



Econ3x3

www.econ3x3.org

A web forum for accessible policy-relevant research and expert commentaries on unemployment and employment, income distribution and inclusive growth in South Africa

Downloads from this web forum are for private, non-commercial use only.

Consult the *copyright and media usage guidelines* on www.econ3x3.org

April 2026

What if the formal economy can't deliver the jobs we need?

Justin Visagie, Southern Centre for Inequality Studies, University of the Witwatersrand¹

Over the past 10 years, South Africa has created only 130 000 new formal work opportunities on average a year – not nearly enough to absorb the 12 million work seekers currently unemployed. The size of the challenge is such that even if job growth in the formal sector were to grow to three percent per annum, it would take 50 years to wipe out unemployment. So, what are our options?

Moving backwards

It's time we face up to an honest question: what if the formal economy can't deliver the jobs we need?

I have been working closely with South Africa's administrative tax data over the past five years – arguably the best way to track progress in the formal sector – and the sobering reality is that we've gone backwards.

It probably comes as no surprise that our last decade of anaemic economic growth has deepened the jobs crisis.

Looking at the last 10 years (2013/14 to 2023/24 tax years) of formal sector jobs data, as reported in the [Spatial Tax Panel](#), South Africa managed to create only about 130 000 net new full-time equivalent work opportunities per year. This rate of job creation works out at just under 1% growth per annum – which isn't enough to keep pace with our growing population.

The official statistics from the Quarterly Labour Force Survey (QLFS) confirm this. The number of unemployed job seekers in South Africa has risen from about 8 million to more than 12 million between 2014 and 2024.

The formal job numbers don't add up

What is perhaps more alarming is that even our best-case growth alternative is insufficient to reach the next generation of job seekers. The job numbers just don't add up given the size of the challenge.

For instance, even if we accelerate net job creation to 3% per annum – bearing in mind that GDP growth might need to be higher if it's not 1:1 labour absorptive – it would still take more

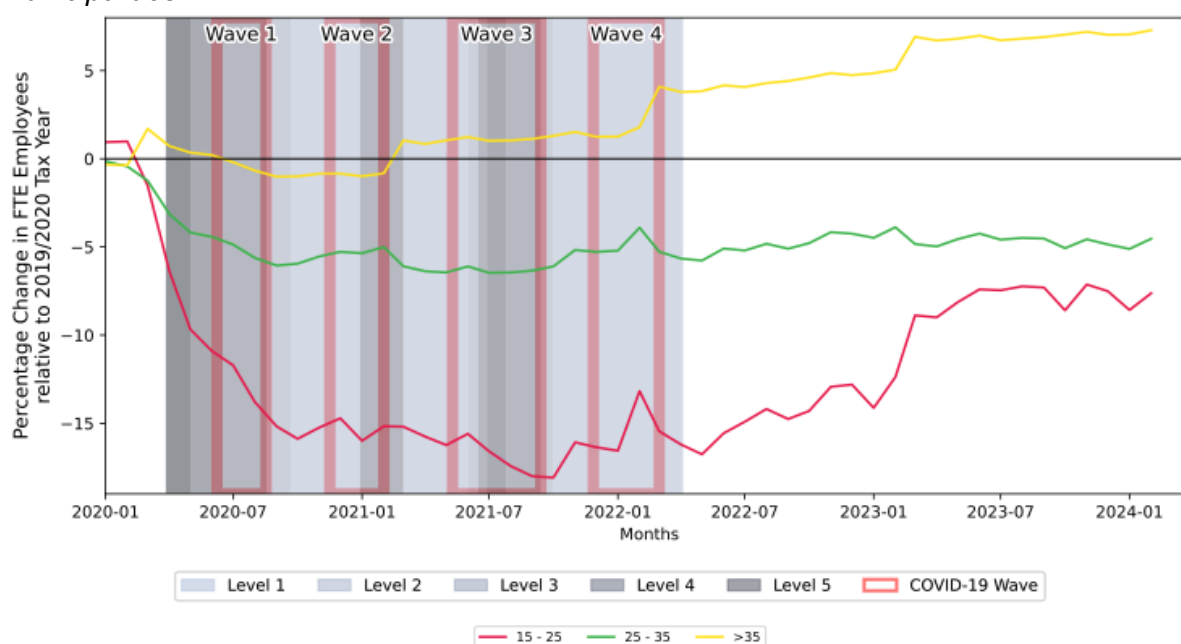
than 50 years for the formal sector to wipe out our unemployment¹. Raise jobs growth to 5% – which is unrealistic in my opinion – and you’re still looking at at least another 20 years.

We basically need to double the size of the formal sector in one go to square things up from this point. This is because we’ve reached a point where the number of unemployed people now exceeds the total number of formal sector jobs.

Yet the problem is not only the pace of job creation – it is also who is being left behind. This is reflected in the fact that the next cohort of young job seekers is faring worse than ever, at least according to the latest tax data.

Figure 1 shows how formal employment has shifted across age cohorts in metropolitan municipalities, benchmarked against the pre-Covid baseline and is drawn from our recent [report](#) on the performance and economic outlook for South African cities.

Figure 1: Percentage Change in FTE Employees by age group across all Metropolitan Municipalities



Source: Andrew Nell (2026) Chapter 9 ‘The Impact of Covid-19 on Employment in South African Cities’ by Andrew Nell; Cities Economic Outlook 2026; Spatial Economic Activity Data South Africa.

The main message is that Covid-19 had a dividing effect on labour market outcomes across younger and older workers.

