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## SUSTAINABILITY WITHIN THE SOCIAL ASSISTANCE SYSTEM OF THE REPUBLIC OF SOUTH AFRICA

*The Republic of South Africa is a unique place on the African continent: it was the only place which had a bloodless transition process when the regime changed from a minority government to a democratic one. During the transition period unemployment was at a level of 13 percent, however it rose to 30 percent in just six years time. In the paper we analyse what kind of attempts does the government make in order to sustain the social assistance system, and keep its promise to the voters by providing better living conditions and protection as opposed to apartheid.*

KEYWORDS: AFRICA, ECONOMIC CRISIS, SOCIAL PROTECTION.

JEL: J64, O17, O55, G23.

### 1. INTRODUCTION

The Republic of South Africa is a unique place on the African continent in a way: it was the only place which had a bloodless transition process (in 1994), when the regime changed from a minority and authoritarian government to a majority and democratic one. During the transition period unemployment was at an average of 13 percent, which can be considered quite decent for any developing and African country. However unemployment rose to 30 percent in just six years time and according to the most recent data it is still around 25,3 percent, which is exceedingly high.

The African National Congress (ANC) was voted into power in 1994 for two major reasons: one political and one economic. The political reason for winning the election is straightforward; the ANC promised a democratic, majority rule as opposed to the previous minority rule of the National Party (NP). The economic reason is also connected to the political reason being that the formerly oppressed majority wanted to have a living standard and opportunities equal to the formerly ruling minority. In the case of the Republic of South Africa this meant better job opportunities for all and a generous social assistance system which was altogether lacking under apartheid for Africans.

This provides the following problems for the ruling governments in South Africa: on the one hand it has to fulfil its economic promises of jobs and assistance

to its voters otherwise they will be easily disgruntled and turn to other political parties. It also has to fulfil its economic promises while keeping the federal budget in balance and the lavish social assistance provision might make this problematic. Our question is: has the ANC been able to fulfil its economic promises of 1994 and why is it finding it exceedingly difficult to reduce the unemployment rates of the country.

We believe that the key to understanding the unemployment problems in the Republic of South Africa lies in the theory of path dependency. According to North [1997], formal institutions can be changed quickly in a country (such as the laws allowing equal employment opportunities for all races in South Africa) however informal ones may persist, and have adverse effects on the newly established formal institutions. In the longer term, as the new institutions and policies become imbedded, their performance will gradually increase.

In our paper we are going to make an elaborate analysis why unemployment has not receded in the last decade despite decent GDP growth and how the government is dealing with providing social protection to those in need of assistance (unemployed and pensioners). We find that unemployment is high because of the growth in population, the low skills of future employees, the strength of the trade unions which do not allow real wages to decrease significantly and also because of the relatively general social assistance benefits which creates a higher reservation wage for people to take jobs. Out of these issues the low skill is a direct result of apartheid when the government did not provide ample training for Africans and it takes a while for the education system to adopt to the new situation. The strength of the trade unions is not a result of apartheid, however the ANC relies heavily on their backing to maintain their power base and the formerly white centric trade unions also wield significant power. The lavish social assistance system is an effect of the post apartheid power structure: the population simply had to be provided with more money to spend to effectively feel the difference of regime change.

In the first part of the paper we are going to look at the political system of South Africa analysing what kind of effects did segregation before 1948 and apartheid until 1994 have on the minorities of the country. In the second part of the paper we shall analyse the various issues regarding employment, whereas in the last part of the paper we shall be looking at some of the social assistance programmes the government is providing.

## 2. THE POLITICAL SYSTEM IN SOUTH AFRICA

In order for us to understand how the various problems of employment and the social assistance system came into being we must first analyse in some detail the political system of the country. Such an analysis is not required in most cases; however in South Africa politics and economic policy are inexorably connected, as in all countries which have overseen a bloodless transition process. In this case the picture is somewhat more blurred because up until 1994 the country oversaw various degrees of minority rule which has made a long lasting effect on the hearts and minds of the population. In the following chapter we are going to describe

how and why apartheid came into being, what kind of economic arrangement did it entail, why political change turned out to be inevitable in the end, and finally what kind of political system took over from 1994.

