

EMPLOYMENT AND INEQUALITY OUTCOMES IN SOUTH AFRICA

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TABLE OF CONTENTS

INTRODUCTION.....	4
1. GROWTH PATTERNS AND LABOUR MARKET OUTCOMES.....	6
1.1 Economic growth and inequality	6
1.2 Composition of the labour market	7
1.3 The Informal sector and barriers to employment.....	15
1.4 Conclusion	18
2. LABOUR MARKET OUTCOMES, POVERTY AND INEQUALITY TRENDS: WHAT LINKS?	20
2.1 Introduction.....	20
2.2 Inequality and poverty trends.....	20
2.3 Links to the labour market	22
2.4 Conclusion	26
3. THE ROLE OF LABOUR MARKET INSTITUTIONS AND POLICIES	27
3.1 Introduction.....	27
3.2 Collective bargaining: Councils and agreements.....	28
3.3 Institutions covering conditions of employment.....	31
3.4 Conclusion: Taking stock of labour costs and flexibility of the South African labour market.....	32
4. WHAT ROLE FOR SOCIAL POLICIES?	35
4.1 Introduction.....	35
4.2 Unemployment insurance	36
4.3 Public works programmes.....	36
4.4 Social assistance grants.....	37
4.5 Conclusion	38
5. OTHER POLICIES IMPACTING ON INEQUALITY	39
5.1 Inequality in Education.....	39
5.2 The state of healthcare	45
5.3 Redistributive impact of fiscal policy	48
5.4 Conclusion	50
REFERENCES	51

Tables

Table 1.1. Annual economic growth.....	6
Table 1.2: Labour force participation rates	7
Table 1.3: Labour participation rates by age category	8
Table 1.4. Labour participation rates by education level	8
Table 1.5: Labour participation rates by race	9
Table 1.6: Unemployment rates	10

Table 1.7: Unemployment rates by age group	10
Table 1.8: Unemployment rates by race	11
Table 1.9. Average monthly wage by race.....	11
Table 1.10: Unemployment rates by province (idem as for table 1.2).....	12
Table 1.11: Unemployment rates by education	13
Table 1.12: Employment share by education.....	13
Table 1.13: Job creation between 1993 and 2008 by education	14
Table 1.14: Share of informal employment by gender	16
Table 1.15. Share of informal employment by race.....	17
Table 1.16: Self-employment rates by race	17
Table 2.1: Gini coefficients of per capita income, aggregate and by race	20
Table 2.2: Poverty headcount ratios.....	22
Table 2.3: Wage inequality by decile ratios.....	24
Table 2.4. Real monthly wages by decile	25
Table 3.1: Coverage of South African labour legislation	28
Table 3.2: Levels of bargaining in South Africa under the Labour Relations Act	30
Table 4.1. Household labour market attachment and access to grants of the unemployed.....	35
Table 4.2: Work opportunities and budget for EPWP, 2004/05-2008/09.....	37
Table 4.3: Percentage of households reporting income from social grants, by quintile	38
Table 5.1. Literacy standards for grade 5 learners, 2006a	40
Table 5.2: Grade 3 standardised assessment scores by province	41
Table 5.3: Proportion of working age population with a degree or higher by race	42
Table 5.4: Medical scheme coverage by race (in %)	47

Figures

Figure 1.1: Share of part-time and casual employment in total employment	14
Figure 1.2: Share of informal employment by age group	16
Figure 2.1: Income decomposition by decile, 2008	23
Figure 2.2: South African unemployment rates by income decile and by year	24
Figure 2.3: Real wages decomposed by race	25
Figure 2.4: Real wages decomposed by age cohort.....	26
Figure 5.1: Educational attainment of 21-30 year olds across cohorts	40
Figure 5.2: Grade 12 pass rates.....	42
Figure 5.3: Educational attainment by employment status across cohorts	43
Figure 5.4. The incidence of HIV/AIDS for 15 to 49 year olds.....	47
Figure 5.5: Expenditure items as a percentage of GDP	49

Boxes

Box 5.1. National Skills Shortages	45
Box 5.2. Impact of HIV/AIDS	47

INTRODUCTION

Creating jobs and reducing unemployment are key economic and social challenges in South Africa. This is explicitly recognized by the South African government, which, under their policy framework known as the “Accelerated and Shared Growth Initiative for South Africa” (ASGISA), aims to halve unemployment by 2014 by removing a number of constraints on faster output and employment growth. This report explores some of the linkages between growth, poverty, inequality and the labour market in post-apartheid South Africa. The report takes a data-driven approach and relies heavily on rich household survey data for the period 1993 to 2008.

