Challenges of Employment Creation in South Africa

Darma Mahadea and Richard Simson

School of Economics and Finance

University of Kwazulu-Natal (UKZN)

Pietermaritzburg Campus

E-mail: mahadead@ukzn.ac.za

simson@ukzn.ac.za

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1. Introduction

South Africa registered an average growth rate of 3 *per cent* over the period 1994-2003, 5 *per cent* during the period 2004 to 2007, (negative 1.7 *per cent* in 2009), and 2.8 *per cent* in 2008 and 2010 (SARB, May 2011). Despite these positive growth rates, employment has not increased significantly. Employment increased by 1.8 million from 2004 to 2007 (du Toit and van Tonder, 2009), but as many as 366 000 formal sector jobs were lost in the first three quarters of 2009 (SARB, 2009). The loss in private sector employment over seven quarters preceding mid-2010 was even stronger at 436 000 (SARB, March 2011).

Total employment in the formal non-agricultural sector decreased from 8.5 million in the fourth quarter of 2008 to 8.3 million in the fourth quarter of 2010 (SARB, May 2011). This clearly reflects the inability of the formal sector to absorb an increasing number of job-seekers, thus resulting in the worrying problem of persistent unemployment. And, if individuals remain unemployed for prolonged periods without any gainful income, they may experience the hardships of poverty. Unemployment leads to undesirable and costly social effects, like stress, drug addiction, nutritionally related deterioration in individual health, crimes and a loss in self-esteem and skills as well as foregone output opportunities.

On an expanded basis, South Africa's current unemployment rate, which includes the discouraged work seekers, is close to 30 *per cent*, although the 'official' unemployment rate was about 24 *per cent*, in 2010 (SARB, 2011). Discouraged work seekers increased from 1.1 million to 1.7 million during the fourth quarter in 2009 (SARB, 2010). This implies that millions of people want work and are capable of work but are discouraged from searching, as they cannot find gainful employment.

The post-apartheid government has put in place various structures and strategies to meeting the challenge of job creation. These include growth, employment and redistribution strategy (GEAR), the Umsombuvu Youth Agency, SMME development institutions, National Skills Fund, the Sector Education and Training Authorities (SETAs), National Empowerment Fund, Accelerated and Shared Growth Initiative of South Africa (ASGISA), the Small Enterprise Development Agency (SEDA), expanded cabinet responsibilities to deal with development and employment in June 2009, and a New Growth Path strategy in November 2010. Despite all these initiatives, South Africa's contemporary growth and unemployment rates are a development concern, together with associated socio-economic issues, such as inflation, budget deficits, high crime rates and levels of corruption, poor service delivery and increasing income inequalities.

Increasingly there are signs of disillusionment among individuals, as unemployment among the poorer community remains extremely high. After almost 17 years of post-apartheid democracy, many individuals are asking, "where are the promised (decent) jobs?" contributing to a "better life" for all in South Africa.

Encouragingly, in his February 2011's State of Nation address, President Zuma raised hopes, highlighting the government's commitment to, *inter alia*, reducing poverty and unemployment, and declaring 2011 as the "year of job creation." The President announced several new initiatives to boost job creation, such as the setting up of a R9-billion jobs fund, R20 billion in tax allowances and tax breaks to investment projects, business expansion, and upgrades in the manufacturing sector. These measures are largely in line with the government New Growth Path (NGP) that aims for the creation of five million new jobs by 2020 and reducing unemployment to 15 *per cent*. Consistent with the NGP's aim of creating more jobs in South Africa, the President highlighted six priority areas as the focus of policy interest:

- Infrastructure development
- Agriculture
- Mining and beneficiation
- Manufacturing
- Green economy
- Tourism

Against this background, this paper examines South Africa's problem of high unemployment despite economic growth and the challenges of employment creation. It consists of four sections. The first examines the country's economic growth rate performance against a background of unemployment in recent years. The second discusses real GDP within the context of the Keynesian model of income determination and presents a marginal employment effect regression analysis using data for the period 1994-2010. The third examines who and where are the unemployed and the causes of poor employment in relation to growth performance, and the final section presents some alternative employment enhancing measures.

2. Recent Economic Growth and Unemployment Rates in South Africa

South Africa registered an average annual rate of 2.7 *per cent over the period 1994-2000*, (Table 1). Accordingly, real GDP per capita increased from R28 536 in 1994 to R29 792 in 2000 and to R36 591 in 2010 (SARB, March 2011).

Table 1: South Africa's Real GDP 1994 – 2010.

Year	Real GDP	Real GDP *per capita* Rand
1994	3.2	28536
1995	3.1	28815
1996	4.3	29431
1997	2.6	29582
1998	0.5	29116
1999	2.4	29187
2000	4.2	29792
2001	2.7	30024
2002	3.7	30581
2003	3.1	30992
2004	4.9	31946
2005	5.0	33176
2006	5.3	34586
2007	5.1	36073
2008	3.1	36942
2009	-1.7	35936
2010	2.8	36591

Source: SARB Quarterly Bulletins

After the abolition of the RDP office in 1995, a new macroeconomic growth, employment and redistribution (GEAR) strategy was implemented in 1996. This move recognizes that unless the economy grows robustly there can be neither substantial employment creation nor significant redistribution to the poor.

In terms of the GEAR strategy, South Africa expected to achieve an average annual growth rate of 6 *per cent* over the 1996-2000 period, and some 400 000 new jobs were projected to be created per annum. However, contrary to expectations, the country produced a striking case of jobless growth during certain years in the 1990s (Loots, 1998).

South Africa registered an average growth rate of 5 *per cent* during the period 2004-2007. Thereafter, economic growth responded positively to the stimulus from public sector infrastructure investment, especially in roads, stadia, the Gautrain project and improvements of airports in anticipation of the 2010 Soccer World Cup. As a result, expanded unemployment declined from 37 *per cent* in 2003 to 29.3 *per cent* in 2008. Economic growth was accompanied by an increase of 1.8 million jobs from 2004 to 2007, but employment growth was not high or stable.