We could probably trace back the foundations of apartheid well back into the ending of the 19th, beginning of the 20th century. Scholars are divided on whether apartheid was based on irrational frontier prejudices of Afrikaners, as liberal writings from the mid-twentieth century make us believe, or was it more a product of the Mineral Revolution? Anyhow up until 1834 Africans were legally used as slaves, but since the British Empire outlawed slavery, from then on more sophisticated measures had to be found. Segregation as a policy started to evolve from 1911, when the Mines and Works Act imposed colour bars in mines; the 1913 Natives Land Act which restricted African land ownership to the Reserves; and the Natives (Urban Areas) Act of 1923 which provided the legal framework for urban segregation. The 1926 Mines and Works Amendment Act clearly described that “persons whose standard of living conforms to the standard of living generally recognised as tolerable from the usual European standpoint” [Worden 2007, pp. 83] should have a higher living standard than those “whose aim is restricted to the bare requirements of the necessities of life as understood among barbarous and underdeveloped peoples” [ibid.] This resulted in, that for instance white gold miners earned 11.7 times as much money as African gold miners in 1911, whereas this difference was 14.7 in 1951. In manufacturing the difference was not that huge, in 1948 whites earned on an average 4.8 as much money as African employees [Thompson 2001, pp. 156]. In the 1940s apartheid was not yet a cohesive policy, some favoured total segregation whereas businessmen and farmers favoured a more practical approach, because they were in dire need of cheap African labour.

All in all the first major step for the establishment of the regime was when on the ballot held on the 26th of May 1948 the National Party (NP) with its allies of the Afrikaner Party (AP) won a very slim victory of five seats in the Parliament of South Africa. The NP-AP alliance held 79 seats, whereas the opposition of the United Party (UP) 65, their allies in the Labour Party 6, and the Native Representatives 3 [Welsh 2009]. From this time the creation of white supremacy was one of the imperatives of the government and it was a systematic process which attempted to influence all areas of everyday life. In 1949 and 1950 laws<sup>1</sup> were enacted which prohibited sexual intercourse between whites and other races. In 1953<sup>2</sup> the Social Segregation Act enforced separation in all public amenities, and this was extended to schools (1953), technical colleges (1955) and universities (1959) [Worden 2007, pp. 105–106]. Although the African population of South Africa did provide some resistance against the anti-democratic movements occurring in their country up until 1960, these demonstrations were mostly non-violent and had small effect on government policy.

At the beginning of the 1960s the Pan-Africanist Congress (PAC) called on Africans to protest against the compulsory carrying of travelling passes and voice

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1 1949: prohibition of mixed marriages; 1950: Immorality act: does not allow any kind of sexual contact between whites and black, coloureds and Indians

2 Reservation of Separate Amenities Act

their disapproval in an orderly fashion in front of police stations. It was on the 21st of March 1960 that a mass of people met to voice their dissent at Sharpeville in Transvaal and the police officers of the police station got scared of the crowd, panicked and fired into them. 69 people died and at least 180 were wounded in this fray. Nelson Mandela a leader of the African National Congress (ANC) was arrested in 1962 and sentenced to five years in prison which in 1964 was modified to life, because his party embarked on an 18 month long sabotage action [Meredith 2006, pp. 117–128]. A direct effect of the protestations was that the government was not satisfied only with segregationist policies but believed it had to create laws which allowed the police to place anyone suspicious under arrest, without trial, and hold them indefinitely<sup>3</sup> [Acemoglu–Robinson 2006, pp. 11–12].

It is not commonly discussed but apartheid also provided economic benefits for those of the population who had the good luck to be of the white minority. Even at the beginning of the 1930s white farmers were heavily subsidized by the state, keeping local prices above international levels as to avoid competition and protective tariffs were also put in place. Nevertheless these policies favoured large landowners and the impoverishment of small farmers was also acutely visible. Because of the great Depression there was a growing African migration from the countryside to the cities (Table 1) which was understandable because virtually there were three main opportunities to work: low wage work on a farm, no work in the designated reserves or some work in the towns. The end of the Depression and the ending of the gold standard gave manufacturing a handy boost and not only white workers but Africans also received job opportunities not only because of the lower wages but also because of the short supply of white workers. Eventually the African migration from rural areas to urban areas for afore mentioned reasons was gathering such speed that in 1951 the government created the Labour bureaux under the Native Affairs Department which oversaw that Africans would not be able to migrate from white owned rural areas into the cities until the labour demand of farms was satisfied [Worden 2007].

