of two economies. **Caroline Skinner** and **Imraan Valodia** believe this is a flawed concept and argue that it could lead to the sidelining of poverty and unemployment in government economic thinking.



In a speech to the National Council of Provinces in 2003, President Thabo Mbeki first introduced the idea that a ‘first economy’ and a ‘second economy’ are operating side by side in South Africa. Mbeki said: “The second economy (or the marginalised economy) is characterised by underdevelopment, contributes little to GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self-generated growth and development.”

The idea of the ‘second economy’ has since become part of policy speak throughout the state, including in the recent Accelerated and Shared Growth Initiative in South Africa (Asgisa). This article looks at the idea of two economies as expressed by Mbeki and the African National Congress, and we argue that the concept of the second economy is flawed. We use Statistics South Africa data, to examine recent labour market trends. In sharp contrast with Mbeki’s view, we believe that there are fairly close links between the formal and informal economies.

DUAL ECONOMY INFORMS GOVERNMENT POLICY

In *ANC Today*, the ANC described the two economies as being “separated from each other by a structural fault”. What we now have is the reality of a “mainly informal, marginalised, unskilled economy, populated by the unemployed and those unemployable in the formal sector”. The second economy is caught in a ‘poverty trap’. It is therefore unable to generate the savings that would enable it to achieve the high rates of investment it needs. Accordingly, on its own, it is unable to attain rates of growth that would

ultimately end its condition of underdevelopment.

Outlining how it plans to transform the second economy, the government has placed heavy emphasis on infrastructure development. In this year's State of the Nation Address, Mbeki said: "We should move faster to address the challenges of poverty, underdevelopment and marginalisation confronting those caught within the second economy, to ensure that the poor in our country share in our growing prosperity."

He went on to say that the public sector would also accelerate infrastructure investment in underdeveloped urban and rural areas through the Municipal Infrastructure Grant, Expanded Public Works Programme and other infrastructure funds to improve service delivery in the second

economy. A total of R372 billion had been earmarked for these programmes over the next three years.

These statements make it clear that included in the notion of the second economy are those working informally in informal enterprises (IE), domestic work and subsistence agriculture as well as the unemployed.

A central idea is that these activities are structurally disconnected from the mainstream economy.

This dualistic view of the economy is significant not only because it has been articulated by the President, but also because it seems to inform much of the ANC's policy thinking. The fact that Mbeki includes the jobless in the second economy clearly indicates that he has moved beyond a simple formal-informal divide.

Table 2 presents the same information as the previous table, but in terms of percentages, and shows only the employed.

The tables make it clear that many South Africans do not have

TABLE 2: EMPLOYMENT IN THE IE BY INDUSTRY

Trade	1,204	49%
Services	423	17%
Construction	346	14%
Manufacturing	255	10%
Transport	155	6%
Finance	74	3%
Other	5	0%
	2,462*	100%
Trade	49%	
Services	17%	
Construction	14%	
Manufacturing	10%	
Transport	6%	
Finance	3%	99%

LINKS BETWEEN FORMAL AND INFORMAL ECONOMIES

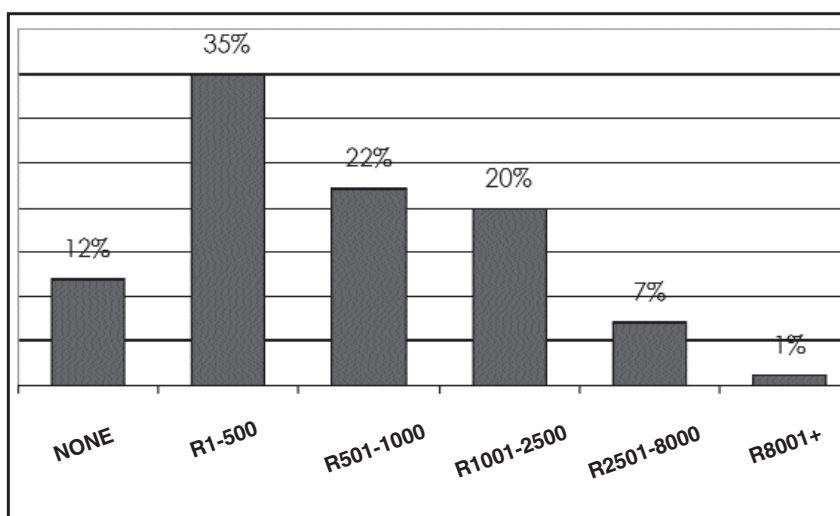
Since Stats SA introduced its six-monthly labour force survey (LFS) in 2000, South Africa has had comparatively good labour market statistics.

