

HSRC RESEARCH OUTPUTS

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**Setting targets for
unemployment reduction
and employment creation**

Miriam ALTMAN

Executive Director
Employment Growth & Development Initiative
Human Sciences Research Council (HSRC)

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Human Sciences Research Council

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Contact: Dr Miriam ALTMAN
Executive Director: Employment Growth & Development Initiative,
HSRC

E-mail: maltman@hsrc.ac.za

Tel: +27 12 302 2402

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Executive Summary

Government has identified targets of halving unemployment and poverty by 2014. The precise meaning of these targets is not specified. But their identification offers policy-makers and stakeholders something to focus their minds on. Before these were specified, we simply spoke vaguely about reducing unemployment and poverty. Given the depth of South Africa's unemployment and poverty, halving their rates seems meaningful enough as a target. It does not appear that anyone is necessarily critiquing the targets; instead, the question seems to be whether and how they might actually be achieved. This is the main purpose of the employment scenarios project.

This paper asks a prior question, namely: *what does halving unemployment actually mean?* By how much would unemployment need to drop – from where to where? The unemployment rate is a ratio of the number of unemployed relative to the size of the labour force. Would the unemployment rate be more affected by a change in the number of unemployed (or employed) or by a change in the size of the labour force?

Moreover, halving unemployment could improve the standard of life considerably. But even then, South Africa's unemployment rate would still be considered extremely high by global standards. There are few regions in the world that have official unemployment rates above 10%: mostly they fall between 3% and 9% in developing economies (ILO, 2004). So 2014 should be seen as an interim rather than a final target – we would want to see unemployment halved, and then continue to fall to even lower rates. What would be socially and economically acceptable rates of unemployment that would constitute our ultimate target? By when should we seek to achieve them?

Government has not specified an *employment growth target*. It is assumed that the employment target is one that is consistent with that for reducing unemployment.

Reducing unemployment and expanding employment do not necessarily involve precisely the same policy complements. Reducing unemployment depends not only on job creation, but also considerably on the pace of labour force growth. Targeting unemployment is tricky, since labour force growth is likely to be an ever-changing phenomenon in South Africa, depending on the policy toward HIV, immigration, emigration and signalling. Signalling is perhaps the biggest quandary: the more successfully the economy creates jobs, the stronger the signal for migration into South Africa and to the cities, and for previously discouraged adults to enter the labour force to look for work. So successful employment creation could actually make the unemployment reduction objective more elusive.

Employment targets and employment policy focus on how jobs might be created. Labour market policy may feature insofar as we are worried that the right skills complement could hinder economic expansion. But policy to stimulate labour demand is primarily concerned with economic growth and how that growth absorbs labour. Employment policy may also seek to make up for shortfalls in market-based job creation by generating public-oriented employment – for example, through social services or public works schemes.

It would make sense to set targets for *both* employment growth and unemployment reduction. The unemployment rate is a ratio that is continually shifting and whose measurement is not yet sufficiently reliable. Moreover, as noted, rising employment can actually contribute to a rising rate of unemployment. Therefore, the unemployment rate is worth tracking, but may not offer sufficient reflection of underlying rates of economic activity amongst the working-age population.

This paper therefore outlines broad bands for employment creation and unemployment reduction that will form the backdrop to scenario-building. At best, it offers basic parameters that enable us to hold up any one policy or phenomenon to see how significantly it might contribute to changing employment and unemployment conditions.

The paper suggests the following targets for reducing unemployment.

- If unemployment is halved between 2004 and 2014, the unemployment rate would need to fall from about 26% to 13%.
- If the labour force grows by 2% pa or about 330,000 pa, the number of strictly unemployed would need to fall from 4.0 million to 2.5 million people. The assumption is that the working age population (WAP) (between 15 – 65) will grow by 1.5% per annum, and that 56% of the WAP would participate in the labour market, as in 2004. Although HIV/AIDS may have a dampening effect on labour market participation, other factors such as urbanisation or regional in-migration would expand it.
- If the broad unemployment rate is to be halved from 40.7% to 20.3% between 2004 and 2014, and the labour force grows by 2.0% pa, then the number of unemployed would need to fall from about 7.97 million to 4.7 million people.

The following employment targets are suggested.