**Table1. Proportion of Population estimated in urban areas (in %)**

	1904	1936	1960	1980	1996
African	10	17	32	33	43,3
Coloured	51	54	68	77	83,3
Indian	37	66	83	91	97,3
White	53	65	84	88	90,6
Total	23	31	47	47	53,7

Source: Thompson [2001, pp 298.]

It is very important to understand that although South Africa was enforcing segregation and was in fact a dictatorship for the majority of the population; elections were held, although it was the whites who could participate, and to a lesser degree the Coloureds and Indians. Even though the National Party and the Afrikaner Party received the majority of seats in the parliament, they received only 41 percent of

<sup>3</sup> 1963: General Laws Amendment Act

the votes cast as opposed to those of the United Party (49 percent) and others received. The reason why the NP-AP alliance was handed a victory was that there were more constituents in rural areas than urban areas which favoured the NP-AP alliance. There was also an Afrikaner-English divide among the white population, the English speaking favoured more the urban areas and voted more for the UP, whereas Afrikaners were in the rural areas and voted NP. Additionally after the end of the Second World War the Smuts government was encouraging immigration, nearly 29 000 newcomers has arrived in 1947 and 35 000 in 1948 of which the majority were British. The NP feared that they would upset the electoral balance and vote for the opposition and therefore tried to appease its more radical supporters with the previously mentioned legislature [Welsh 2009, pp. 25].

In the 1958 election the NP won an overwhelming victory over its opponents obtaining twice as many seats in the Parliament. This was not really surprising since the policies of apartheid did not slow down growth (GDP grew by about 5% p.a.) and more significantly the living standards of the whites increased steadily. Farmers benefited from increased prices, workers form job reservations, manufacturers enjoyed tariff protection, gold production expanded and FDI also grew because of cheap African labour, therefore African unemployment stayed around 10 percent during the 1960s [Worden 2007]. This changed markedly however after the oil crisis in the 1970s: a drop in gold prices and higher inflation introduced recession and therefore strikes ensued. Another change occurred however in the 1970s: manufacturing started to dominate the economy using complex technology, which required semi-skilled labourers as opposed to unskilled and permanent workers; therefore segregation became less and less feasible, additionally international pressure was picking up providing less and less opportunity for exporting manufactured goods a.k.a the government was hindering the expansion of the South African economy by maintaining the apartheid system [Wintrobe 2000].

The National Party was also eroding most of its traditional base of rural Afrikaners, by the end of the 1970s: 88 percent of Afrikaners were urban and 70 percent had white collared jobs [Thompson 2001, pp. 223]. The picture remained the same up until the end of the 1980s when unskilled Africans and also whites became unemployable (in 1987 unemployment may have been as high as 6.1 million people), GDP actually declined in 1982, 1983, 1985 and zero growth was achieved in 1986. The costs of the apartheid system became apparent for all and can be listed in the following points: direct costs involved in implementing and maintaining apartheid programmes; enforcement costs involved in applying and policing apartheid; lost opportunity costs, including lost investment, and limitations on the development of skills; punitive costs resulting from embargoes and sanctions; the human costs resulting from hardships. The maintenance of the system cost about 10-21 percent of the annual budget which could have been spent more profitably on any kind of investment [Welsh 2009, pp. 252-253].

Change was needed and Frederik Willem de Klerk followed Pieter Botha as prime minister and negotiations started with Nelson Mandela on the creation of a democratic system. To summarise our argument we can differentiate between three major reasons why apartheid could not be maintained:

- (a) Demographics: Africans were providing more than 70 percent of the population (*Table 2*);
- (b) The economy was unsound (as we have seen), but also interdependent: without African labour white enterprises would have gone under;
- (c) The Soviet Union was falling to pieces therefore South Africa was not needed as a bastion against it, therefore the West could take a tougher stance against discriminating policies.