The rate of employment growth trended downwards from above 4 *per cent* in 2004 to under 1 *per cent* in 2007 or 2010, relative to an upward-trending economic growth (du Toit and van Tonder, 2009). In comparison to 2008, there was a substantial fall in employment in 2010, particularly in manufacturing, construction, transport and mining sectors, which tend to be high labour-absorption industries (SARB, May 2011). Manufacturing employment, for example, decreased from 1.27 million to 1.16 million over the 2008-2010 periods (Table 2). To March 2011 (from December 2010) 47 000 jobs have been added to bring the estimate of the total of employment in all formal non-agricultural industries to 8 298 000 (Quarterly Employment Statistics, March 2011), which must be viewed from the perspective that this estimate was 8 512 000 in December 2008: jobs are being added but not at a pace sufficient to replace the jobs lost up until to early 2010, let alone cater for the rising number of new entrants to the labour market.

Table 2: Employment in Formal non-agricultural Industries (Thousands)

Activities	**Total Employment 2008: 4th Quarter**	**Total Employment 2009: 4th Quarter**	**Total Employment 2010: 4th Quarter**
Mining and quarrying	518	488	503
Manufacturing	1275	1185	1166
Electricity, gas and water	59	56	58
Construction	474	415	400
Wholesale and retail trade	1747	1665	1683
Transport and communication	366	359	357
Financial and business services	1914	1796	1822
Community, social and personal services	2159	2199	2267
TOTAL	**8512**	**8163**	**8256**

Source: SARB Report, May 2011

The long-term employment trend indicates that unemployment (expanded) rates increased from 6.7 *per cent* in 1960 to 10.6 *per cent* in 1983, to over 29 *per cent* in 2009. This implies that the job scarcity rate (percentage of workers without formal employment) increased from a mere 10 *per cent* in 1960 to approximately 47 *per cent* in 1995 (Loots, 1996) and close to 30 *per cent* in the post-2000 period. In effect, the labour absorption rate, i.e. the proportion of the working age population that was employed in 2011 (first quarter) was 40.6 (Stats SA, 2011). While the formal sector was able to absorb 80 *per cent* of the labour force before the 1980s, this figure has thus dropped by nearly *50 per cent*.

More employment seems to have been created in the informal sector rather than in the formal sector, thus widening income inequality and the gap between the first and the second economy. Indeed, South Africa's Gini coefficient, reflecting income inequality, has increased from 0.57 in 1992 to 0.70 in 2008 (du Toit and van Tonder, 2009: 15). The jobs created by the informal sector are of a low value-adding nature relative to those of formal sector. But recently, even the informal sector has been shedding jobs. For example, between the last quarter of 2010 and first quarter of 2011, the informal sector employment decreased from 2.22 million to 2.18 million, a lost of about 46 000 jobs (Stats SA, 2011). On the other hand, the loss in private sector employment was mirrored by an increase in the share of public sector employment from 21.6 *per cent* to 23.6 *per cent* between the third quarter of 2008 and first quarter of 2010 (SARB, March 2011).

2.1 The GDP-Employment Ratio

The relation of unemployment with GDP can be assessed more accurately when the change in GDP is linked to the change in employment, which is done in Table 3 below. This is an indication of the responsiveness of employment to changes in economic growth. The GDP-employment growth was negative during the period 1995-2000, with an average figure of -1.4 (Mahadea, 2003), reflecting that South Africa's growth has not been neutral but rather labour displacing. Labour displacement relative to the country's GDP appears to have been at -1.6 in 2001 and 2010, but labour absorption improved in most other years, except for 2009. The change in the labour employment index ranged from 3.2 *per cent* (2008) to 19.4 *per cent* (2002), and the GDP-employment ratio has been positive, the highest in 2008, with a figure of 0.968 (Table 3). However, the last two years have seen the gains of the past wiped away as the 0.968 figure fell to 0.315 in 2009, and became negative in 2010. These impacts are also evident in Figure 1 (on page 8) below where the decline in employment growth outpaces real GDP growth from 2008 onwards.

Table 3: Labour Employment, Capital Labour Ratio and GDP/Employment Ratio: 2000-2010

Year	Average Capital Labour Ratio in Rand	Labour Employment Index	Change *per cent*	Ratio of GDP growth (g_y) to Employment Growth (g_l)
2000	166016	100	-	-
2001	164042	98.4	-1.6	-1.68
2002	162147	117.8	19.4	0.190
2003	161034	135.1	17.3	0.179
2004	161080	140.7	5.6	0.875
2005	162677	150.2	9.5	0.526
2006	165442	167.1	16.9	0.313

2007	169077	175.8	8.7	0.586
2008	174922	179	3.2	0.968
2009	181581	173.6	-5.4	0.315
2010	186631	172	-1.6	-0.57

Source: SARB Quarterly Bulletins.

Output expansion with a less than proportionate increase in the labour force (in Table 3 note the years 2002, 2006, 2009 and 2010, for example) may reflect an increase in capital input and total factor productivity. Indeed, the average capital-labour ratio increased from R166016 in 2000 to R186631 in 2010 (Table 3), reflecting a rising capital intensity in production. Accordingly, the average output labour ratio improved from R71663 in 2000 to R87888 (at constant 2005 prices) in 2010 (SARB, March 2010).

