

# Comments on Unemployment Insurance in South Africa

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In a previous report, I discussed the social security system in South Africa, situating it within the context of the changing forms of social welfare regime in the country.<sup>1</sup> The form of social welfare regime - the overall system of government social programmes, including both social security systems and social services such as education and health - were in turn analysed as conditioned by the economic and political conditions obtaining within a given country.

One element of the social security system, which comprises both social assistance grants and social insurance schemes regulated by the State, which bears further discussion, is the Unemployment Insurance Fund (UIF). The following account, which may be read as complementary to my earlier report, will draw heavily on material developed by the International Labour Organisation.<sup>2</sup>

Briefly, unemployment insurance benefits were shaped by racial restrictions before the 1970s, increasingly universalised from the 1970s onwards, in line with the restructuring of social citizenship in this period, which I discussed in my earlier paper,<sup>3</sup> and provided on a non-racial but limited and under-funded basis in the post-1994 period.

### **Origins of unemployment insurance funding in South Africa**

Although employer-operated schemes did exist in South Africa in the 1920s and 1930s, it was only in 1937 that the government introduced a comprehensive Unemployment Benefit Act. The Act, however, excluded agricultural, domestic and mine workers as well as African labourers who earned less than 75 pounds per annum. In 1946, the Act was amended to remove the minimum income criterion, thus making it more accessible to African workers, although the exclusion of specified sectors remained in force.

However, this was reversed by the 1949 Unemployment Insurance Act which excluded all Africans earning under 15 pounds a month, leading to a 99% drop in pay outs to African men.<sup>4</sup> It was only in 1967 that average African wages rose above the minimum level for inclusion. Although income categories from grade IV upwards were entitled to 13 weeks benefit before being forced to take a low paid job, grades I to III could be immediately compelled into any work in agriculture or domestic service, or be deemed ineligible. This provision was extended to grades IV and V in 1966.

### **Unemployment insurance in South Africa from the 1970s onwards**

However, from the late 1970s, unemployment benefits were extended to rural (but not agricultural) workers (1979) and to mine workers in 1981. The minimum income limit was also removed in 1979.<sup>5</sup> By 1993, agricultural workers, married women teachers and women adopting children under two years of age had also been included (illness benefits and benefits for spouses of the deceased were added in the 1950s). Hence, there was a clear expansion of eligibility to the Unemployment Insurance Fund (UIF) in this period.

In 1996, unemployment benefits were payable for 26 week at 45% past income. It is only available to past contributors who had worked for at least 13 of the previous 52 weeks in the private sector, were registered as unemployed and were actively seeking work.<sup>6</sup> This restricted funding constraints, as will be discussed below. Unemployment benefits were only payable for six months,<sup>7</sup> and extensions of this period, which had been previously been allowed on occasion, were frozen from 1995 onwards.<sup>8</sup> Unemployment benefits were not available to first time work-seekers or to workers on short-time work. A maximum income level also applied, with those earning above R69, 420 as of April 1995 considered ineligible.<sup>9</sup> A range of restrictions on eligibility also applied to illness, maternity, adoption or deceased contributor benefits.

### **Limitations of the Unemployment Insurance Fund**

In 1991, 656,000 contributors to the UIF received unemployment benefits.<sup>10</sup> There were 6,3 million contributors to the UIF.

However, despite this broad coverage, there were a substantial number of limitations in the system in addition to limits on eligibility and the limited payouts. Substantial procedural problems led to many claimants failing to receive benefits, including failure by many employers to remit their contributions or register their workers, failure by employers and workers to possess UIF record cards, the incorrect filing of record cards, tampering with record cards, and ignorance regarding claim procedures.<sup>11</sup>

These problems, combined with growing levels of unemployment, and the exclusion of high-income earners, have all contributed to a long-term pattern of funding deficits in the scheme, given that its funding is drawn primarily from employer and worker contributions, with limited additional aid from the State.<sup>12</sup> Increasing real benefits, the falling average contributions of workers (with the extension of eligibility to low paid workers), and very low government contributions have also played a part. It is this financial deterioration which prompted a freeze on the extension of benefits.

### **A social market perspective**

Possible reforms suggested by the International labour Organisation study include increased employer contributions, the inclusion of high income earners and any workers still excluded, in order to increase funding, and less onerous registration conditions and an expansion in real benefits in order to increase and improve coverage.

These reforms are entirely compatible with the social market perspective outlined in my previous report on the social security system. Spending would be increased, effective demand stimulated and inequality reduced. In addition, j would argue, there is a need for increased government subsidisation of the UIF. This, however, will not be possible within the fiscal constraints imposed by the Growth, Employment and Redistribution (GEAR) strategy, again underlining the need to question current macro-economic policy.

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<sup>1</sup> Lucien van der Walt, August 1999, *The Social Security System in South Africa*, report commissioned by the Federation of Unions of South Africa (FEDUSA). Sociology of Work Unit, University of the Witwatersrand

<sup>2</sup> G. Standing, J. Sender and J. Weeks, 1996, *Restructuring the Labour Market: the South African Challenge*. International Labour Office. Geneva..

<sup>3</sup> van der Walt 1999: 6-7

<sup>4</sup> Standing, Sender and Weeks 1996: 434

<sup>5</sup> Standing, Sender and Weeks 1996: 434-5

<sup>6</sup> Standing, Sender and Weeks 1996: 436-9

<sup>7</sup> Standing, Sender and Weeks 1996: 438

<sup>8</sup> As noted in Ministry for Welfare and Population Development, August 1997, *White Paper for Social Welfare*.

<sup>9</sup> Standing, Sender and Weeks 1996: 435

<sup>10</sup> Standing, Sender and Weeks 1996: 444

<sup>11</sup> Standing, Sender and Weeks 1996: 439

<sup>12</sup> Standing, Sender and Weeks 1996: 439-442