- To halve the strict unemployment rate, about 4.9- million net new jobs would have to be created. This is about 490,000 net new jobs per annum.
- To halve broad unemployment, 6.79 million net new jobs would be needed, or about 679,000 new jobs pa.
- The quality of work may be another target that needs consideration. The official definition of ‘employment’ is not very onerous, and so the official employment measure groups high flying finance executives with someone ckeing out a marginal part-time existence in the informal sector. Often job quality is measured by the extent on part-time, casual or full-time work. A surprisingly large proportion of workers in SA are employed full time. So, another simple measure may be the proportion of workers in any wage band. For example, one might measure to what extent job creation contributes to reducing the proportion of workers earning less than R 2,500 per month.
- Although universally accepted, the unemployment rate is perhaps not the best indicator of how non-participation affects welfare. This is because it reflects both rates of non- participation, plus behavioural characteristics – such as whether an adult is or isn’t looking for work at that time. Two alternative measures are proposed. The first measure is the ratio of those that are “not working” to the working age population. By this measure, about 35% of the working age population is not working. Unlike the unemployment rate, this ratio has been relatively stable in the 1990s and 2000s. The second measure is the ratio of the population to those that are not working. This is a kind of dependency ratio, which shows that about 2.8 people depend on one working person. This ratio has fallen slightly, but has not really changed much since the mid-1990s. For this measure to be meaningful, we would need to look at household distribution, since an average dependency ratio won’t tell us much in a highly unequal society.

1 Introduction

Government has identified targets of halving unemployment and poverty by 2014. The precise meaning of these targets is not specified. But their identification offers policy-makers and stakeholders something to focus their minds on. Before these were specified, we simply spoke vaguely about reducing unemployment and poverty. Given the depth of South Africa's unemployment and poverty, halving their rates seems meaningful enough as a target. It does not appear that anyone is necessarily critiquing the targets; instead, the question seems to be whether and how they might actually be achieved. This is the main purpose of the employment scenarios project.

But there is a prior question: *what does halving unemployment actually mean?* By how much would unemployment need to drop – from where to where? The unemployment rate is a ratio of the number of unemployed relative to the size of the labour force. Would the unemployment rate be more affected by a change in the number of unemployed (or employed) or by a change in the size of the labour force?

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Reducing unemployment and expanding employment do not necessarily involve precisely the same policy complements. Reducing unemployment depends not only on job creation, but also considerably on the pace of labour force growth. Targeting unemployment is tricky, since labour force growth is likely to be an ever-changing phenomenon in South Africa, depending on the policy toward HIV, immigration, emigration and signalling. Signalling is perhaps the biggest quandary: the more successfully the economy creates jobs, the stronger the signal for migration into South Africa and to the cities, and for previously discouraged adults to enter the labour force to look for work. So successful employment creation could actually make the unemployment reduction objective more elusive.

Employment targets and employment policy focus on how jobs might be created. Labour market policy may feature insofar as we are worried that the right skills complement could hinder economic expansion. But policy to stimulate labour demand is primarily concerned with economic growth and how that growth absorbs labour. Employment policy may also seek to make up for shortfalls in market-based job creation by generating public-oriented employment – for example, through social services or public works schemes.

It would make sense to set targets for *both* employment growth and unemployment reduction. The unemployment rate is a ratio that is continually shifting and whose measurement is not yet sufficiently reliable. Moreover, as noted, rising employment can actually contribute to a rising rate of unemployment. Therefore, the

unemployment rate is worth tracking, but may not offer sufficient reflection of underlying rates of economic activity amongst the working-age population.

This discussion note outlines broad bands for employment creation and unemployment reduction that will form the backdrop to scenario-building. At best, we can offer basic parameters that enable us to hold up any one policy or phenomenon to see how significantly it might contribute to changing employment and unemployment conditions.

2 Halving unemployment

Identifying the targeted unemployment rate is the easiest part of defining what 'halving unemployment' means. We need only ask which year we are starting from. If we pick the period between 2004 and 2014, the unemployment rate would fall from about 26% to 13%.

To know what this means, we need to do some guess work in respect of labour force and employment growth. Tracking the labour market and trends in the working age population is particularly tricky as it seems to change constantly and there are a number of 'wild cards'.

We want to know how fast the labour force might grow. This is related to the growth in the working age population, and the extent to which they participate in the labour market (i.e. the labour force participation rate).

- The rate of immigration and emigration.
- The rate of urban migration.