Except for the year 2008, the ratio of GDP growth to employment growth has been far less than one, reflecting that South Africa's job creation performance against GDP has been rather weak for most years during the period 2002-2010, many of the unemployed ending up in the informal economy. During the years 2000-2005, on average 21 *per cent* of the employed were engaged in the impoverished informal sector (Burger and Yu, 2006). This reinforces the point that the employment elasticity of economic growth is rather low in South Africa; also notice in Table 3 above, that more recently the ability of the economy to absorb labour is waning, as the growth in output has not really resulted in a matching growth in employment. If one chooses a ratio of one half as a benchmark (indicating a labour absorbing economy), it is to be noted that more recently (particularly in 2010) the economy has not been consistently under this benchmark, indicating a tendency towards a jobless growth scenario.

3. South Africa's Real GDP, Investment and Marginal Employment Effect

According to Keynesian theory, investment is critical to economic growth and development of a nation. In terms of neo-classical growth economics, population growth, capital accumulation and technological progress each contribute to the economic growth of nations (Solow, 1994). However, new growth or endogenous growth models emphasize entrepreneurial ideas, institutions, good governance and human capital as critical to economic growth (Lucas, 2009; Romer, 1994; Barro and Sala-i-Martin, 1995; Rodrik, 2000 and Grindle, 2004). Older growth models, such as those of Smith and Schumpeter also stress the role of entrepreneurship.

Within the Keynesian framework, economic growth (g) is directly related to the average savings (s) or investment ratio and inversely related to the incremental capital output ratio (k). Domar (1946) postulates that savings and the incremental capital output ratio (ICOR) provide the key to investment-led growth. Once the ICOR is known, the saving-income ratio necessary to generate a given rate of economic growth can be found. This framework can be used as a heuristic guide in analysing the real economic growth of South Africa.

Taking an optimistic view, South Africa needs a 6 *per cent* growth rate to create 500 000 jobs annually. With an ICOR of 6.1 (Table 4, where we include some previous years for comparison), South Africa would have had to invest close to 37 (the six required divided by the 2.64 posted multiplied by 16) *per cent* of its GDP over the period 1996-2000 to attain a 6 *per cen*t growth rate. Clearly this investment (37 *per cent*) as a proportion of GDP is well above the average 16 *per cent* actually registered for the period 1996-2000 or 19.5 *per cent* for the period 2001-2010 (SARB, March 2011).

In the current policy circles, it is often argued that South Africa needs a GDP rate of at least 7 *per cent* over the next 10 to 15 years to reduce employment. But it registered an average annual GDP growth of 3.5 *per cent* from 2001 to 2010. If we assume an ICOR of 5.6 (Table 4), South Africa would need an investment of 39 *per cent* as a proportion of GDP to reach the 7 *per cent* growth target and make a dent in unemployment. The actual investment at 19.6 *per cent* of GDP in 2010 is clearly a long way from that target.

Table 4: Average Investment and Average Real GDP in South Africa: 1986-2010.

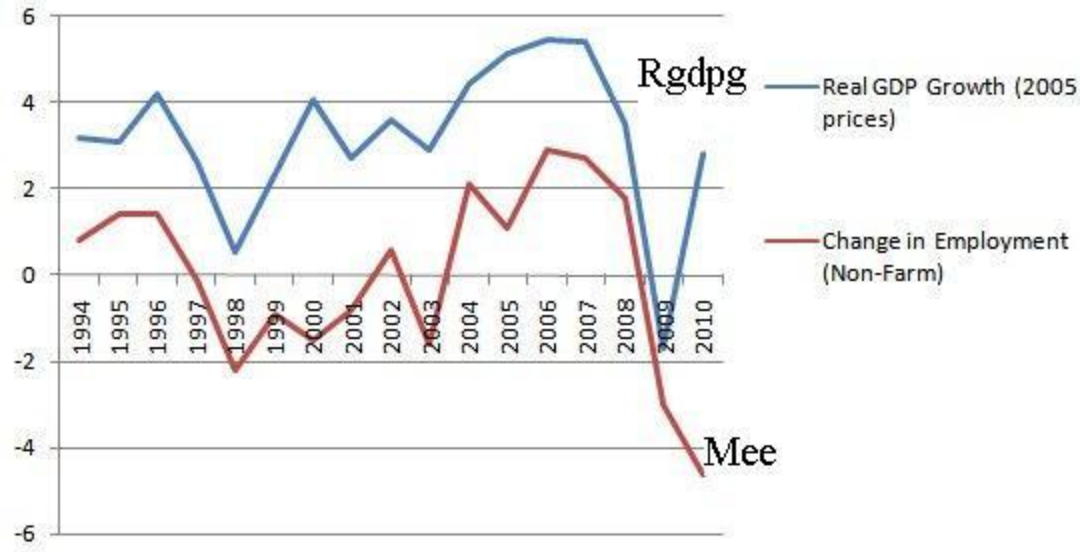
Year	Investment as *per cent* of GDP	Real GDP	ICOR
1986-95	18.3	1.31	14.0
1996-2000	16	2.64	6.1
2001-2010	19.5	3.5	5.6

In order to enhance *investment and growth*, it is necessary to have an improved saving record. However, gross saving as a ratio of GDP actually decreased from 16.8 in 1994 to 16.5 in 2010. At the household level, saving in relation to disposable income decreased from 2.8 *per cent* in 1994 to -0.3 *per cent* (borrowing) in 2010, clearly reflecting an increase in household debt. In effect, the ratio of household debt to disposable income increased from 56.5 in 1994 to 78.2 in 2010 (SARB, March 2011). As economic growth is partly demand driven, the rise in household debt and the lack of saving no doubt reduces aggregate spending and job creation as well as lowering living standards. In our consumer society, households would like to buy more nutritious food items, clothes, washing-machines, cellular phones, holidays and the like. Unfortunately, many cannot afford these, although there has been an improvement in the efficiency of investment between the period 1996-2000 and 2001-2010, as reflected by the reduced ICOR from 6.1 to 5.6 over the same period (Table 4).

