



## Growth or Grinding: Navigating South Africa's Great Labour Transformation

*South Africa is currently ensnared in a sophisticated economic paradox in various sectors of the economy. For decades, our national discourse has been paralyzed by a “policy trilemma” - an agonizing choice between mitigating poverty, unemployment, or inequality. While the state attempts to juggle all three through increasingly convoluted interventions, the ground reality is shifting beneath the feet of the policymakers. To resolve this stagnation, we must look to the Tinbergen Principle: the economic axiom that every policy should have exactly one clear goal. As the formal job market stumbles, more and more people try self-employment, perhaps simply to survive.*



**Willie  
Pelsler**

South Africa is currently ensnared in a sophisticated economic paradox in various sectors of the economy. Last week Itumeleng looked at the potential impact of private education and concluded that affordability and access are key otherwise private education risks entrenching inequality rather than solving it. We address the labour market in this issue.

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### ABILITY TO ADDRESS UNEMPLOYMENT SUB-INDEX



*The trend is damning. This Index highlights the failure of our economy to generate jobs, as a growing labour force (skilled or unskilled) continually outstrips jobs on offer.*

### SPEED READ

- **Formal Stagnation:** Over a 15-year period (2010–2025), employment backed by formal contracts grew by a microscopic 1.1%, while non-contractual work exploded by 108%.
- **The Policy Trilemma:** Analysts warn of a “pick your poison” scenario; using single policy tools to solve three distinct crises simultaneously often results in a “policy muddle” that achieves none.
- **The Self-Employment Shift:** Roughly 41% of the South African workforce now operates outside formal contractual arrangements, creating self-driven opportunities in a low-growth environment.
- **The Growth Imperative:** Research suggests that sustained, moderate real economic growth is a far more potent tool for poverty reduction than even the most aggressive medium-term inequality-reduction policies.

interventions, the ground reality is shifting beneath the feet of the policymakers. We are witnessing a great labour transformation where a resilient, exhausted workforce is simply bypassing formal structures to carve out its own survival. This isn't just a trend; it is a structural divorce. As the formal economy remains weighed down by “policy muddles” and infrastructure decay, the informal sector is redrawing the boundaries of South African productivity, forcing us to ask: are we building a new economy, or merely managing a slow-motion collapse?

### The Bearish Reality: Structural Constraints and Formal Decline

The recently released UASA Employment Report 2026,

authored by the Bureau of Market Research (BMR), provides a harrowing autopsy of the formal sector’s ability to function as an engine of employment. We are no longer dealing with a cyclical downturn; we are facing a persistent “deterioration in the economy’s ability to absorb labour.”

The data is stark. The Ability to Address Unemployment Sub-Index, a vital metric tracking the economy’s capacity to integrate new entrants, plummeted from 22.4 points in Q4 2025 to a mere 15 points in Q1 2026. This decline signals an economy that has become progressively less effective at generating work, as labour force growth consistently outstrips job creation.

This stagnation is worsened by what Roy Havemann, from the Bureau of Economic Research at Stellenbosch University, describes as a “policy muddle.” In an attempt to solve South Africa’s “trilemma,” the state often burdens single mechanisms with conflicting goals. A prime example is the “procurement premium.” By mandating that state procurement be both cost-effective and a primary vehicle for social transformation, the government effectively pays a surcharge on every contract. There is a profound irony here: this premium is funded by the general tax base - including VAT paid by the destitute and income tax increasingly paid by the very black professionals and firms the policy aims to empower - yet the benefits flow to a narrow circle of state tender-holders.

The report identifies several persistent anchors weighing down the formal sector:

- **Infrastructure bottlenecks** and chronic logistical inefficiencies.
- **Subdued investment** levels driven by policy uncertainty.
- **Weak labour absorption** that fails to respond even during moderate recoveries.

### **The Creative Pivot: Opportunities in the Informal & Self-Employed Sector**

In the vacuum left by the formal sector’s retreat, a new narrative of survivalist resilience has emerged. Professor Carel van Aardt, Research Director at the BMR, highlights what he calls the “Opportunity of Creative Self-Employment.” South Africans are no longer waiting for a formal job offer that may never come; they are creating work for themselves.

The 108% surge in non-contractual work suggests that our official statistics may be missing the forest for the trees. Professor Van Aardt argues that this shift should “nudge



*Structural unemployment in South Africa’s economy is a huge ongoing problem that needs a different approach if we are going to provide long term solutions.*

official statistics” to adopt a “broadening of the production boundary,” recognizing informal, casual, and subsistence work as structurally significant contributors to the national GDP.

The South African labour market is undergoing a significant structural transformation. The traditional distinction between formal employment and broader economic participation is blurring, requiring a fundamental shift in how we measure and support productive work.

However, this “creative pivot” is a double-edged sword. While it demonstrates the grit of the population, much of this activity is defined by low productivity, unstable income, and a total lack of access to social security systems. For many, the informal sector is not a choice of entrepreneurship, but a desperate hedge against absolute poverty.

### **The Policy Debate: Tinbergen’s Principle and the Magic Bullet**

To resolve this stagnation, we must look to the Tinbergen Principle: the economic axiom that every policy should have exactly one clear goal. When we ask a single tool to solve multiple crises, we invite failure.

Take the Social Relief of Distress (SRD) grant. At R370 per month, research from UCT confirms it is a highly effective anti-poverty tool for the destitute. Yet, it fails as an inequality-reduction tool because the income gap is too vast for such a small sum to move the Gini coefficient. Furthermore, joint research from Stellenbosch and UCT suggests a painful trade-off: the taxes required to fund the grant may actually be causing job losses in the broader economy.