The older cohort of workers aged above 35 years were surprisingly resilient to the shock of Covid-19 lockdowns and registered only a slight contraction. They soon reached back – and even surpassed – their pre-pandemic levels well before lockdown measures were fully removed.

It was younger age cohorts – either aged 15 – 25 or 25 – 35 years – which faced the brunt of layoffs, contracting by 5% and 15% respectively. What is more, neither of the younger age cohorts showed much sign of recovery, with jobs numbers levelling off at a much lower equilibrium.

¹ The number of unemployed currently stands at more than 12 million, full-time equivalent formal jobs total around 11 million, while net population change has added about half a million individuals to the workforce on average each year. Compound annual average jobs growth of 3% would take 50 years to reduce unemployment to about 10% projecting forward on the same basis.

Job creation has apparently shifted even further away from the youth. This trend isn't unique to the tax data; a number of other [studies](#) confirm such a deterioration in labour market outcomes among South African youth.

The limits of standard economic tools

What do mainstream economic theory and related empirical work have to say about addressing this crisis?

The economist's toolbox is powerful when it comes to marginal adjustments – tweaking incentives, prices, and market functioning around an existing equilibrium. The rise in data availability and computational power has also made econometric outputs more precise and useful.

But South Africa's unemployment crisis is not a marginal problem.

When the required changes are large, the assumptions underpinning these models become less reliable. Attempting to move the dial on unemployment at the scale we require pushes us into guesswork.

A deeper issue is that the underlying parameters may need to shift. This is not just about making markets function more efficiently. We are facing the prospect of multiple generations with little chance of finding employment. The existing equilibrium sucks – it's not just inefficient, it's exclusionary – which calls for more than just policy tinkering.

The constraints of standard economic reasoning are illustrated in the debate around minimum wages and the costs of labour. In its simplest form, economic theory suggests that markets should clear if prices are sufficiently flexible. By this logic, unemployment should all but disappear if wage-setting were fully flexible. Problem solved.

The trouble is that empirical [evidence](#) on demand-side interventions such as the Employment Tax Incentive are, at best, mixed in terms of sustained impacts on hiring. Similarly, the empirical [evidence](#) on the introduction of sectoral minimum wage laws also showed little effect on employment.

One interpretation is that jobs demand at the bottom end might be highly inelastic and therefore relatively unresponsive to wage changes in practice. Of course, this could reflect weaknesses in policy design rather than the underlying labour market.²

But it raises a more fundamental possibility: what if our market can't clear out surplus labour even at half the current wage level?

This is further complicated by spatial constraints. For many poorer workers, high transport costs significantly erode the returns to low-wage employment, effectively limiting participation even when jobs are available.

A related strand of [literature](#) suggests that South Africa's labour market may not be as rigid as is often assumed. In that case, the problem likely runs deeper than labour market flexibility alone.

Policy choices

We do have other options.

² [Andrew Donaldson](#) rightly points out that the ETI falls short as a demand-side measure. The design is modest in being limited to the first two years of an individual's employment, excludes domestic and informal workers, and is restricted to only young workers. Nevertheless he admits that even an expanded version of a "broad based wage subsidy is not a sufficient response to SA's extreme unemployment conditions".

The informal economy is receiving growing policy attention. While I do not want to romanticise the precariousness of many micro and small enterprises, there is reason to believe that this sector could generate significantly more employment in the future.

According to the QLFS, the informal economy already employs more workers than formal manufacturing. In fact, the main [puzzle](#) is why informality is not far higher, given chronic levels of unemployment and potential surplus labour.

Another advantage of expanding informal sector employment is that it is often well targeted to marginalised communities and places, including township economies, women, and black-owned enterprises.

Yet despite this potential, we still do not have a coherent strategy for supporting small and informal businesses at scale. We also need more research to better understand the constraints limiting the growth of informal sector activity in South Africa.

Another widely discussed option is some form of [basic income grant](#).

The appeal of this option is that the public sector already has the administrative capacity to implement large-scale income support. We have the blueprint in the Social Relief of Distress grant. The transfers would likely be modest, reducing the risk of strong labour market disincentives.

The main constraint is fiscal cost and the associated risks to public finances.

A further set of ideas relates to large-scale infrastructure-led stimulus. For example, the recent [News24 Jobs Summit](#) believes that up to two million potential construction jobs could be created from scaling up housing and urban infrastructure investment.

This might be complemented by a minimum employment guarantee, such as expanded community works or [public employment programmes](#).

From ideas to implementation

It is likely that the answer lies in some combination of these approaches.

Yet the fundamental challenge across all of them is the financial cost required to scale them to a point where they can make a meaningful difference. Would global financial markets punish South Africa for expanded public spending, or worse, destabilise the broader economy?

I am sympathetic to the difficult balancing act faced by our National Treasury.

The alternative is a more radical reallocation of existing resources – to prioritise social protection within a public purse of more than R2.4 trillion. For instance, there are proposals to cut out the whole middle tier of district-level government, although there may be much better options than this.

The difficulty is that such spending cuts imply large and concentrated losses for specific groups, making them politically difficult to implement.

Taken together, these options highlight the constraints to serious policy reform.

Taking some strategic bets

Do we still need the formal sector to create millions of jobs? Without a doubt. But formal employment can't double in size overnight.

It is difficult to accept a future in which millions of South Africans who are willing and able to work go hungry while we wait for the formal sector to grow.

It is time to take some bold and strategic bets.

ⁱ *The author would like to acknowledge financial support from the UK's Foreign Commonwealth and Development Office in sponsoring the curation of the Spatial Tax Panel and related research through Spatial Economic Activity Data: South Africa*