3.1 Regression analysis and Marginal Growth Employment Effect

Using data for the period 1994 to 2010 on real GDP growth (2005 prices) and the change in employment other than agriculture, it is possible to estimate a meaningful, yet simple regression relationship to examine the effect of a one *per cent* rise in real GDP growth on employment. The data we use for these two variables are plotted in Figure 1 on page 9 below.

Figure 1: Endogenous Real GDP Growth (blue or upper curve and labels in the figure and Rgdpg in the statistical analysis) and the Change in Employment or Marginal Employment Effect (the red or lower curve and labels in the figure and Mee in the statistical analysis) in South Africa: 1994-2010.



Economic growth absorbs some labour, but structural factors militate against complete labour absorption, with some workers engaging in a search process. While some are discouraged and give up search; others join in the queue of unemployed, though some may be in receipt of state grants. Although two different concepts of unemployment are used in South Africa, (the broad and narrow one), it is the broad measure of unemployment that provides a more accurate reflection of joblessness in the South African labour market (Kingdon and Knight, 2005). The narrow definition assumes that the unemployed labour is discouraged and does not search for employment within a reference period and thus do not form part of the mass of unemployed. However, in reality both searching and non-searching unemployment has increased significantly since 1995 and "non-searchers are no less pained by their joblessness than the searchers", and they are not any happier than the searching unemployed (Kingdon and Knight, 2005: 10). But these workers should be re-absorbed into productive activities once the real economy grows. The regression analysis attempts to find the size of the link between growth and employment.

Table 4: Non-Spurious Regression Results Linking Endogenous Real GDP Growth (Rgdpg) to the Marginal Employment Effect (Mee) in South Africa: 1994-2010.

STATISTICS FOR THE DATA IN FIGURE 1				
Variable	***Mean***	***Minimum***	***Maximum***	***Standard Deviation***
Rgdpg	***3.193468***	***-1.696***	***5.452339***	***1.77105***
Mee	***0.005882***	***-4.6***	***2.9***	***2.102817***

REGRESSION RESULTS FOR THE DATA IN FIGURE 1

Mee = -2.6770 + 0.8401 Rgdpg
t-values (-3.41) (3.89)
R-squared = 0.5006

We thus perform a simple regression analysis of the growth and employment data in Figure 1. (which covers the period 1994-2010) and this produces the following estimated relationship:

Mee = -2.6770 + 0.8401 Rgdpg.

The R-squared of 0.5006 is reasonable for a study of this nature, as 50 *per cent* of the variation in employment growth comes from growth in real GDP. The marginal impact of growth on employment is positive at 0.8401. But for the overall impact of growth rising by one *per cent*, the other exogenous factors need to be included. Taking this into account, when growth rises by one *per cent*, the employment falls by 1.84 *per cent* (from Table 4. one adds -2.6770 to + 0.8401) when all factors affecting growth are considered. This effect can also be seen in Figure 1 on page 8 above, in 1999, 2005 and most spectacularly in 2010 where the economy is robust but the employment response is weak and negative.

Clearly, towards the later years (after 2006) in the above data, local conditions in the labour market, coupled with a weak recovery in world markets, are depressing employment growth in South Africa. If the labour market in a typical sector adds 5000 jobs, say for each one *per cent* of real GDP growth, under normal circumstances, then these results show that, for an open economy with inflexible labour markets, crime and corruption, HIV/Aids effects and structural changes in the South African economy (all examined in Section 4, below), economy wide employment *falls* by 9250 jobs. In our inflexible labour market, fixing real wages means employment becomes much more volatile. In fact, one can see this effect in Figure 1 on page 8 above too, as real growth has stabilized over the last ten years, yet the volatility of employment has remained high and unchanged despite all the "so-called improvements" in labour legislation.

3.2 Where and who are the unemployed?

As the economy continues to display a lackluster performance, unemployment will continue to sweep across the provinces of the country, with some provinces and individuals harder hit than others. The pledges of "decent jobs" being created are likely to become an unrealized promise. It is important to understand that unemployment does not affect all individuals or regions equally. For example, the number of unemployed women increased by 173 000 in the first quarter of 2011, whereas the number of unemployed men increased by 53 000 over the same period (Stats SA, 2011). Also, according to the Labour Force Survey (Quarter 1, 2011), Limpopo, Kwazulu-Natal and Western Cape had a below national rates of unemployment at 25 *per cent*, compared to Mpumalanga and Northern Cape which had the highest rate of unemployment, at above 30 *per cent*, in the first quarter of 2011 (Stats SA, 2011). However, comparing unemployment rates between the last quarter of 2010 and the first quarter of 2011, all nine provinces registered increases in their unemployment rates. This is reflecting that unemployment is an economy wide problem.

The unemployment rate varies within the population group. In the first quarter of 2011, for example, the unemployment rate of the Black, Coloured, Asian and White population group was 29, 22.6, 11.7 and 5.9 respectively (Stats SA, 2011). This pattern has existed even over the past five years, as shown in Table 5 below. Unemployment among Africans increased from 27.7 *per cent* in 2005 to 28.2 *per cent* in 2009, while that of the White decreased from 5.4 *per cent* to 4.7 *per cent* over the same period.

Table 5: Unemployment Rate (per cent) in South Africa by Population Group: 2005-2009

Group	**2005**	**2006**	**2007**	**2008**	**2009**
Black African	27.7	26.3	25.8	27.0	28.2
Coloured	22.1	20.7	22.4	18.9	20.3
Indian/Asian	15.4	9.4	10.1	12.0	11.9
White	5.4	5.0	4.3	4.2	4.7
SA	**23.8**	**22.6**	**22.3**	**22.9**	**24.0**

Source: Statistics SA, 2010

Unemployment is more prevalent among the youth, who are the future leaders and innovators of our society. Almost 50 *per cent* of the youth, in the 15-24 age group, wanting to work and capable of working were consistently unable to find suitable employment over the period 2005-2009 (Table 6). The black African population group is younger than other groups; more than 62 *per cent* are in the 15-34 age group (Stats SA, 2010), and the unemployment rate among this youthful group (15-34 years) is a staggering 76 *per cent* (Table 6). There is a widespread view that youth unemployment is approaching a politically unacceptable level as those who were historically disadvantaged are the ones hardest hit. It is no wonder then, in the light of youth rebelliousness in North Africa and other countries, that the Minister of Finance has sounded a warning bell regarding possible scenarios of dissent in years to come.