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Similarly, political proposals - such as the Democratic Alliance's plan to link procurement premiums to Sustainable Development Goals - risk adding layers of vague, un-auditable complexity. Asking a procurement officer to provide "audit evidence on how a firm has improved human development" is a recipe for further administrative paralysis.

As Professor Servaas van der Berg argues, sustained, moderate real economic growth remains the closest thing we have to a "magic bullet." His findings are provocative: even a substantial six-point drop in South Africa's Gini coefficient would do less for poverty reduction over the next 15 years than consistent economic growth. Growth is not just another policy goal; it is the fiscal pre-condition that allows for the funding of education, healthcare, and social safety nets.

### **Conclusion: Toward a Resilient Economic Strategy**

The transformation of the South African labour market is a testament to the resilience of its people and the failure of its formal institutions. With 41% of the workforce operating outside traditional contracts, our policy frameworks are

increasingly out of step with reality. We can no longer afford "policy muddles" that tax the many to benefit the few, nor can we rely on a formal sector that has lost its capacity to absorb new life.

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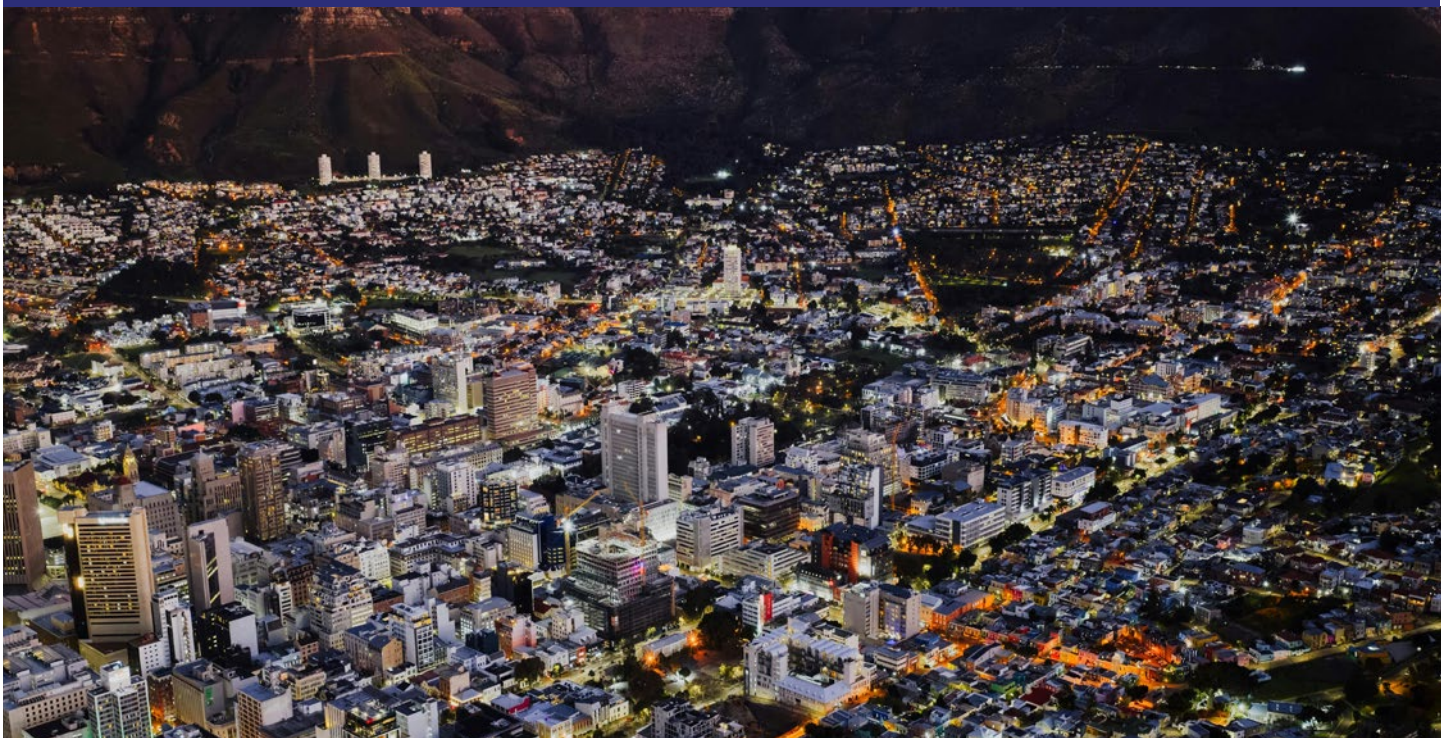
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Our strategy must adapt to these "blurred lines." We need to support the informal and flexible arrangements that now constitute the backbone of the working class while aggressively clearing the structural bottlenecks that stifle the formal sector.

Ultimately, we must return to the fundamental truth that has been obscured by years of ideological debate: economic growth is the only force capable of defying the Tinbergen Principle. While the principle warns that you cannot have everything with one policy, growth is the unique exception. It provides the jobs, the taxes, and the opportunity that simultaneously address poverty and inequality. As the data suggests, the choice is clear: "If you grow, you really can have everything." If we do not, we will continue to grind until the gears of the formal economy seize entirely.

### CAPE TOWN



*Even in a city as productive as Cape Town, South Africa has a large unemployment problem.*



Our next seminar will be held in June. As usual, we will review the first six months of the year and update our outlook for the remaining six months.



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**Topic: 2026: The first six months**

### Natal Midlands

Date: 4 June 2026

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

### Johannesburg

Date: 9 June 2026

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

### Cape Town

Date: 11 June 2026

Venue: Kelvin Grove Club, 144 Camp-ground Rd, Newlands, 7700

Time: 7.30am

Venue: Helderberg Village Lifestyle Estate, 63 Bakkerskloof Rd, Helderberg Village, Cape Town

Time: 5.30pm for 6pm



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.



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