

ECONOMICS AND POVERTY



INTRODUCTION

The Western Cape is the third largest province in terms of geographical size and fifth largest in terms of population. In 2003, the Western Cape economy made the second largest contribution – 14.5% – to national GDP (Stats SA, 2004). During the period 1999 to 2003, the province recorded a robust average growth rate of 3.9%, comfortably exceeding the national average of 3.1% (Stats SA, 2004). Yet, despite its relative affluence, the Western Cape is facing a formidable development challenge. A decade of redistributive service delivery by the government has not reduced levels of inequality and unemployment nor stimulated sufficient levels of growth.

The Western Cape economy has undergone a major restructuring during the past decade – with a fundamental shift away from the unskilled, labour intensive primary and secondary sectors³⁵ to the skills and capital intensive tertiary sector³⁶. During the period 1996 to 2003, growth in the primary sector averaged 0.4%, compared with 1.6% in the secondary sector and a robust 3.3% in the tertiary sector (Stats SA, 2004). In 2003, the tertiary sector accounted for 65.1% of the provincial economy (Stats SA, 2004). While a similar drift towards tertiary industries is visible at a national level, this trend is more pronounced in the Western Cape. As a result of the growing importance of the tertiary sector, the Western Cape has a higher percentage of workers in the more skilled categories than other provinces. In contrast, the province is providing fewer opportunities for unskilled workers. The resultant skills shortage is pushing up wage levels of skilled workers. The net effect is growing inter- and intra-race income inequality.

The chapter focuses on:

- Unemployment
- Poverty

35. The primary sector consists of agriculture and mining. The secondary sector includes manufacturing, construction and electricity, gas & water.

36. The tertiary sector includes the following service sectors: wholesale & retail trade, transport services, financial services and community, social & personal services.

DRIVERS AND PRESSURES

Some of the driving forces and pressures that influence the economy in the Western Cape include:

Skills mismatch – The increasing dominance of the tertiary sector is creating a growing skills shortage which is hampering provincial growth prospects.

Apartheid education legacy – International and local evidence reveals a close relationship between education and labour market status and earnings. However, the provincial education system has proven incapable of substantially reducing inequality in the labour market because of its inability to reduce inequalities in educational output.

Migration – Studies indicate that about 48 000 people migrate to the Western Cape each year (Budget, 2005). As a result, the economically active population in the Western Cape is growing at almost double the pace recorded nationally, placing additional pressure on the provincial labour market.

HIV/Aids – Although the Western Cape has the lowest provincial HIV prevalence rate, the epidemic remains an issue: numerous studies demonstrate that HIV/Aids contributes to a rise in poverty while poverty reduces the ability of those living with HIV/Aids to cope with the disease (SA Human Development Report, 2003).

Inequality gap widens – The growing skills shortage in the province is pushing up wage levels of skilled workers, resulting in growing inter- and intra-race inequality.

Social security net strain – Not only is the pace of growth insufficient to absorb new labour market entrants but the shedding of unskilled labour is resulting in growing numbers relying on the social safety network.

Racial inequality – While the provincial labour market tends to outperform the national labour market for some race groups, the local labour market underperforms the national average for Africans, contributing to higher poverty and poverty gap levels for this cohort in the Western Cape Province.

ISSUE: UNEMPLOYMENT

One of the four general outcomes outlined in the Framework for the Development of the Western Cape Province is increasing employment and economic participation.

STATE

Unemployment rate

The Western Cape population has grown from just short of 4 million people in 1996 to over 4.5 million in 2001. This represents a total increase of 14.3% compared to the 10.4% growth rate in the total national population. The Western Cape has a net population growth rate of about 2.8% per annum (PGWC, 2004).

Unemployment is a critical issue in the Western Cape – as it is nationally. The Western Cape labour market performed much better than the national labour market between 1995 and 2002. While the Western Cape economy provided jobs for 55% of new labour market entrants during this period, the national economy provided for just 34%. The provincial unemployment rate of 17.6% (Stats SA, 2005) compares favourably with the national average of 26.5%.