The statistics below are based on analysis of the September Labour Force Surveys for 2000-2005. Table 1 represents the population by employment status and sector.

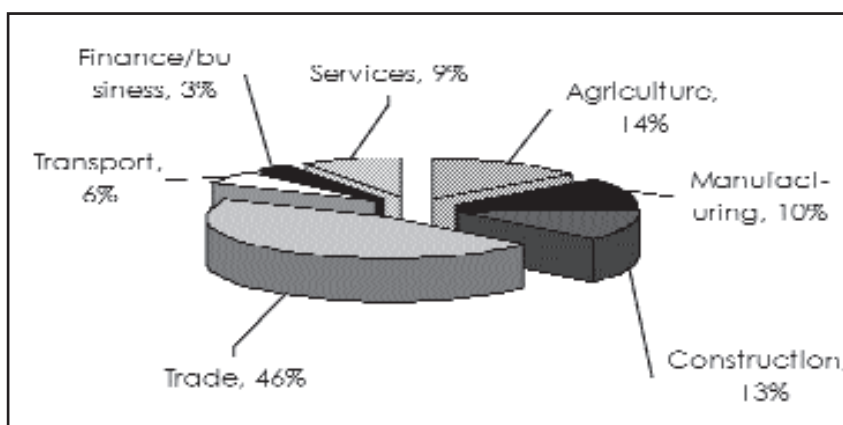
TABLE 1: SOUTH AFRICA – POPULATION BY EMPLOYMENT STATUS AND SECTOR

	2000	2001	2002	2003	2004	2005
Formal agriculture	686,219	678,910	826,343	845,182	639,194	591,772
Formal other	6,865,361	6,927,409	7,075,966	7,512,036	7,739,645	8,075,451
Domestic work	1,215,165	1,070,362	1,053,834	1,204,010	1,085,946	1,080,341
Informal agriculture	1,083,211	412,193	576,781	394,515	474,304	381,087
Informal other	1,802,050	1,797,722	1,590,343	1,779,371	1,800,332	2,340,984
Don't know	110,516	119,032	60,288	39,875	52,488	35,457
Unspecified employed	206,752	28,562	29,123	17,254	19,606	42,422
Unemployed	4,088,846	4,541,111	4,846,492	4,578,243	4,143,553	4,501,277
Not economically active	12,657,110	13,591,432	13,740,966	15,747,509	15,392,429	14,751,856
Total	28,714,426	29,166,734	29,800,137	32,117,995	31,347,498	31,800,646

Source: LFS - figures adapted from calculations made by Debbie Budlender

FIGURE 1: MONTHLY INCOME FOR INDIVIDUALS IN INFORMAL ENTERPRISES, SEPTEMBER 2005

Source: LFS

FIGURE 2: INFORMAL ENTERPRISES BY INDUSTRY, SEPTEMBER 2005

Source: LFS

informal jobs. Four million informal economy workers were recorded in 2000, while 3,7 million were recorded last year in the informal economy broadly defined, that is, including workers in informal enterprises, domestic work and informal agriculture. This constituted 34% and 31% of the labour force in 2000 and last year respectively. A very large number of people are also unemployed. This bears out Mbeki's statement that those considered part of the second economy constitute "a big percentage" of the population.

Although the figures fluctuate, informal enterprises have seen employment growth in the post-apartheid period. Casale, Muller and Posel using figures from the October Household Survey calculated that in 1997, 1 161 300 people were reported to be working in informal enterprises. The figure for last year, according to our calculations, was 2 340 984. Figure 1 reflects the monthly incomes of workers in informal enterprises. Sixty-nine percent of people reported earning R1 000 or less, suggesting a close relationship

between poverty and informal work, which has been noted in other countries.

Although individual incomes in the informal economy are often low, together they make a significant contribution to the gross domestic product (GDP). Budlender, Buwembo, Chobokoane, and Shabalala estimated in 2002 that informal enterprises contributed between 8 and 10% of GDP. A Lighelm has calculated that total expenditure in the informal economy stood at R51,7 billion in 2004, adding that this compared well with the turnover of South Africa's two largest retail chains, at R32 billion and R27 billion.