Table 6: Unemployment Rate by Age Group: 2005-2009.

Age Group (Yrs)	**2005**	**2006**	**2007**	**2008**	**2009**
15 – 24	48.3	46.7	46.5	45.5	48.2
25 – 34	28.1	26.0	26.0	26.1	28.0
35 – 44	14.7	14.7	13.5	15.8	16.4
45 – 54	10.6	10.0	10.4	9.9	10.8
55 – 64	6.9	5.2	5.6	6.8	6.2

Source: Statistics SA, 2010

While unemployment has increased from 24 *per cent* in 2009 to 25.1 *per cent* in the first quarter of 2011, it is to be noted that unemployment is lower among those who have a post-secondary or tertiary education. Unemployment is consistently highest (around 30 *per cent*) among those who have some secondary education (Table 7). Many girls do not complete secondary school because of early pregnancy, the need to look after siblings and to take care of other children whose parents have passed away or been victims of HIV/Aids.

Table 7: Unemployment Rate (per cent) by Education level: 2005-2009

Educational Attainment	**2005**	**2006**	**2007**	**2008**	**2009**
None	15.6	16.3	13.2	14.6	16.2
Some Primary	22.8	20.3	20.4	21.6	22.4
Complete Primary	25.0	23.5	24.2	23.8	23.2
Some Secondary	30.3	28.3	28.9	29.3	30.8
Complete Secondary	24.5	23.7	22.6	24.2	25.7
Higher	7.4	8.0	7.2	7.7	8.4
SA	23.8	22.6	22.3	22.9	24.0

Source: Statistics SA, 2010

It is often argued that a constraint to economic growth is the lack of skills. But now we are noticing that unemployment among people who are skilled and educated is also on the rise (Table 7). This could raise a question of the quality of education and a mismatch between skills possessed by many individuals and the skills requirements of the current labour market. To the extent that there is a mismatch between a limited demand for labour from firms and employers in need of certain skills and an excess supply of labour with other skills that do not match those in demand, there would inevitably be an increasing number of individuals that cannot be absorbed in the job market and hence resulting in unemployment.

Although South Africa spends about 21 *per cent* of its national budget on education, it seems that we are not getting the desired results, partly owing to high drop out or failure rates and a small proportion (about 15 *per cent*) of our matriculants being absorbed into tertiary education. While some jobs are being created in the economy, a rising number of new annual entrants to the labour market swell the number of unemployed. While the GDP is positive, more national spending power is generated in the economy. It seems that the rising unemployment can partly be explained by a supply-deficiency that is a shortage of factories and firms, especially for the low or semi-skilled workers to work with in the modern economy. Clearly, as unemployment dwarfs employment opportunities, it is important to understand and describe other major factors underpinning this rising joblessness in an attempt to suggest ways to enhance job creation.

4. Challenges of the Increasing Joblessness

Various factors account for the rising numbers of workers who are jobless. A few are explained briefly below.

4.1 Globalisation and labour legislation

The process of trade liberalization in South Africa gained momentum in 1995, as tariffs have been lowered in accord with the country's commitments to GATT/WTO. Accordingly, real merchandise exports as a proportion of GDP increased from 14 *per cent* in 1994 to 17.9 *per cent* in 2010. However, South Africa’s integration with the global world impacted adversely on the country’s labour market, as the resulting export growth did not strengthen the labour absorption capacity enough to significantly reduce unemployment. South African firms have had to rationalize and re-engineer activities to improve productivity to meet international competition, and this has been at the cost of low-skilled jobs (Edwards, 2001; Bhorat and Hodge, 1999). Additionally, the high labour cost is also a contributing factor to low absorption. The average labour cost in the manufacturing sector in South Africa is more than twice higher than that of its major trading partners, such as China, India, Malaysia and Brazil (Paton, 2011), impacting adversely on the country's competitiveness.

Export growth in South Africa is strongly linked to relative wages in export industries. But the long run employment-wage elasticity is found to be consistently negative, ranging from -0.5 to -0.7 (Fallon and Lucas, 1998; Bhorat and Leibbrant, 1998), suggesting that a 10 *per cent* increase in wages results in a decrease in employment of up to 7 *per cent*. According to Edwards and Swarthmore (2003), a one *per cent* decline in relative unit labour cost in South Africa results in a 2.6 *per cent* rise in exports to developed countries. In South Africa imports of goods and services, at 27 *per cent* of GDP in 2010, are higher than export growth. Import penetration has adverse consequences for income and employment growth whereas exports have a positive effect. Rodrik (2006) argues that the weakness of the export-oriented manufacturing, in particular, has deprived the country from growth opportunities and job creation at the low end of the skill distribution.

Labour market flexibility is critical for job creation and, as Barker (2006:54) argues, it is an important element in the battle against unemployment. But what we find in practice is that various new labour laws have imposed rigidities on the labor market, and many employers, burdened by a multitude of labour regulations, switch to capital-intensive methods. The extension of minimum wages to many sectors may well have destroyed jobs in small labour-intensive firms (Nattrass, 1998).