Currently, it appears that the labour force is growing by about 1.5% per annum. Is there any reason to think that it might fall?

The HIV/AIDS pandemic may slow the rate of labour market growth. Labour force growth may be particularly affected by very high HIV prevalence amongst young women. Alternatively, it may stabilise with successful policies towards HIV and effective ARV roll-out. Previously it had been thought that the labour force might actually shrink as a result of HIV/AIDS. However, the Mandela-HSRC household surveys and StatsSA census results have shown that this does not seem likely. At worst, it may cause labour force growth to slow down (Shisana & Simbayi, 2002).

There are also reasons why labour force growth might not slow down.

In particular, more adults might decide to move to the urban areas and look for work: the more successful is employment policy, the more likely that discouraged adults will get the message to start looking. Currently, South Africa's labour force participation rate, at about 56% is considered low by global standards. In countries with similar per capita income levels to South Africa's, about 50% to 68% of the working age population participates in the labour force (ILO, 2004). Countries with lower labour force participation rates often constrain women's participation. In addition, SA is a magnet for regional migrants who are likely to continue swelling the labour market in future.

Say the working age population, those between the ages of 15 – 65, grows at 1.5% per annum. If the labour force grew by an average of 2% per annum, the labour force participation rate of 56% would be maintained. This seems a reasonable assumption since it is already low, and unlikely to fall further. This translates into an average

330,000 new adults added to the workforce each year, or about 3.3-million people added to the labour force between 2004 and 2014.

There were four million people officially unemployed in 2004. If the labour force grows by 2% annually, the unemployment rate would be halved if the number of unemployed fell by 1.5 million. In 2014, there would then be about 2.5-million unemployed.

The official (or strict) definition of unemployment includes those who are actively looking for work. ***Should the targets also focus more explicitly on reducing broad unemployment?*** This would include 'discouraged workers' who would like to, but have given up looking, for work.

Using the broad definition of unemployment would make the targets more ambitious. In 2004, the broad unemployment rate was 40.7%. This translates into 7.9-million people. To halve broad unemployment from 40.7% to 20.3%, the number of unemployed would need to fall from 7.9-million to about 4.7-million people.

There are a number of reasons to include a consideration of discouragement:

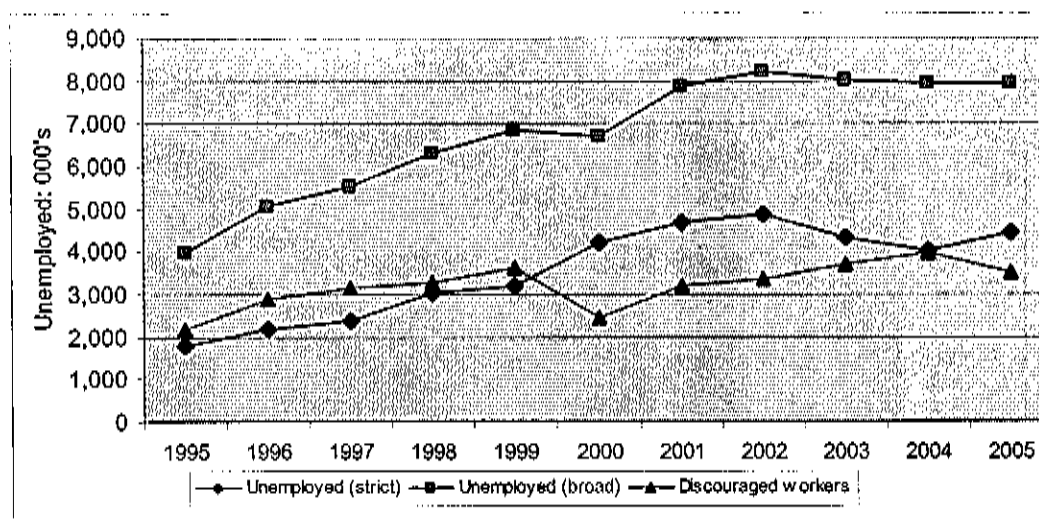
The broad unemployment rate was relatively stable between 2001 and 2005. The central shifts have been between the state of 'actively looking' versus 'discouragement', as seen in figure 1. So, for example, in 2003, the strict unemployment rate fell, but the rate of discouragement rose. These distinctions are important in a context of very high structural unemployment – where discouragement may seem to be a 'rational' decision, given the cost of searching for work.