Lighelm notes that R16,7 billion was spent on food and R15,9 billion on transport, mainly taxis. This shows that the claim that the second economy contributes little to economic growth is inaccurate.

Are activities in the second economy 'structurally disconnected' from the first economy? Case material indicates multiple forward and backward links between the formal and informal activities.

Consider that most informal workers sell basic consumption goods such as fruit and vegetables bought from formal markets. Witt's work on informal fruit and vegetable distribution highlights multiple formal/informal linkages.

Ince and Godfrey have demonstrated extensive forward and backward links between informal clothing manufacture in Durban and Cape Town and formal clothing manufacture and retailing. The garments made by informal producers also often end up in formal retail stores.

M Khosa has documented how closely the taxi industry is linked to the formal motor, insurance and

petrol industries. Even the most marginal of informal workers, such as waste collectors, are linked to the formal economy. More than 3 000 waste collectors supply Mondi's 117 waste buy-back centres, which now account for almost 20% of the company's total recovered paper purchases. A significant proportion of South African Breweries' sales are through unlicensed taverns or shebeens - 74% of liquor retailers are estimated to be unlicensed.

It is clear that many of South Africa's biggest companies rely on informal workers to supply inputs or to sell their goods. In policy terms, these are often the most productive areas to concentrate on.

Internationally and in South Africa, there is also substantial evidence of a growing informalisation of formal jobs. Using Stats SA data, D Budlender shows that the employment terms of more than 45% of formal sector workers are marked by informality - they do not have a written contract, a permanent position or paid leave.

As early as the mid-1990s, the International Labour Organisation reported that labour flexibility had been growing in South Africa. In a survey of nearly 400 manufacturing firms, we found that more than a quarter (27%) reported using part-time workers and 83% had employed temporary or casual labour in the recent past.

Using interviews in retail, mining, manufacturing (food, clothing, metal and engineering), catering and accommodation, construction and transport, Theron and Godfrey showed that in 2000 firms were using temporary employment contracts, and that almost all those interviewed reported an increase in the use of

labour brokers and employment agencies.

These trends are confirmed in Theron and Godfrey's more recent work tracking the rise in labour brokering. The trend is particularly noticeable in certain sectors. In 2005, B Kenny found that on average only 35% of employees in formal retail stores had permanent contracts, a figure which includes the subcontracting of non-core activities like cleaning and security. M Clarke found that 70% of Woolworth's workers were casuals.

CONCLUSION

Mbeki's articulation of the first and second economy idea coincided with a refocusing of economic policy in South Africa. This acknowledged the failure of the trickle-down economic growth policies central to the post-1996 Gear (Growth Employment & Redistribution Strategy) era and informs much of government's recent emphasis on poverty alleviation. However, the dualism suggested by claims of a 'structural' break between the two economies allows the government to argue that its economic policies have succeeded in the first economy, and that as a result, it can now address poverty and unemployment in the second. Yet for all its claimed successes in stabilising South Africa's macro-economy after 1994, promoting black economic empowerment, and re-orientating the budget to meet social objectives, even the government accepts that it has failed to address unemployment and high levels of poverty among many South Africans.

A clear understanding of the links between the formal and informal economies is critical for the development of good policy.

Mbeki's preoccupation with the second economy has undoubtedly raised the profile of the unemployed and those in the informal economy, and that is a positive development. But the two economies concept is not useful in understanding the history and current challenges facing the economy. There is a danger that the concept will again send poverty and unemployment to the arena of welfare, rather than it being a central challenge of economic policy, and that the necessary structural changes in the economy will be overlooked.

It is significant that the Department of Trade and Industry and the Department of Public Enterprises have been charged with developing policy for the first economy. Policy for the second economy however is in the hands of Deputy President Phumzile Mlambo-Ngcuka. The DTI and Public Enterprises should be dealing with both the formal and informal economy instead of as a separate strategy. The little policy that exists for dealing with the unemployed and the informally employed is piecemeal and ineffective, and is likely to remain so unless it becomes a central preoccupation of economic policy. The acid test of a successful economy is surely the degree to which it generates employment and improves the living standards of the population. Disposing of employment and improved living conditions to the second economy is hardly a useful way of integrating unemployment and poverty into mainstream economic policy.

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Caroline Skinner and Imraan Valodia are researchers in the School of Development Studies at the University of KwaZulu-Natal.