In situations where wages are rigid, the impact of these regulatory 'shocks' show up in unemployment as firms are unable to adjust wages downward to meet competitive pressures. Many firms in the clothing industry, for instance in Newcastle, have closed down because they cannot comply with the bargaining council wage structures. Thus, stringent labour legislation (the new Labour Relations Act, 1995, Basic Conditions of Employment Act, 1997 and Employment Equity Act, 1998) are depriving the labour market of much-needed flexibility for job expansion. Recent controversial amendments (in December 2010) to four labour bills may aggravate the unemployment problem further. According to Azar Jammine, lack of basic skills, illiteracy and innumeracy, and the influence of trade unions are major obstacles to job creation. Many people can do only simple or menial jobs, but unions tend to prevent those with few skills from working at a low wage.

The recent legislation has also imposed a tremendous burden on the opportunity cost of management time, firms' total wage bills and real transaction costs of doing business in South Africa. These burdensome obligations on employers clearly make hiring and firing too prohibitive. South Africa has many low-skilled labour and low-skilled potential employers who do not have the capacity to administer or comply with the requirements of the labour laws, thus they have a retarding effect on creating low skilled employment. The current difficult labour legislation in South Africa, along with the rigidity of the employment index at 52 (a value of 0 is less rigid) makes it difficult for firms to hire and fire workers (World Bank, 2006). The resultant increase in labour market rigidity, the overbearing protection of employees against unfair discrimination and the increased cost of doing business not only add to the disincentive for firms to hire new labour but also add to the unemployed, as small firms are likely to respond by cutting employment to below the critical norm of 50 workers (Black and Rankin, 1998). However, it is encouraging that the government has recently proposed to review certain ‘unfriendly’ aspects of legislation to encourage investment and job creation in the SMME sector.

4.2 Structural change

Structural change implies a shift of productive and employment activities across sectors of the economy over time as the progress of economic development changes. Rodrik (2006) identified three trends in the South African economy that contribute to dampen the demand for low skilled workers and to unemployment. These are:

- substitution towards skilled workers within each economic activity,
- structural change away from low-skill intensive parts of economy, especially from tradables to services;
- Production techniques becoming progressively more capital intensive within the tradable or manufacturing sector.

Thus, South Africa is moving away from a labour-intensive output growth path, as partly reflected in falling share of manufacturing employment and contribution to GDP and rising employment and output in the services sector, especially in trade and financial institutions. The contribution of agriculture to GDP decreased from 5 *per cent* in 1990 to 2,3 *per cent* in 2008, industry combined with manufacturing decreased from 64 *per cent* to 52 *per cent* and services increased from 55 *per cent* to 65 *per cent* during the same period (World Bank, 2006). More recent by Statistics South Africa using value added estimates put services and industrial activities on an equal footing. Formal employment in manufacturing has declined from 1.6 million in 1990 to 1.2 in 2008; employment in agriculture declined from 1.2 million in 2000 to 871 260, and employment in mining declined from 521 379 to 474 007 over the same period, clearly indicating a structural change (Stats SA, 2008). The contracting trend in the manufacturing and mining sectors, which contribute about a fifth of the country’s GDP, may continue in much of 2011 against a background of weak demand in the domestic and global economy.

While the labour market for skilled workers in South Africa operates in accordance with theory, the same does not hold for the unskilled segment (Fallon and Lucas, 1998), clearly reflecting the realities of a dual South African labour market. If real wages are permitted to fall, the unskilled labour may price themselves into jobs. This may be a politically sensitive issue in view of rising poverty and the role of trade unions in the new democratic government. However, over 12 million households that receive generous grants from the government may view paid employment and social grants as substitutes at the margin. Thus, employment creation has been hampered by the structural changes and institutional realities of a segmented labour market.

4.3 Crime

Rising crime levels and corruption inhibit expansions of investment and employment (Schoeman and Blignaut, 1998; World Bank, 2006). According to a trade union official, the governing party is infested with corruption and greed (The Economist, 23/4/11). A conservative Nedcor survey indicates that crime is costing South African private businesses and households R31.3 billion in 1995 (Nedcor, 1996:9). The total real cost, including public sector expenditures, of combating all crime and corruption in South Africa is likely to higher in the years after 2010 as incomes remain stagnant. South Africa experiences some 50 murders and 99 reported rapes everyday (The Economist, 4/7/09: 38). The crime situation has branded the country as a high risk investment destination. A recent study indicates that over half of South Africa's small businesses were victims of crime and about a quarter were reluctant to expand or employ more labour; at least a fifth of their annual turnover is lost to crime through direct and indirect costs (Benjamin, 2008). For every business that closes, because of crime, at least six jobs are lost (Geldenhuys, 2008). And in 2008 the SBP (2008) report for the Presidency points out "Crime therefore seems to hit the poorest and the most successful entrepreneurs hardest – a particularly unfortunate pattern for growth and development."

While South Africa is failing to attract substantial labour-intensive FDI, it is also losing on human capital, as people with marketable and entrepreneurial ability to create jobs, are leaving for other destinations. Many young talented individuals are going overseas, as they perceive insecurity and poor employment prospects here, resulting from alarming crime rates and affirmative action practices. This brain drain acts as a brake on economic growth and slow growth raises the fear of further increases in unemployment and poverty.

4.4 *HIV/Aids and state grants*

HIV prevalence has a significant negative effect on the growth rate of per capita GDP in Sub-Saharan Africa (Lovasz and Schipp, 2009: 245). South Africa has one of the highest absolute numbers of HIV infections in the world (Thurlow, Gow and George, 2009). UNAIDS estimate that some 5 million South Africans are HIV-positive (The Economist, 23/2/02: 45). According to Statistics SA, in 2009 the estimated number of people living with HIV is about 5.21 million and the number of new infections is 413 000 (Natal Witness, 28/07/09). HIV/Aids is likely to reduce South Africa's GDP by 1.7 *per cent* in 2010 (The Economist, 24/2/01: 9) and by 5.7 *per cent* in 2015, according to the Stellenbosch Bureau for Economic Research (cited in the Sunday Tribune 14/4/02). And recent measurements show the relationship between HIV/Aids and household income is still negative (Kaschula, 2008). As the disease intensifies, this would no doubt impose a drag on the country's manpower, profitability, total factor productivity and accumulation of knowledge or human capital, all necessary for generating growth and job creation.