Two key mechanisms dominate debates over the relationship between inequality and growth. The first is the employment and remuneration behaviour of the labour market. Strong positive employment and real wage responses to economic growth are the major poverty alleviating forces emanating from the performance of the private sector economy. The second mechanism is the inflow of fiscal revenue that growth makes available for active social policy and poverty alleviation. This report explores both of these mechanisms, the first in sections I, II and III and the second in sections IV and V.

Section I provides an empirical overview of the post-apartheid labour market. The working age population (*i.e.* the number of persons aged 16 to 64) increased from 23 million people in 1995 to 29 million in 2008. At the same time, the labour force participation rate increased from 49% to 55%. These two reinforcing factors resulted in an additional 5 million people entering the labour market over this period. As a result the respective shares of Africans, young people, and women increased considerably. Participation rates rose most dramatically for the less-skilled as African females began to engage with the post-apartheid labour market and rectify their very low participation rates of the apartheid years. The sharp increase in unemployment in the 1990s was driven by this rapid rise in the supply of less-skilled labour, accompanied by a failure of labour demand to keep pace. Skill-biased technical change exacerbated the problem.

Section II shows that this labour market performance was central in the worsening of aggregate inequality and also in dampening the poverty reducing impacts of economic growth. Against this context, section III presents and evaluates the labour laws and labour market institutions of the post-apartheid labour market. On aggregate, these institutions have not promoted effective adjustments in the labour market or facilitated a reduction in inequality.

Why then has aggregate poverty fallen? Sections II and IV confirm that this is not due to the labour market. A large and rising number of the unemployed live in households where no household member is employed. In addition, rising earnings inequality within the formally employed has resulted in a situation in which there has been declining earnings support to the unemployed from household members who are employed in low skilled occupations. Section IV explores social policies and shows that it is the expansion of social grants that has been central to poverty alleviation. Section V takes this further by describing the ambitious and strongly re-distributive social expenditure programme. Aside from social grants there have been steady improvements in access to services such as electricity, water and housing. However, a number of these social expenditure programmes have been less effective than they could have been in delivering services to the poorest South Africans. The section shows this with regard to education and health policies where adequate expenditure flows have not translated into improved education, training and health services. The labour market is demanding an increasingly skilled and productive workforce and the

weakness of South African human capital policies is limiting opportunities for those who were particularly disadvantaged by apartheid and it is leaving them poorly equipped to face the future.

Aside from education and training, a menu of labour market policy options are raised and evaluated in the report. The unemployment insurance fund is discussed in section IV. It is directed at providing income support for the unemployed. However it is designed for those who have been employed and are frictionally unemployed. This is not the situation of the bulk of South Africa's unemployed and, as such, the fund has limited potential to make a difference on a large scale.

The expanded public works programme has been given prominence by government as a direct employment creation intervention. Analysis in section IV shows that the programme has geared up substantially since 2004 but that it is not yet operating at the scale to make a substantial difference. To the extent that it moves to scale by entering into markets for the labour intensive provision of infrastructure and community services, it begins to interact with regular public sector employment. This makes it imperative to target new entrants into the labour market and to ensure that they are not crowded out by employment switching within the employed.

Even though young new entrants into the labour market are better educated than the older employed, the report highlights the difficulty that new entrants face in finding jobs and gaining entry into the labour market. A number of policies have been proposed to facilitate a better matching of the demand for labour and the supply of labour. The unemployed often live far from jobs and transport is expensive. This raises the costs of job search for those least able to afford it. Improvements in housing and transport will clearly generate a high return. The fact remains though that formal sector employers seem reticent to hire new workers in the current labour market milieu and many of the unemployed are unlikely to be absorbed into formal sector jobs at the going wage even if their transport costs are reduced. A wage subsidy that lowers the costs to employers of hiring new entrants has been proposed as a way to address this. In some versions of this wage subsidy policy, it is tied to easier hiring and firing regulations than are the legislated norm. Government has shown a willingness to test out such policies on a small scale through policy trials.

This willingness to experiment is to be endorsed. Proposals such as the wage subsidy and special regulations for new entrants highlight the need for a discussion of the appropriateness and helpfulness of our labour legislation. The review of this legislation in section III is not very positive. While it is hard to be definitive about the negative consequences for employment of the wage bargaining processes, there seem to be no positive consequences. On aggregate this matrix of legislation has done little to assist with flexibility and adjustment. Employers complain of high costs associated with the labour relationship (hiring, training and, if necessary, firing labour). Increased casualisation of formal sector work and the increased use of agencies providing temporary workers to circumvent many of these processes imply adjustments in the behaviour of employers in response to these costs. Moreover, other than in the public sector, there has been a substantial fall off in participation in the bargaining councils that are at the core of South Africa's sectoral bargaining system. The same is true of membership of the trade unions that, within the legislation play a central role at the level of both the sector and the plant. All in all a review of our labour legislation would be timely.