**Table2. Population of South Africa, in millions, 1911–2010**

	1911		1936		1960		1980		1996		2010	
	N	%	N	%	N	%	N	%	N	%	N	%
African	4.0	67.0	6.6	69.0	10.9	68.0	20.8	72.0	31.1	77.0	39.7	79.4
Coloured	0.5	9.0	0.8	8.0	1.5	9.0	2.6	9.0	3.6	9.0	4.4	8.8
Indian	0.2	3.0	0.2	2.0	0.5	3.0	0.8	3.0	1.0	2.5	1.3	2.6
White	1.3	21.0	2.0	21.0	3.1	19.0	4.5	16.0	4.4	10.9	4.6	9.2
Total	6.0		9.6		16.0		28.7		40.6		50.0	

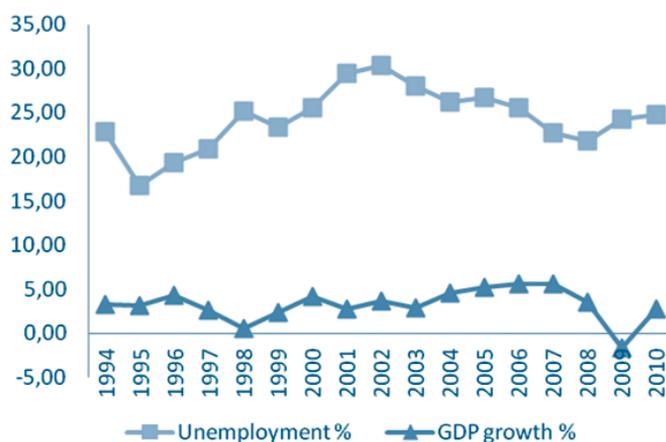
Source: Thompson 2001, pp. 297; Statistics South Africa 2010, pp. 4.

Since the powers that were shaping the future of the country were tied neck-to-neck, compromises had to be met in order for the country to function: civil servants, judges, police officers, military personnel and basically anyone who held positions under the apartheid regime could keep their jobs until retirement age. Anyone who committed crimes under the old regime could avoid prosecution as long as he or she confessed it [Bratton–van de Walle 1997]. Power sharing was also compulsory until 1999, and a minority party which won 20 percent of the vote could provide a deputy president and any party which won more than 5 percent received a chair at the cabinet table [Thompson 2001]. Also and most important was that the leadership of the military forces should pass onto the majority and receive African leadership in order to forestall a coup d'état and anyone wishing to leave the country after the transition should be free to do so [Inman–Rubinfeld 2008, pp. 5]. The result of the 1994 election was as follows: the ANC won 62.65 percent and received 252 seats, the National Party won 20.39 percent and received 82 seats, whereas the Inkatha Freedom Party won 10.54 percent and 43 seats. Nelson Mandela became president, Thabo Mbeki first deputy and Willem de Klerk second deputy.

In the preceding chapter we have analysed and created a framework with which we may be able to understand the political economy of the Republic of South Africa. The main essence of the chapter was that apartheid was a minority rule which was created out of an economic necessity on the part of rural Afrikaner population against Africans and tried to stifle competition and bring the living standards of Afrikaners up to the level of the English speaking population. They created a misshapen society where the majority did not receive adequate education, was segregated and living on a far lower level than those of the minority. When the new, democratically elected majority government took power they faced the unenviable task of reforming the society into an egalitarian one.

### 3. FORMAL-INFORMAL LABOUR MARKET

After the new democratically elected government took office in 1994 one of the most crucial issues was how to create an economy which would provide both job opportunities to the formally unemployed or low paid majority. Soon after the change the government introduced the Reconstruction and Development Programme (RDP) which funded local development projects in healthcare, welfare, education and housing. Although the programme had some achievements notably in housing, it was still considered a failure as GDP growth was declining and unemployment rising (Figure 1). Therefore in 1996 the government introduced the Growth, Employment and Redistribution Policy (GEAR) programme which was much more a free market oriented enterprise, by attracting foreign investment and trying to find a place in the globalising world. Unfortunately FDI did not grow to such an extent as could have been hoped for, as for instance local manufacturing after decades spent behind protective barriers was proving to be both uncompetitive not only because of a poorly trained workforce and of general low productivity, but because trade unions and political promises resulted in relatively high wages for the region [Worden 2007, pp. 161, Thompson 2001, pp. 278–282]. In the following chapter we are going to look at why unemployment has not receded in South Africa despite the change from an authoritarian, relatively closed economy to an open, democratic country.