However, the labour market experience of African workers in the Western Cape remains disappointing when compared to other race groups. Nationally, 30 out of 100 Africans found employment between 1995 and 2002 while in the Western Cape only 3 out of every 100 found employment. It is this poor performance of the labour market that engenders higher poverty and poverty gap levels for Africans living in the Western Cape. The provincial labour market performed much better along gender lines with 66 out of every 100 women gaining employment during this period compared to 39 out of every 100 for males. Both nationally and in the Western Cape, unemployment has a very strong youth dimension, with the youth cohort making up an estimated 82 percent of all unemployed (Socio-Economic Review, 2003).

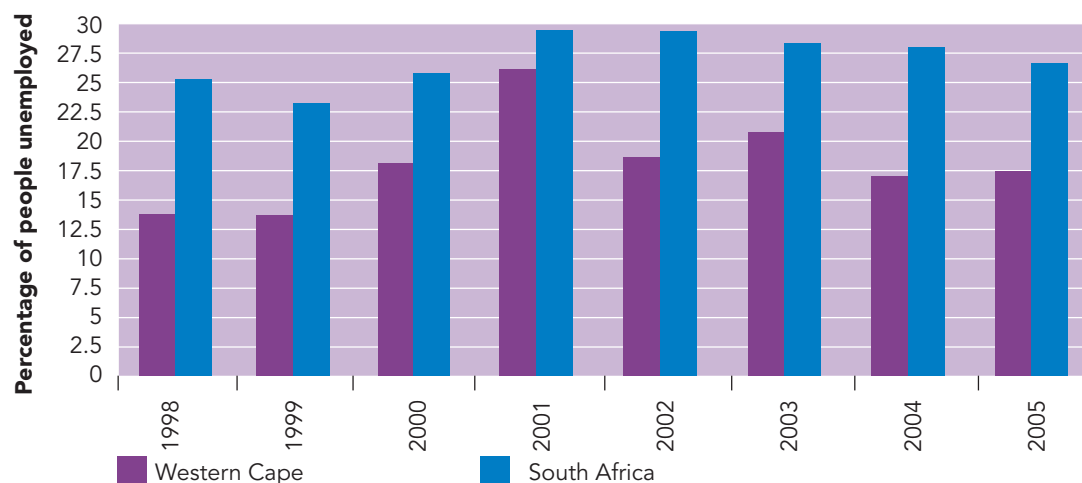


Figure 12.1: Official Unemployment Rate in the Western Cape (Source: Labour Force Survey, 2004)

As a result of the influx of migrants from other provinces, the economically active population of the Western Cape has grown at almost double the pace in South Africa as a whole (21% versus 11%) (PGWC, 2003). This results in significant additional pressure on the Western Cape labour market. Provincial unemployment is further exacerbated by the group of possibly “unemployable” workers, given their age, education and skills. Despite the fact that the Western Cape has a lower unemployment rate than the national average, it is estimated that approximately 612 000 potentially economically active people are currently unemployed (Rasool, 2005).

According to the expanded definition of unemployment (including discouraged work seekers), the provincial unemployment rate rises to 22.9% (Labour Force Survey, 2004) and to 41.2% for South Africa. In March 2005, it was estimated that only 6.3% of the working age population were discouraged work seekers, which is well below the

national average of 13% (Labour Force Survey, 2005). In the Western Cape, the gap between the official and expanded definitions of unemployment is not as large as nationally, suggesting that there are fewer discouraged job seekers in the province. In other words, people are more optimistic about job prospects in the Western Cape.

IMPACTS

Unemployment has the following consequences:

- Increases social tension, lowers personal esteem and fuels already high levels of crime and violence.
- Exacerbates impact of HIV/Aids epidemic.
- Hampers provincial growth prospects because of the limited base of disposable income as well as the skills shortage affecting the tertiary sector.
- Discourages foreign investment.