HIV/Aids also hurt the uninfected individuals who remain behind as orphans, with their parents falling victims to Aids. The case of HIV-infected babies, who are likely to grow up as orphans in institutions, is another cost to society. Against this background of a high HIV labour force and burdensome labour legislation, machines and subcontractors are rapidly replacing permanent staff, while many firms are "casualing" their labour, finding that the only way to cope is by employing fewer people and by hiring casual labour through labour brokers.

South Africa is not creating sufficient number of jobs. Many who suffer from HIV/Aids are receiving state grants, discouraging them from working. According to the Minister of Finance, in 2011 almost 15 million people are receiving social grants (Budget Speech, 2011), while the number of taxpayers is around 6 million. Many people rely on state for hand-outs rather than earn an income as an employee or work hard by starting up a business as a small or emerging entrepreneur. It is thus no surprise that according to Stats SA's quarterly labour force survey, there was 19 million people unemployed or not economically in 2010, while only 13 million people of working age were formally and informally employed in the fourth quarter of 2010, of which only 1.1 million were self-employed. But in 2001, there were 2.2 million in this self-employed category, showing a clear reduction in the entrepreneurial base, upon which hinges job creation and economic growth.

5. The Way Forward

The growth of the South African economy is tied to the global economy. Signs of economic revival after the recession in the US and Europe, and rapid growth in India and China- and possibly in the other BRIC countries, - South Africa's major trading partners- would be beneficial for an upturn in the South African economy, in turn generating multiplier effects on income, output and employment. Indeed, research by the Harvard Group (2008) suggests that there is potential for formal employment to increase by about 50 *per cent* with suitable changes in labour policies. This, no doubt, implies that labour legislation has to be more flexible and friendly towards employment creation. It should be remembered that legislation per se does not create employment; it is value-adding entrepreneurial actions that create jobs. Kingdon and Knight (2007) argue that it is crucial for South Africa to pursue policies that promote economic growth and employment, and that labour market regulations require reconsideration, giving greater weight to the concerns of entrepreneurs and investors and to the interests of the unemployed and informally employed poor.

5.1 Entrepreneurship

Entrepreneurship is vital to employment creation. A long-term solution to South Africa's unemployment and growth problem lies in the consolidation of existing entrepreneurship and in the stimulation of a new entrepreneurial class based on SMMEs, including the informal sector. It is only through the vigorous exercise of SMME entrepreneurship, underpinned by millions of viable and lasting enterprises that we can create millions of sustainable jobs and economic growth. Schlemmer and Levitz (1998: 80-81) argue that the "optimal route" to employment is through the critical mass of informal sector and small businesses with active private-public support. In implementing the ASGISA policy and New Growth Plan, the government is adopting a big push approach to promoting entrepreneurship, particularly with regard to manufacturing, agriculture, tourism sector and building up small businesses to bridge the gap between formal and informal economies. Clem Sunter (2011) argues that we need to take informal businesses and create a bridge to graduate them to the formal sector. He further adds decent work means decent business; accordingly, to create more jobs, the government should optimize conditions for small businesses to grow. In Sunter's words "To create new jobs, you have to provide an environment which is conducive for entrepreneurs to establish new businesses; and then encourage them to grow their one-person operations to become formal companies employing a fair number of people" (News24.com columnist Clem Sunter, in a piece entitled Zilleville dated 25/5/2011).

Firms operate in a real and competitive business environment. Despite many policy pronouncements, doing business in South Africa is not getting easier. South Africa's rank in the World Bank's Doing Business Report dropped from the 29th position in 2007 to 34th in 2009 (World Bank, 2009). A macroeconomic environment that is generally friendly to labour intensive investment would generate spillover growth effects, as firms and entrepreneurs are more likely to invest productively, create jobs, and contribute to output and poverty reduction. The current government's thinking about a developmental state that that will use state interventionist measures through procurement, market access, training, licensing and financial support to assist small and medium enterprises, as well as a wage subsidy for hiring young or inexperienced labour and reduced regulations for small business are very encouraging to entrepreneurship, is a step in the right direction.

However, the intangibles are equally important for entrepreneurship and job creation: these hinge on strengthening law and order, enforcing property rights, reducing red tape, improving the governance of institutions and service delivery, and improving the "need to achievement" motivation (termed N-Ach in the literature) of individuals so that they are encouraged to seek or create work for themselves rather than depend on a culture of entitlement. N-Ach is found to be positively associated with employment creation and business expansions as well as business formations (Mahadea, 1994). Individuals who are low in N-Ach are to be appropriately mentored.

Stringent labour legislation in South Africa set against a background of an abundant pool of unskilled labour, is considered by some investors to be troublesome and prohibitive. The private sector can be a key driver of employment if it has the latitude of employing whomsoever, based on merit and if it has the flexibility of retrenching non-performing labour at ease. It is imperative that unemployed individuals have the opportunity to accept low wage employment should they desire it. South Africa needs to take on the "foxy" route to succeed economically and achieve a sustained growth, through which jobs can be created (Illbury and Sunter, 2007; Parsons, 2009: 194-195). This entails, *inter alia*:

- Improving the educational and training capabilities of actual and potential South African labour, including entrepreneurs, and maintaining a high standard of education in learning institutions, compatible with market and entrepreneurial orientations in a more rapidly knowledge-based and transforming environment. The youth has to be equipped with skills and talents that are relevant to the demands of the labour market.
- A strong work ethic, a strong competition-enhancing government, with minimum regulations, low taxation and corruption removal.
- Meeting the needs and addressing the concerns of investors and 'foxy' entrepreneurs;
- Better labour-business relationships without overlooking pockets of excellence and a good governance *delivery state.*

To some extent, these measures are already in place, but much more can be done.