Facilitating the growth of the self-employed in the formal and informal sectors represents an alternate employment strategy. Although there has been some growth of the informal sector, it has not been particularly responsive to growing unemployment. This seems to suggest that there are impediments preventing the participation of more of the unemployed in informal activity. Thus, potentially, the removal of these impediments through policy interventions could result in relatively quick results. It is clear that informal employment overall is associated with wages that are lower and working conditions that are worse than in the formal sector. However, such employment could improve the lives of those without work and earning no wage income.

1. GROWTH PATTERNS AND LABOUR MARKET OUTCOMES

1.1 Economic growth and inequality

South Africa's economy has undergone radical changes since the fall of apartheid and the first democratic elections in April 1994. Economic growth stagnated during apartheid due to sanctions on international trade and investment, uncompetitive local industries, rigid exchange controls, restricted skills development and high levels of poverty and inequality (Aron, Kahn & Kingdon, 2008). After the first democratic elections economic sanctions were dropped, labour restrictions were lifted and policies were put in place to advance the interests of Black workers, who had been marginalized for many decades. Economic growth has increased steadily both in real and per capita terms, although perhaps not as much as was initially expected. Table 1.1 below illustrates how real GDP growth increased by almost 3% per year, while GDP per capita increased by 1.2% between 1993 and 2008. GDP growth decreased in 2008, most likely an effect of the global financial crisis.

Table 1.1. Annual economic growth

(at constant 2005 prices)

	GDP (million ZAR)	GDP growth	GDP per capita	GDP per capita growth
1993	1 065 830	1.2	28 227	-0.9
1997	1 214 768	2.6	29 582	0.5
2001	1 337 382	2.7	30 024	0.8
2005	1 571 082	5.3	33 176	3.9
2008	1 814 521	3.7	36 950	2.5
Average 1993-2008	1 400 717	3.1	31 592	1.4

Source: South African Reserve Bank.

Growth in GDP has consistently outpaced population growth post-1994. Real GDP grew by 68% between 1993 and 2008 while the total population grew by 22%. This resulted in a GDP per capita growth during the same period of 36%. Population growth started to decrease from 2000, most likely due to the spread of the HIV/AIDS pandemic.

Unfortunately this economic growth has not been equitably distributed throughout the population, making the per capita figures an inaccurate reflection of the change in well-being for the poorest segment of the population. As shown in section II, while there has been some improvement in measured poverty over the post-apartheid period, inequality has worsened. The rest of this section goes on to detail the performance of the post-apartheid labour market in order to understand why it has not mediated better social outcomes from the solid macro-economic performance.

1.2 Composition of the labour market

1.2.1 Labour force participation

The obvious first question to ask is “who is in the labour market?” In 2008, South Africa had a population of 48 687 036 and a total labour force of 16 753 618 people. Labour force participation has increased steadily between 1993 and 2005, with a sharp drop between 2005 and 2008. The level of participation in the labour market is still relatively low by international standards, at 55% in 2008. The world labour force participation rate for 2008 was 64.1% while that for Sub-Saharan Africa was 70.8% (ILO, 2008). Figures for the OECD countries were similar in 2008 at 70.8%, with 80.5% for men and 61.3% for women. This comparison also suggests that South African labour force participation rates are particularly low for men.

The increase in labour force participation has been particularly marked for women. While male participation rose by 10% between 1993 and 2008, female participation rose by 38% (Table 1.2). Kingdon and Knight (2008) report this as being a result of higher education levels, loss of male employment and HIV/AIDS mortality and greater number of female headed households. Globally, particularly in developing countries, there has been a trend towards increased female labour force participation due to increased human capital in the form of improved educational attainment (ILO, 2008). Despite this increased participation for women, men are still consistently more likely to participate in the labour market. This differential is to be expected as women continue to exit the labour market to become mothers, caregivers and homemakers.