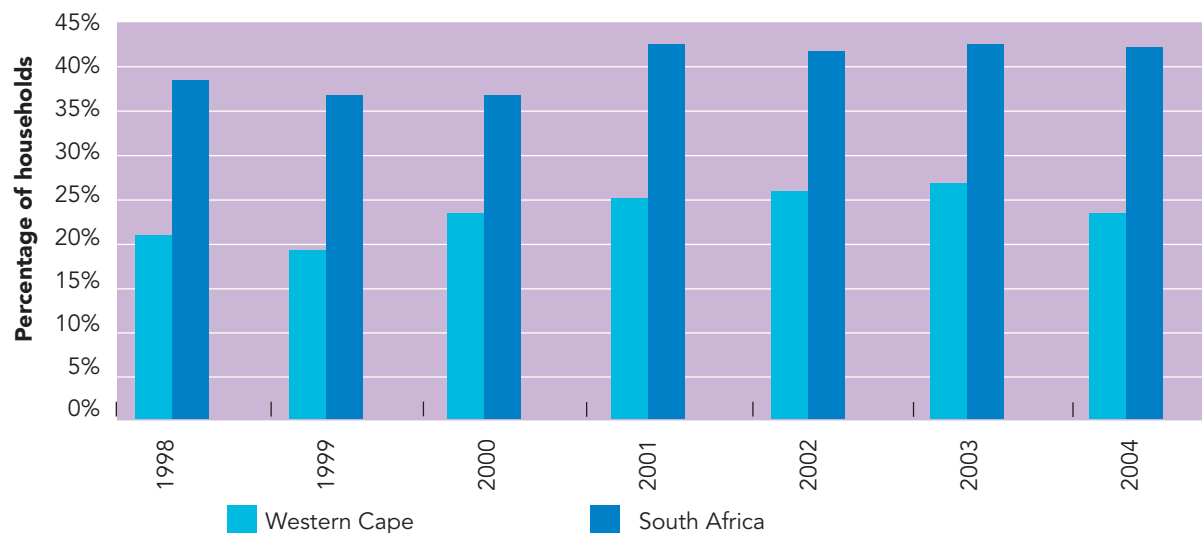


Figure 12.2: Expanded Unemployment Rate in the Western Cape (Source: Labour Force Survey, 2004)

ISSUE: POVERTY

The first of the eight millennium goals is the eradication of extreme poverty and hunger while two of the four iKapa Elihlumayo general outcomes are (1) reducing geographical and socio-economic inequality and (2) providing a sustainable social security net.

STATE

Gini-coefficient³⁷

As a result of the shift in growth to the tertiary sector, the share of unskilled workers in employment fell from 34% in 1995 to 29% in 2002 while the share of skilled workers rose by 5% (Medium-term Budget Policy Statement, 2004-2007). The resultant mismatch between required skills and those available in the labour market is pushing up wage levels of skilled workers. Additionally, it is estimated that roughly 20% of employment is in the lower wage-paying informal sector (Budget, 2005).

As a consequence, income is increasingly unequally distributed in the Western Cape, which has caused the provincial Gini Coefficient to increase from 0.58 in 1995 to 0.62 in 2000 (Budget, 2005). Nevertheless, the Western Cape had the lowest Gini Coefficient, and thus most equally distributed income, in South Africa in 2000.

Human Development Index

While the Western Cape GDP per capita (R41 454 per annum) comfortably exceeds the national average (R23 569) (SAIRR, Fast Facts 2004), this figure cannot hide the large

37. The Gini coefficient varies from 0, which indicates perfect income equality to 1, which implies absolute inequality. Latin America is the world's most unequal region with a Gini coefficient of around 0.5; in rich countries the figure is closer to 0.3

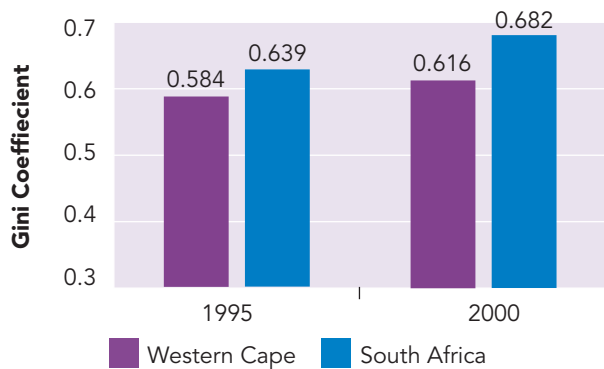


Figure 12.3: Gini Coefficient (Source: Budget, 2005)

number of people living in poverty in the Western Cape, which was estimated at 21.2% of the regional population in 2003 (SAIRR, Fast Facts 2004). Income is unequally spread by race and gender as well as spatially.

However, poverty is more than insufficient income and is widely acknowledged to include the inability to access sufficient resources to satisfy a socially acceptable minimum standard of living. The Human Development Index (HDI),



an index which combines measures of life expectancy, adult literacy and incomes, offers an appropriate measure of the many aspects of poverty.