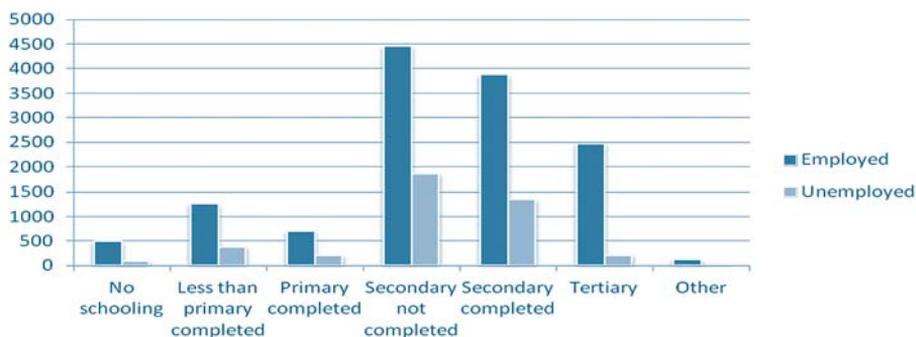
Source: IMF 2011

**Figure 1. Unemployment and GDP growth 1994–2010 (%)**

As we have mentioned GDP growth was not particularly high up until 2004 when for 4 consecutive years it was around 5 percent per annum. On an average between 1994 and 2010 GDP growth was 3.26 per annum which is decent even if not particularly high as compared to South or East Asia, which areas have probably provided double growth. The problematic thing is that unemployment on an average between these years has stood above 24 percent. Not surprisingly unemployment-

ment is highest among the young, unskilled African population. In 2011 for instance from 4.3 million unemployed, 1.9 million were new entrants onto the labour market [Statistics South Africa 2011].

However back from the 1970s there was quite a huge change in the three different types of economic activities: tradable activities (mining, agriculture and manufacturing); private non-tradable activities (finance, construction, trade, transport) and public non-tradable activities (utilities, community and social services). Whereas in the 1970s tradable activities took 45 percent of employed labour, private non-tradable about 25 and public non-tradable 30 percent in 2009 this stood at 24-54-22 respectively [Rodrik 2006, Statistics South Africa 2009]. This implies that there has been a significant decline in the demand for low skill labour which may have been one of the main reasons for the growing unemployment. In 2009 8.3 million people (tradable 26%) were working in Formal Employment and 4.3 million in Informal Employment (tradable 15%), whereas in Formal Employment 41 % were unskilled and in Informal Employment 76% unskilled (*see Figure 2*). The medium-tech manufacturing was proving to be particularly growth oriented thanks to car exports and provided a 11.6 average annual growth rate between 1990–2000. This underlines the argument that investment in manufacturing and training of labourers pays off [Edwards–Lawrence 2006]. We can probably draw the conclusion from this data set looking at historical experiences [Altman 2008, Banerjee et al. 2006, Davies–Thurlow 2009, Rodrik 2006] that the majority of unskilled workers in Formal Employment are presumably in the tradable sector and since almost 2/3 of the tradable sector is manufacturing, presumably working in manufacturing. Also according to Rodrik<sup>4</sup> if skills are upgraded so that more people would be able to work in either formal employment or in the non-tradable sectors, those people who would find a job would receive higher wages, however on a macro level it could have a negative effect on unemployment.