One-third to one-half of the 'strictly' unemployed have been out of work for more than 3 years. Although some argue that many of these people may well be working in small piece jobs or in the informal sector, the employment statistics captured by the Labour Force Survey (LFS) cover any and all economic activity, including unpaid labour, and so should be capturing this possibility as well.

According to the September 2005 LFS, 56% of discouraged unemployed said there were "no jobs available in the area". Ten per cent said they lost hope of finding work. A further 15% did not have transport money to look for work.

Discouragement particularly affects youth and Africans. About three-quarters of unemployed people are below the age of 35: this is found throughout the 11-year period between 1995 and 2005. The difficulty of finding a job seems to be the paramount explanation: 77% of those aged 15 - 30 who are still looking for work have never had a job. More than half of the strictly unemployed (56%) have been looking for 1 to 3 years or more. About one-third of those who did work before were still looking for work after 3 years (Sept 2005 LFS). This shows a high degree of tenacity, and in this context it is not surprising that even young people would drop out and stop looking for work.

Figure 1 – Comparing strict and broad unemployment



Source: Stats SA October Household Survey (OHS) (1994 - 1999) and IJS (Sept 2000 - 2005)

3 Is the unemployment rate a meaningful measure of economic participation and welfare?

The unemployment rate is an extremely important indicator of economic and social health. Yet the measurement instruments in South Africa are still being shaped, in a context of labour market flux. Of course, we should attempt to track the unemployment rate and seek to find ways to lower it. But it is not clear that the unemployment rate is currently a meaningful measure of economic participation.

Table 1 presents the growth in unemployment over the period 1995 to 2005. The unemployment rate rose rapidly over the 1990s, from 15.7% in 1995 to 30.2% in 2002. It appears that the unemployment rate then fell in 2003 and 2004 and rose again in 2005 to 26.5%.

There are many uncertainties in the unemployment figures: the rapid growth in the 1990s may be overstated as the household surveys became better at identifying who was unemployed, and the fall may also be overstated due to variations in the data. These are explained in Box 1 below.

Table 1 - Unemployment trends (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Strict definition	15.7	19.6	20.7	24.4	23.6	25.7	29.5	30.2	27.4	25.6	26.5
Broad definition	29.2	36.2	37.8	40.1	39.7	35.4	41.4	42.2	41.3	40.7	39.2

Source: OHS 1994 - 1999, September Labour Force Surveys (IJS) 2000 - 2005

BOX 1: Is the unemployment rate falling?

After a long upward climb, the unemployment rate fell dramatically from 30.2% in 2002 to 27.4% in 2003 and 25.6% in 2004. It then rose again to 26.5% in 2005. To what extent was this dramatic reversal real or, alternatively, simply an artifact of the statistics?

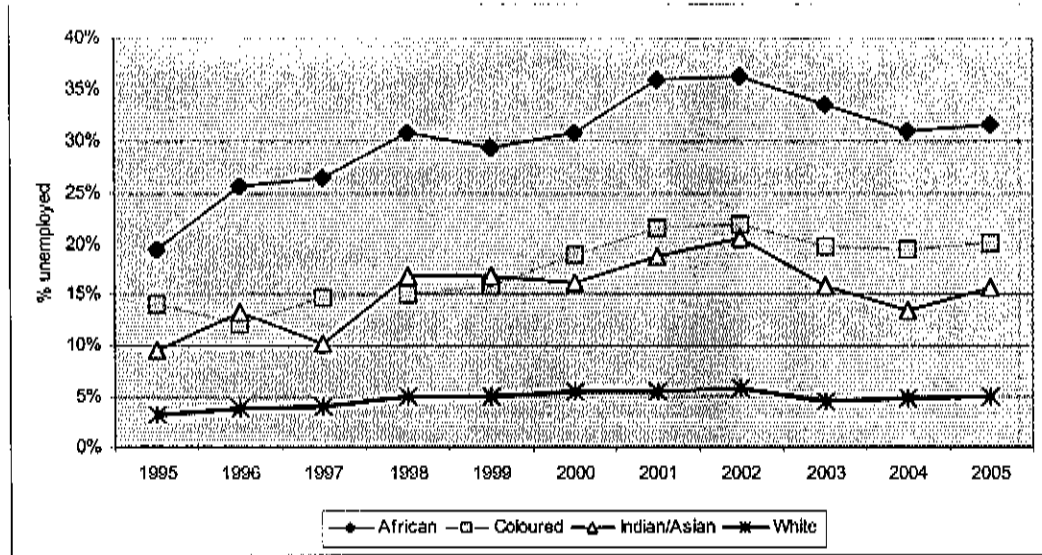
Some factors that need to be considered include:

- The (strict) labour force grew dramatically between 1996 and 1999, as measured by the OHS, expanding by approximately 2.5-million people or an average of addition of 833,000 per annum. It is possible that this growth was overstated: Statistics SA improved its capture of the unemployed over this period, so some of the expansion may simply be due to changes in the survey and its implementation. The way questions were posed changed, where the surveys delved deeper into economic activity. It is possible that many people, such as housewives or subsistence farmers, at one point viewed themselves as not economically active, but with more probing were later categorised as unemployed or employed (see Altman and Woolard, 2006).
- Labour force growth was much slower between 2001 and 2005, as measured by the IFS, growing by about 0.94-million, or about 235,000 per annum. It is not clear to what extent this slowing was due to the introduction of a new instrument, and/or to what extent the growth in the 1990s was due to improved counting.
- The number of unemployed measured in the official definition ("strictly unemployed") shrank by 443,000 between 2002 and 2005, but the number of discouraged unemployed expanded by about 2-million between 2000 and 2005. Between 2001 and 2005, the number of strictly unemployed shrank by 4.9% and the number of discouraged unemployed expanded by 9.4%.
- In contrast, between 1996 and 1999, the number of strictly unemployed expanded by 47% and the number of discouraged unemployed expanded by 26.2%.
- Overall, the total number of unemployed did not change between 2001 and 2005. However, the number of unemployed fluctuated in intervening years, possibly contributing to the jumps in the unemployment rate. For example, the number of unemployed grew by 1.2-million in 2001, then by 357,000 in 2002, and fell by about 285,000 in 2003.

There is an alternative way of tracking unemployment that might give a more reliable indication of economic participation. This measures the proportion of the working age population (between the ages of 15 - 64) that are *not working*, as seen in Figure 3. There is a clear benefit to using this measure of non-participation: the unemployment rate has the problem that it can change simply because more or fewer people say they are looking for work. This can reflect on discouragement or hope, but does not necessarily communicate the impact of unemployment on welfare. Therefore the unemployment rate measures both inactivity, *plus* behavioural changes. The problem is eliminated if we simply measure the number of people who are working, or not working, as a percentage of those potentially working. In this case, we are not worried

about the number of people in the labour force, only about the number of people who are working or not.

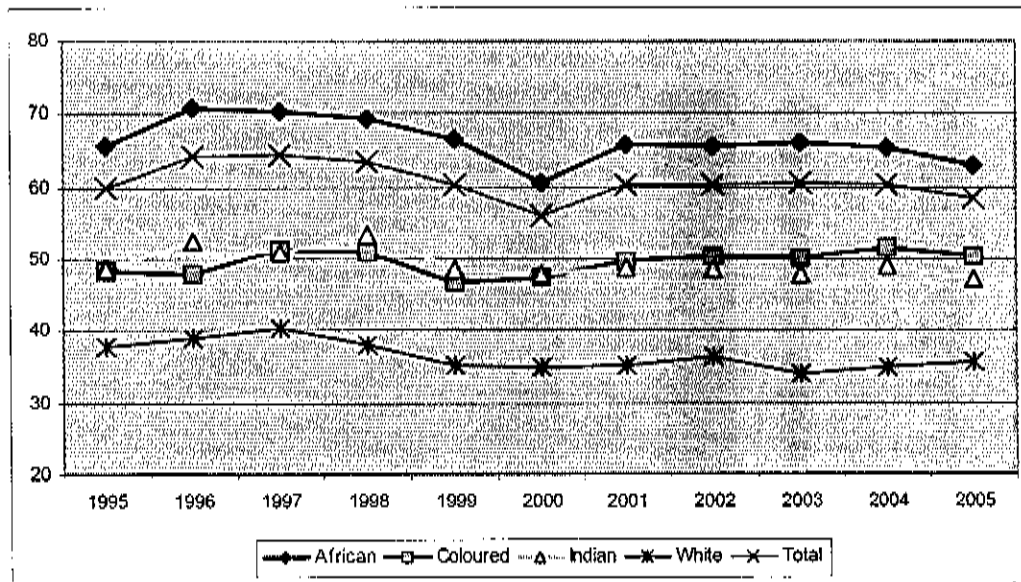
Figure 2 - Unemployment by race



Source: Stats SA: OLS (1995 - 1999) and LFS (Sept 2000 - 2005)