While the delivery of basic services to the poor has improved during the past decade, continued low levels of education means that the opportunities for many to participate in, and benefit from, the increasingly skills-intensive growth in the Western Cape economy has deteriorated. These developments in turn result in high and increasing levels of income inequality. While these trends are not unique to the province, the Western Cape has been harder hit than other provinces and the country as a whole. Nevertheless, the decline in the HDI in the Western Cape has not been as significant as that witnessed in South Africa as whole.

Social security remains the main poverty alleviation intervention in the province, with the number of grants

in payment increasing from 262 000 in April 1994 to 505 000 in February 2004. Initial research concludes that low levels of human and social capital and a dearth of economic opportunities are the main reasons both for persistent poverty and subsequently for people accessing the social safety network in increasing numbers.

IMPACTS

The worsening in poverty and inequality has the following consequences:

- Places an additional burden on the provincial coffers as the number of social grants swells.
- Exacerbates impact of HIV/Aids epidemic.
- Discourages foreign investment.
- Limits scope for further foreign credit rating upgrades.

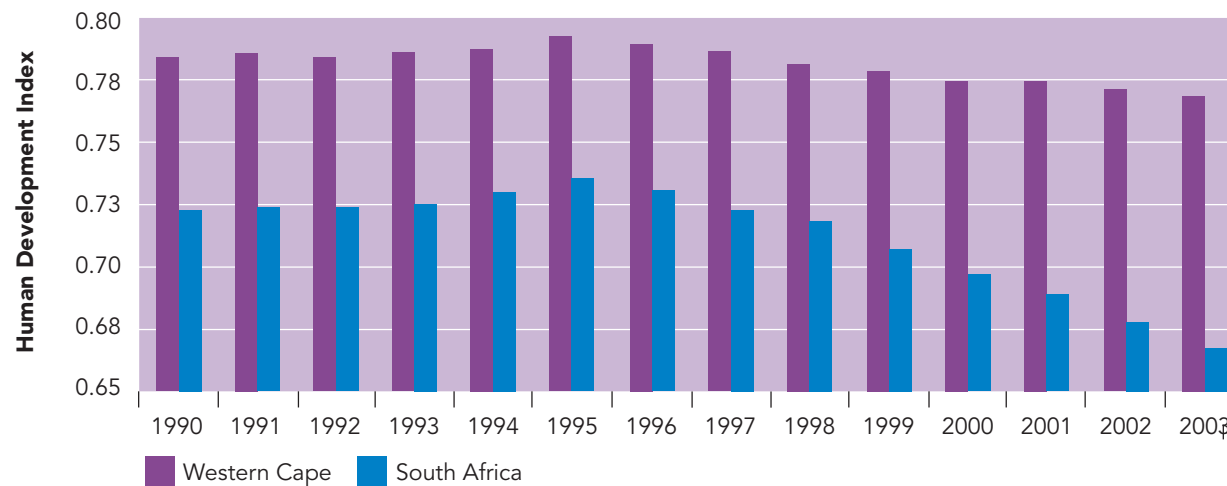


Figure 12.4: Human Development Index (Source: PGWC, 2005)