Source: Statistics South Africa 2009

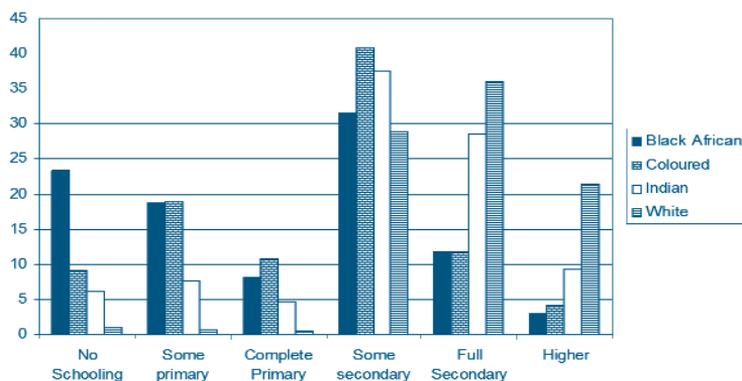
**Figure 2. Education among the employed and unemployed in thousands, 2009**

Employment in manufacturing has not grown significantly because the relative prices of manufacturing declined, which may have been a result of import competition and appreciation of the exchange rate. Therefore in order to boost employ-

<sup>4</sup> The elasticity of employment with respect to skill adjusted labour costs is around -0,6.

ment and provide job opportunities for the 6.7 million unskilled workers (out of a workforce of 12.7 million people) in formal and informal employment there are maybe four major options:

- (1) Agriculture and mining has been steadily shedding jobs in the last decade due partially to more capital intensive methods of production, whereas manufacturing has more or less stayed on an even scale: around 1.9 million workers in both formal and informal employment [Statistics South Africa 2008]. Therefore by decreasing real wages and focusing more on the short term on labour intensive production methods manufacturing can actually take up some of the workforce. However the decreasing of real wages is practically more or less out of the question, because on the one hand trade unions are too strong and on the other hand higher wages were one of the issues the ANC campaigned on in 1994 therefore it would be politically not so feasible.
- (2) The informal economy could employ some of the unemployed, however in Sub-Saharan African countries, Latin-American countries and Asian countries the informally employed usually take up at least 50% of the workforce, however the informal sector has actually declined since 2001, therefore this may not be a viable solution.
- (3) The existing system of social assistance also creates a higher reservation wage for people to actually seek work, therefore it may actually deter people in seeking informal jobs or working as unskilled labourers in the formal sector.
- (4) Because of the apartheid system and non-allowances for travel, a substantial part of the population is living or grew up in places with inadequate infrastructure and far from centres of business and industry, where capital is unlikely to move. Even if they are inclined to move to find job opportunities the actual cost of moving from one place to another and searching for jobs there is beyond their means. The solution could be to provide incentives for large corporations to employ people from the former homelands in exchange for tax cuts or provide transportation subsidy, provide if not free but reduced price accommodation for people attempting to move out of the homelands in search of a job.



Source: Thompson [2001, pp. 299]

**Figure 3.** Levels of education among those aged twenty years or more in 1996 (in percent)

If we are thinking in the long run than providing better training for the workforce in South Africa may be one of the main goals in reducing unemployment. Even though we have argued previously that focusing in the short term less on capital intensive methods of production can help with unemployment this does not have to mean that workers do not have to be trained. It is very hard to get data on South Africa's education in relation to population groups but since unemployment was in 2009 27.9 percent in the Black/African population, 19.5 percent among Coloureds, 11.3 percent in the Indian/Asian and 4.6 percent among the white population we can assume that education does play some part in determining which population group has a job or not taking into account our previous discussion. Additionally Levinsohn et al [2011, pp 19] has analysed the effects of HIV on the labour market, and found that the impact of HIV on labour market status is severe for those with lower levels of education and is negligible for those with higher levels, which also underlies our argument that with better education it is easier to get a job. In 2011 autumn there will be a full census and hopefully after that we shall gain a better idea on these issues, up until then we have to rely on data from the last census (*Figure 3*). If we look at once again at *Figure 2* we can probably argue that if the government would provide and enforce secondary education for all population groups that could provide maybe better prospects for the previously unemployed and could also facilitate the transfer from informal to formal employment.

If we are however looking from another perspective since 1998 formal sector employment has grown at an average 2.8 percent per annum, therefore we can ask ourselves why is there still unemployment? According to Hodge [2009, pp. 7-8] a concise measure of employment and growth can be done by using the employment coefficient (E) which we can measure by the ratio of employment growth (e) to economic growth (g):  $E=e/g$ . E can be defined as the responsiveness of employment to growth or employment elasticity. From 1947 to 2007 E averages roughly 0.5 which suggests that one percentage point of economic growth will translate into 0.5 percentage point of employment growth. However the problem turned out to be that between 1995 and 2004 for instance even though employment grew by 14 percent the labour force grew by 36 percent which inevitably resulted in the growth of unemployment particularly for new entrants.