Note: this figure uses strict definition of unemployment

Figure 3 - 'Not working' as % of working age population, by race



Source: OHS 1995 - 1999, September LFS 2000 - 2005

A different trend is found from that seen in Figure 2 – for most race groups, the proportion in the working age population that was not working did fluctuate, but was essentially stable at about 35%. This is particularly surprising for Africans. More than the unemployment figure, this gives a sense of the extent to which the employed support the rest of the population.

A second alternative measure shows the ratio of the population that is not working to those that are working. This measure of dependency fell from 3.1 in 1995 to 2.8 in 2005. This means there were 2.8 people to every one working person in the population in 2005. This analysis would need to be done for the distribution of earners across households, since the average will be very misleading.

Three conclusions can be drawn from this. The first conclusion is that until the labour statistics stabilise, the unemployment rate may be misleading in illuminating welfare impacts. The second conclusion is that while the unemployment rate may have been rising over this period, the ratio of working to non-working people remained about the same. Therefore, over sustained growth over a 10-year period seems to have had limited impact on employment and unemployment, relative to population growth. The third conclusion is that we may need additional measures to identify success in ultimately reducing unemployment.

4 The employment creation target

Identifying an employment creation target may be a more realistic approach to goal setting, given the difficulties in measuring the unemployment rate.

To identify the employment creation target, we do, however, use the unemployment target as a base:

- If the labour market grows as it is currently doing, about 4.9-million net new jobs would be needed between 2004 and 2014 (about 490,000 jobs annually) to halve the strict unemployment rate.
- Alternatively, if the objective was to halve the broad unemployment rate from 40.7% to 20.3%, 6.79-million net new jobs would be needed, or about 680,000 annually.

These employment targets could be modified each year, based on new labour market data, and/or maintained as is.

How do these targets compare to South Africa's recent experience of employment growth? What if employment continues to grow in approximately the same way?

The employment figures have been difficult to pin down but, more or less, formal employment grew by about 2% annually and the informal sector by about 2.5%pa between 2000 and 2005. This latter figure is a little contentious since the informal sector stagnated from 2000 to 2003 and then made a terrific leap in 2005. But let us accept these rates for the purpose of this discussion. This would generate about 220,000 new jobs in the formal sector and an average of about 74,000 new jobs in the informal sector each year. This is 70% of the job creation needed to halve unemployment. If the current path continues as it has since 2000, unemployment could potentially fall to about 21%. There is a shortfall of 1.5-million jobs.

The official definition of a job is not very onerous. The ILS defines as 'employed' all persons between the ages of 15 and 65 who were engaged in any kind of economic

activity for at least one hour in the previous week. This includes unpaid family workers and subsistence farmers.

The quality of this employment will be an important question, particularly since the aim is to reduce unemployment *and* poverty. Currently about 45% of all workers are in precarious jobs: about 18% of workers are found in the informal sector and subsistence agriculture and another 9% are in domestic work. About 15% of all workers are found in non-permanent formal sector work. The remaining 55% of all workers are in permanent formal sector work.

Wage remuneration is low relative to the cost of living. The IFS shows that 65% of all workers earned less than R2,500 per month in 2004, and 39% earned less than R1,000 per month. Low earners in the formal sector are not just elementary workers: about two-thirds of craft workers and plant and machinery operators earned R2,500 per month or less. There is no official poverty line, but some say it can be set at between R2,000 and R4,000 per person per annum. A wage of R1,000 per month is therefore definitely below the poverty line. If a worker supports four family members, R2,500 would put them over a poverty line. However, if that person worked for six months in the year and was the main earner for a family of six, they would fall below the poverty line (Altman 2004, 2006; Valodia et al, 2006)

Should the formulation of an employment target give some thought to job quality and remuneration? Will there be a trade-off between employment and wages in South Africa's effort to expand employment dramatically? If so, what sort of trade-off would seem acceptable? Should incomes targets also be set that are met through a combination of employment and social protection measures?

5 Summary

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