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South Africa

Government policies to blame for SAs' chronic mass unemployment

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The level of unemployment in South Africa is second to no other country in the world. Everyone recognises that it's a problem, with various polls suggesting that it's the main concern for people in the country. The problem is so bad that it is described by some as a virus. The symptoms are the widespread desperation of the majority of people in the country and deepening social tensions.

Like any illness, an incorrect diagnosis can lead to prescribing the wrong medicine (solution), resulting in worsening outcomes. Therefore, an understanding of what lies behind unemployment in South Africa is important in order to start to think about what potential solutions may be available. There are many factors that contribute to high levels of unemployment in the country. The legacy of apartheid is certainly one of them. But the unemployment rate has more than doubled since 1994, from 20% to 43%. So, what went wrong since?

Mainstream narratives commonly argue that the reason for increased joblessness in post-apartheid South Africa primarily lies with supply-side factors in the labour market—for instance, skill shortages, resulting in a mismatch between job seekers and the jobs on offer. I will offer an alternative explanation that argues that chronic mass unemployment has less to do with the lack of skills and fundamentally to do with the political-economic trajectory that South Africa embarked on post-1994.

Unemployment is not a uniquely South African problem. Unemployment occurs everywhere and during all times under a capitalist mode of production. Nevertheless, the level of unemployment varies depending on how the economy is organised. During the post-World War 2 period up until the early 1970s, many developed countries had virtually full employment. Large levels of state investment, financed through taxation and disciplining private capital, were channelled into developing public infrastructure in the post-war rebuild. This, together with the roll-out of mass public works programmes, was essential to employment and job creation.

In short, the state was a fundamental player in creating employment through investing in production and public services. This changed dramatically following the rise of neoliberalism.

Neoliberalism in general

Neoliberalism is a set of economic and political policies that views state intervention in the economy as an impediment to achieving economic and social development. It includes trade liberalisation and deregulation of finance, reducing taxes, privatisation of public institutions, fiscal prudence, and a general reduction of public spending and government debt levels. These are all ways of minimising the state's role in the economy.

Increased emphasis was placed on investments in finance, insurance and real estate (FIRE) rather than investment in the real economy (tangible goods and services). These FIRE sectors are less employment-intensive than brick-and-mortar industries like manufacturing.

As a result of these policies, many countries' economies, particularly developed economies, were deindustrialising—manufacturing as a share of employment and of the economy as a whole began to shrink. Existing industries have become increasingly capital-intensive (using more machinery than labour in production). As neoliberalism unfolded around the world, unemployment began to rise in most countries that adopted these policies.

South African neoliberalism

Even though unemployment is a global phenomenon, South Africa is certainly an extreme case. The post-apartheid government inherited high levels of unemployment. Large-scale public investment was necessary to re-industrialise the South African economy, to shift from dependence on the capital-intensive mining sector and diversify the economy. Expanding social spending and investing in public infrastructure and production should have been the objective. Unfortunately, the opposite unfolded during the transition from apartheid and beyond. The very macroeconomic policies that have resulted in worsening unemployment globally were implemented. They drove the premature deindustrialisation of the South African economy and undermined prospects for creating a sufficient number of decent jobs.

During the transition period, South Africa integrated into the global economy when it joined the General Agreement on Trade and Tariffs (GATT) in 1993 and then the World Trade Organisation (WTO) in 1995. This led to the reduction of trade protection policies. Tariffs and subsidies were cut. Overall, average manufacturing tariffs were cut from 23% in 1994 to 8% in 2004. This was even more than was required by the global bodies, despite there being a clear opportunity, in the immediate post-1994 period, to seek more protection rather than less, given what apartheid had done to our economy.

The cheaper imports from China, for example, came at the cost of many job losses. Manufacturing industries, important for labour-intensive employment, were negatively impacted. Over the past three decades, the contribution of the manufacturing industry to the economy has been on a downward spiral, dropping from 23% in 1994 to 12% in 2024. A major contribution to this decline came from the clothing and textile sectors—the most labour-intensive manufacturing sectors. These sectors suffered severe job losses, with a reduction of 37% of the jobs between 1996 and 2005. Between 2005 and 2021, of the more than 300,000 jobs lost in the manufacturing industry as a whole, 120,000 were from the clothing and textile sectors.

Similar trends unfolded in mining and agriculture, with the number of jobs in both declining by more than 20% between 1994 and 2019. The decline of these industries also contributed to the collapse of South Africa's steel industry, leading to many job losses as well.

Not only were many jobs lost, but the government's economic policies undermined the possibility of creating enough jobs to absorb job losses as well as new entrants into the labour market. Central features of the government's economic policy over the past 30 years have been to prioritise reducing the budget deficit and to avoid increasing the level of taxes. The outcome has been inadequate social spending, a shrinking public sector and a lack of fixed investment in public infrastructure.

The role of the Reserve Bank

There are also low levels of private sector investment in the real economy. This relates, in part, to the government giving the Reserve Bank (SARB) the mandate of price stability (i.e. inflation targeting) as its primary objective. This drives up interest rates, which reduces domestic borrowing, which could enable investment in productive sectors, which would spur job creation. One useful measure of investment is the percentage of what is produced in the country (GDP) that is spent on investment in long-term things like infrastructure, machinery and buildings (fixed investment). This percentage has been declining since 2010 as a consequence of these dynamics. It then dropped dramatically in 2020 as a result of the Covid-19 pandemic. While there has been some recovery, the current level of fixed investment is still below pre-pandemic levels and even below the 2007/08 level. Worse, investment in the manufacturing industry is particularly low—averaging 8% between 1994 and 2019.

The SARB's mandate has further implications for employment. The rationale for hiking interest rates is to curb inflation in a context where there is too much money chasing too few goods. However, the majority of people in South Africa are unable to make ends meet due to structural mass unemployment and extremely low wages paid to most of those who are working. The high interest rates push up debt repayment costs for households and businesses. This means that people have less money to spend. The result is a contraction of the economy, which culminates in job losses. This reality is made stark by major economic shocks and recessions, like the global financial crisis and the Covid-19 pandemic, which triggered massive job losses.

There is another way

The unemployment crisis in South Africa is unsustainable. It underpins many of the social ills we are facing in our country, and makes them worse. When high interest rates come together with government's harsh austerity economic policies, the chances for creating a large number of jobs are non-existent. This approach simply cannot create a significant number of jobs. We need a different path.

To create millions of decent jobs and livelihoods, the state has to play a leading role. Investing in the development of mass public housing and the roll-out of public transport could be important initiatives that contribute to improving people's lives and job creation. It would also stimulate employment in other sectors in the value chain. This should come with protection for local productive industries to help grow South Africa's manufacturing industry, which has played a significant role in generating labour-intensive employment in the past.

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