5.2 *Public Works Programmes*

Many countries have responded to the employment and growth crisis through government activism of a Keynesian type in the form of a short term public work's expansion programmes. Spending on expanded public works' programmes will receive R73 billion over the next three years to sustain short term job creation. These programmes can create indirect employment in other sectors, more so as the government and state-owned enterprises are committed to spending R800 billion on public infrastructure programmes over next three years and infrastructure development is an important component of the New Growth Path (Budget Speech, 2011). If created in poor rural areas having high unemployment, public works infrastructure harbours the potential to provide the previously disadvantaged communities with wealth creation, earnings and learning opportunities. These should also help in alleviating poverty and migration, making rural life less of a burden.

It is, however, important to note that public works programmes are not without problems. They are not sustainable in the long run. As the minister of finance, Praveen Gordhan, states South Africa needs to look beyond the short term. The public works' programmes need to be financed by government expenditure and this entails a drain on the fiscus, a reduction of state expenditure in other areas, or a rise in taxation with resultant crowding-out, debt servicing and other attendant disincentive effects, all of which involve negative implications for job creation and growth. Surely any further tax hikes that discourage risk taking from the entrepreneurial group, or reduce average household disposable income, would impact negatively on production and employment, let alone redistribution efforts.

5.3 A greater role for state intervention?

South Africa can rescue jobs in the immediate term by greater state involvement that complements its public work programmes through fiscal assistance to distressed firms and by providing a wage subsidy. It is encouraging to note that the Industrial Development Corporation (IDC) provided R500 million to 14 companies in distress in 2009 and set aside R6.1 billion for more rescues in the next two years. In 2011, a R9 billion job fund has been earmarked for advancing job creation and the IDC has set aside an additional R10 billion for investment projects with high job creation potentials.

Some form of greater protectionism for labour-intensive manufacturing firms against "cheap" imports, particularly in textiles and clothing may be desirable so as to help local companies retain jobs and remain solvent. Some relaxation or exemption from labour legislation may be desirable for labour-intensive manufacturing firms, such as those in the export processing zones in Malaysia, Singapore and Mauritius that have been previously successful with job creation.

While extending the role of the state in the very short term as a response to job creation or economic downturn may be desirable, one questions the effectiveness of a bigger government that crowds out the private wealth creating sector amid a climate of slow global expansion in economic activity. Already, the government is running an estimated budget deficit as high as 5.3% of GDP in 2011/12. In real terms the budget deficit is estimated to increase from R142.4 billion in 2010/11 to R154.8 billion in 2011/12. And the public sector borrowing requirement to finance the gap between expenditure and expected revenue in 2011/12 is estimated at R276.4 billion, equivalent to 9.5% of GDP, and as a result the public debt increases further. Against this background, debt servicing cost is likely to amount to R77 billion in 2012 and rising to R104 billion in 2013/14. It should also be mentioned that government expenditure is financed mainly from tax revenue from the private sector. The public sector wage bill, that presently represents 40 per cent of consolidated non-interest state expenditure, increased by 100 per cent over the last five years (Budget Speech, 2011). Who will foot the future bill of rising public debt?

Additionally, the current account deficit on the South Africa's balance of payments is close to 3 *per cent* relative to GDP, and the country's average wage settlement is above the inflation target (SARB, March 2011). A sluggish economic recovery could swell both deficits further as the government pledges to offer more socio-economic services to the poor, increase social grants to the unemployed, and assist companies that are in distress. High budget deficits are inflationary, with adverse implications for liquidity, debt servicing costs, interest rates and intergenerational debt burdens. These impose heavy costs on the present generation and even more on future generations.

6. Conclusion

Tackling South Africa's unique puzzle of low economic growth and worsening unemployment is a formidable challenge. The Keynesian model which points to insufficient investment as a constraint is of some interest but public policy can only take us so far. There is no "quick fix" solution to the challenge of slow labour-intensity growth. Our regression results show that growth does not translate into significant employment gains, as the factors we identified here mitigate against labour absorption**.** There may be some cause for cautious optimism as the government pins its hopes on the New Growth Path and membership in BRICS (Brazil, Russia, India, China and now South Africa), plus enlightened leadership implementing a development oriented state framework. Whether these changes are likely to generate massive job creation in 2011 and beyond is uncertain. But what is certain is that legislation does not create employment. The higher the degree of regulation in a country, the higher its unemployment rate tends to be. Greater flexibility in the labour market is a minimum requirement for employment creation. Thus recent reports of the ANC's Youth League's push for nationalisation of the mines and land confiscation possibly becoming government policy can only be viewed with some trepidation, as this must scare off investors.

It is entrepreneurial action that gives rise to growth and employment. In contrast, any economy can destroy jobs through high levels of crime, corruption, poor governance, excessive regulation and poor service delivery. The fires of entrepreneurship are best stoked in an investment-friendly and crime-free environment, where encouragement for entrepreneurs comes from a respect for property rights, high levels of saving and investment, improving education and training, and steady gains in productivity as well as equality of opportunity. Public works programmes, the New Growth Path and fiscal interventions may help in the short term. These, alone, are not a panacea. We in South Africa cannot afford excessive government spending or deficits for long. Without the dynamism of entrepreneurs, the growing number of jobless will have little hope. Unless a propitious and freer environment is created, the entrepreneurial and labour class will be incapable of realizing its potential as a major engine for job creation, and a catalyst for economic growth. As Kingdon and Knight (2007) succinctly stated, the problem of low employment growth in South Africa can only be solved through a policy environment that encourages growth with labour absorption, taking into consideration the needs of the unemployed.

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