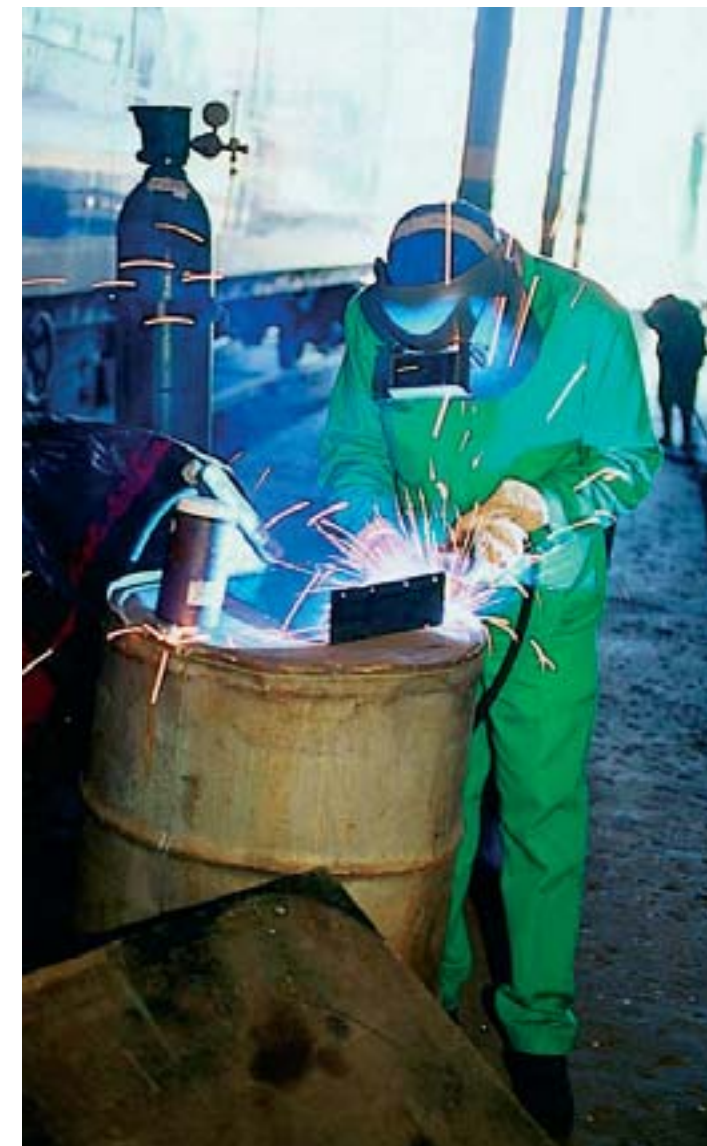
Summary and Status of Indicators Used in this Chapter

Economics and Poverty Indicators	How we are doing?	Comments
Unemployment rate	☹️	The provincial unemployment rate is well below the national average but is still high
Gini co-efficient	☹️	There has been an increase in the Gini Coefficient in the Western Cape, representing an increase in inequality, although it is still the lowest in SA.
Human Development Index	☹️	The Western Cape's HDI has declined, but is still well above the national average.

RESPONSES

The table below summarises some of the legislation and other initiatives that have been implemented in response to the poverty and unemployment issues discussed above:

National	<ul style="list-style-type: none"> • Extended Public Works Programme • Sector Education and Training Authorities • Infrastructural Development Programme • BEE policy framework • Extended Social Security Net
Provincial	<ul style="list-style-type: none"> • iKapa Elihlumayo • Human Resource Development Strategy • SMME support measures • Provincial Spatial Development Framework • Urban Renewal Initiatives • City Improvement Districts • Industry specific Black ownership and participation initiatives. • Social Capital Formation Strategy
Other (Local)	<ul style="list-style-type: none"> • Fuel, hospitality and development levy to generate additional revenue



LINKS

Economic development is closely linked to all other chapters. However, this chapter has the strongest links to:

Health – HIV/Aids contributes to a rise in poverty while poverty reduces the ability of the poor living with HIV/Aids to cope with the disease.

Education – Inappropriate skills exacerbate the already high levels of unemployment while hampering provincial economic growth prospects.

Safety and security – Worsening poverty and inequality fuels already high levels of crime and violence.

CONCLUSION

Despite its relative affluence, the Western Cape is facing a formidable development challenge.

During the past decade, the provincial economy has undergone a major structural change – with a fundamental shift away from the unskilled, labour intensive primary and secondary sectors to the skills and capital intensive tertiary sector. While there is growing demand for skilled labour, opportunities for unskilled labour have diminished. Furthermore, the influx of people from other provinces means the economically active population in the Western Cape is growing at almost double the pace recorded nationally – placing additional pressure on the provincial labour market. The unemployment rate, although lower than for the rest of South Africa, still remains high and there is no sign of a sustained reduction in this rate.

Thus the apartheid legacy of poverty, inequality and a skills shortage is being exacerbated by the changing nature of growth, the influx of economically active people and the failure of the education system to reduce inequalities



in educational output. As a result, despite above trend growth rates and a decade of redistributive policies, little progress has been made in tackling the interlinked problems of unemployment, poverty and inequality. The Gini Co-efficient for the Western Cape is lower than the national average, reflecting greater equality in income in the province, partly associated with the shortage of skilled workers. Nevertheless, the HDI suggests that those residing in the province are better off than the “average” SA citizen.

Given that salaries and wages make up the majority of income in the Western Cape, the proper functioning of the labour market would be a key component of any policy of redistribution and poverty alleviation.

Until these problems are addressed they will continue to hamper provincial growth prospects by feeding already high levels of crime and violence.