In the previous chapter we analysed the problems of employment and unemployment in South Africa. We came to the conclusion that on the one hand South Africa faces a number of structural problems: the tradable sector which has previously provided most job opportunities for the unskilled is getting capital intensive therefore unskilled labourers are less wanted. However because of trade unions and a relatively low inflation, real wages did not fall and high reservation wage levels and advanced social protection did not lead these people to seek job opportunities in the informal economy. Additionally the problem is that even though employment is growing at a respectable level the labour force is outstripping it and therefore unemployment is likely to be one of the main problems for future generations. Of the aforementioned problems the low skill levels, the low levels of mobility and the low inflation of real wages are path dependant problems which we believe can only be solved with new generations growing up who have not suffered the problems of apartheid.

#### 4. SOCIAL ASSISTANCE SYSTEM

The social system in South Africa for a developing country is well advanced. In 2010 it has provided 15 million social grants: 10 million for child benefit, 2.5 million for old aged persons and 1.3 million for people with disabilities. South Africa also has a unique pension system in a way that it has a number of different programmes supplemented by a state provided State Old Age Pension (SOAP) for people who have been unable to save during their active years because of apartheid or other issues. SOAP did exist under apartheid although not surprisingly Whites received the highest payouts Africans the lowest and Indians and Coloureds somewhere in between. The state provided and non-contributing system was introduced in 1928 designed for poor Whites and Coloureds above the age of 65 and 60 males and women respectively. The payouts were striking in difference: in 1968 Africans received R31 whereas Whites R322 a month. Full parity was achieved in 1994 [van de Heever 2007]. In the following paragraph we are briefly going to look at the various non-state pension funds before we move onto our topic which is the State Old Age pension and sustainability of social assistance.

- (1) Pension funds: “These are funds established for the purpose of providing annuities (normally in the form of monthly pensions) for employees on their retirement from employment”
- (2) Provident funds: “These are funds established solely for the purpose of providing benefits for employees on retirement or solely for the purpose of providing benefits to a deceased member's dependants or for a combination of both”
- (3) Umbrella funds: “These are either pension or provident funds that a group of employers can join. These multiple employer funds are typically sponsored by a financial services company.”
- (4) Segregated funds: “This is an arrangement whereby the investments of a particular pension scheme are managed by an insurance company independently of other funds under its control.”
- (5) Retirement annuity: “This is a personal pension arrangement that can be taken out by an individual with a life assurance company. Both lump sum and monthly contributions can be made. The monies placed in the fund are not accessible until the member reaches an age in excess of 55 years. The performance of the fund is typically market-linked.”
- (6) Preservation funds: “Where an individual transferring from an employer is unable to transfer their pension to a new fund, an option is to make use of a preservation fund. In essence a preservation fund allows an individual to ‘park’ their retirement savings somewhere until such time as they can switch it to a more appropriate vehicle.” [All from van de Heever 2007, pp. 2–3].

The various pension schemes and retirement funds, had had a total membership of 9.85 million citizens. If we are assessing the coverage of these programmes we can note that although 8.7 million people are active members of some funds the total workforce is 12.7 million (8.3 formally employed). An important effect of the adoption of a fully funded pension scheme was that it led to a huge increase in national debt, since the state officials and employees of the apartheid regime deliberately indebted the state in order to safeguard their own pensions in retirement.

In 1989 the total debt of the South African government stood at 68 billion rand (R), by 1996 it had grown incredibly to R308 billion, today it stands at roughly R500 billion of which the annual repayments are at least R76 billion per annum, one of the largest items on the budget [Hendricks 2008, Treasury of South Africa 2011]. Before the end of apartheid the funding of government employees was done on a Pay-as-you-go (PAYG) system, however the public servants feared that after the regime change their pensions will vanish, therefore it was included in the negotiations that the PAYG system be changed to a Fully Funded system (FF) which understandably indebted the treasury. It could be argued that reverting back to the PAYG system would ease the burden of debt repayment; however this would be a highly contentious issue in any economy.

Referring back to the previous chapter on unemployment and formal-informal employment and looking at the Statistical Data available we can notice that unemployment is particularly high under the age of 35: 6 million are employed whereas 3.1 million unemployed. Also it is interesting to note that of the 4.1 million unemployed in 2009 almost 1.7 million were new entrants onto the labour market [Statistics South Africa 2009]. One interpretation could be that these people claim that they are looking for a job, but actually are not really placing any effort into it or they may be looking for a job that is simply not available with their qualifications. SOAP reduces the probability for employment at probably 10 percent. As we have seen South Africa's social pension programme is quite generous, paying each elderly South African almost double the per capita income (R 1140 per month). The result of this according to Banerjee et al. [2006] is that many unemployed South Africans can get by without having a job as long as their parents have the will in supporting them or when household incomes are pooled. According to Sienaert [2008] if a household is receiving SOAP in that case total household labour participation will be 3% lower, which translates into a decline 8% of total household prime-age employment. An additional positive effect of SOAP according to Case [2001] was that it improved the health of the households (pensioner plus prime time employed) which pooled income. Health improvements can be measured by the presence of a flush toilet or clean water access in the household. Case [2001] found that a pensioner in the household is positively and significantly correlated with a flush toilet in the dwelling, and negatively correlated with an indicator that the household's source of water is off-site. Also if households pool income the presence of a pensioner reduces the probability that an adult has skipped a meal by 25 percent.

If we take a look at the budget for the 2011 year in South Africa we can see that Social Protection R146.9 billion (out of R897 billion expenditure) is roughly 16 percent of the budget. SOAP takes up about R36.6 billion which is not low, but not a terribly high figure either. What is the government of South Africa planning to do in relation to the economic crisis? Reducing public expenditure on social assistance or placing a bigger emphasis on job creation? Since public debts stands at 33 percent of GDP they can basically raise the level of expenditures for a few years time and hope to create some GDP growth by then. Social Protection must be maintained since this is one of the key issues which differentiates the present system from the one under apartheid. The government takes a classical expansionary pol-

icy by attempting to create more job opportunities thus boosting the GDP growth of the country. These policies are a R9 billion job fund which endeavours to increase the chances of employment of young people thereby providing 50 000 to 100 000 jobs by 2014. Another project is to introduce a youth employment policy with R5 billion in subsidies for young workers without any job experience or training. Education is also one of the priority areas because as we have seen in previous chapters the South African population is seriously undertrained R17.7 will be spent build classrooms train teachers and train people. By the help of these programmes it is hoped that GDP growth will be 4.4 by 2013 and the budget deficit will recede to 3.8% which will make it once again sustainable [Treasury 2011].

## 5. CONCLUSION

In the article we have endeavoured to analyse the current problems in terms of employment and social assistance in South Africa. We have found that one of the major problems is that the workforce of the country is either unskilled or semi-skilled therefore not able to hold down a job. From the 1970s manufacturing, which employed most of the formal unskilled labour, became more capital intensive therefore people without skills were shed. The role of the government in our opinion could be to on the one hand impose compulsory education until the age of 18 and make special assistance programmes for young entrants into the labour market who suffer from the highest unemployment rate. We also analysed in our article the case of the social assistance system with special emphasis on state provided old age pensions. Social assistance is taking up 16 percent of the budget which can be sustained as long as enough job opportunities are created to offset the growth of the population.

In regard to the question of path dependency influencing the efficacy of government problems we can answer that yes, it is influencing it, if only partially. If the apartheid government would have spent equal amount of money on educating Africans and whites than the percentage of unskilled workers would be considerably lower. The low quality of infrastructure in homelands also makes it difficult for people to emigrate from there. Since the Republic of South Africa can almost be considered a developed economy with a modern institutional system unemployed people find it considerably more difficult to find jobs in the informal economy as opposed to neighbouring countries. Luckily the government can support the social assistance programmes as long as the GDP is growing steadily, therefore negative effects of path dependency cannot be noted in this case.

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