Table 1.2. Labour force participation rates

	Total	Male	Female
1993	49.1	61.0	39.0
1997	47.0	57.1	37.7
2001	57.8	65.6	50.5
2005	58.4	66.1	51.4
2008	55.2	67.0	53.8
Change 1993-2008 (in %)	12.4	9.7	37.8

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

Labour participation for workers over the age of 30 have remained relatively stable over time, however there are relatively high increases among the youth. Globally, there has been a trend of decreasing labour force participation of the youth as more people stay in school longer and delay their entrance into the labour market. In South Africa grade attainment (defined as highest school grade passed) for the youth, particularly Africans, has increased markedly since 1994, while years in school has only increased marginally. Therefore there has been little change in the delay in labour market entrance due to increased education. The large increase in youth participation suggests instead that either the youth are becoming less ‘discouraged’ and actively seeking employment (perhaps due to their increased education levels), or youth who previously did not enter the job market are increasingly choosing to do so. The South African Schools Act no.84 from 1996 enforces maximum age limits for each school grade. This could result in a cohort of youth who are old for their grade being forced to leave school and enter the job market, whereas previously they may have remained in school. The data suggests that this may be true since the main increase in youth participation occurs after 1997. Participation also appears to have increased markedly after 1997 amongst those who failed to complete their secondary schooling, further reinforcing the idea that students are

leaving school and entering the labour force after they become too old for their particular grade. Participation rates appear to increase with increased levels of education. Potential workers with lower levels of education are possibly more likely to become ‘discouraged’, stop looking for work and be excluded from the labour force definition.

Table 1.3. Labour participation rates by age category

	16-24	25-54	55-64
1993	23.4	65.3	39.7
1997	22.0	61.9	32.3
2001	33.3	73.4	41.4
2005	34.0	73.7	42.7
2008	33.6	68.6	41.3
Change 1993-2008 (in %)	43.6	5.1	4.0

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

Table 1.4. Labour participation rates by education levela

	None	Primary	Secondary (incomplete)	Secondary (grade 12)	Tertiary
1993	45.2	45.9	42.8	62.6	81.0
1997	37.0	42.8	39.7	61.0	82.4
2001	45.7	53.2	50.2	71.9	85.8
2005	44.2	52.9	50.6	71.8	85.5
2008	42.9	50.9	48.0	64.5	80.5
Change 1993-2008 (in %)	-5.0	10.8	12.1	3.1	-0.6

a) Education is classified as follows: "none" includes crèche and pre-primary school as well as those with no education at all; "primary" includes those who have completed grades 1 to 7; "secondary-incomplete" includes those who have completed grades 8 to 11 (including those who have an additional diploma or certificate) or National Technical Certificate (NTC) 1 or 2; "secondary" includes those having completed grade 12 or NTC 3 and "tertiary" includes those having completed grade 12 and have an additional diploma or certificate, have attended some university courses or have a degree or higher.

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

The labour force is also becoming increasingly African. While participation for Africans still remained the lowest of all the population groups in 2008, it has increased the most since 1993. This increase is likely to be correlated with an increase in educational attainment for Africans during the same period. After the large increases in labour force participation up to the early 2000s, there is a notable drop in participation rates between 2005 and 2008 across all race groups. This recent drop is perhaps a consequence of increasing levels of long-term unemployment leading to withdrawal from the labour force.

Table 1.5. Labour participation rates by race

	African	Coloured	Indian	White
1993	42.9	63.2	57.4	68.7
1997	42.3	59.2	56.3	63.6
2001	54.7	65.4	64.1	70.2
2005	55.9	65.6	64.4	69.2
2008	53.9	56.8	60.7	64.3
Change 1993-2008 (in %)	25.6	-10.2	5.8	-6.4

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

1.2.2 Unemployment

Unemployment in South Africa has risen since 1993, only beginning to fall in the latter part of the 2000s. Kingdon and Knight (2008) attribute this rise to increasing labour force participation, sluggish economic growth and labour market inflexibility during the period. They also attribute the decrease in more recent unemployment rates to higher economic growth and lower population and labour force growth, due in all likelihood to the effects of HIV/AIDS deaths on the country. Between 1995 and 2002 (a period of particularly high unemployment growth) employment growth was actually higher than growth of the working age population, suggesting that labour force growth is indeed responsible for growing unemployment (Burger & Woolard, 2005). Banerjee *et al* (2008) emphasise that due to the structural nature of unemployment it is unlikely to improve in the future without policy interventions.

South Africa exhibits particularly high rates of unemployment. As can be seen in table 1.6, unemployment reached a high of 29% in 2001 and is still sitting at 23% in 2008 (according to the official definition). The unemployment rate rose by 3 percentage points between 1997 and 2008, the brunt of this increase being born by South African women. These rates are derived as per the official definition of unemployment (also referred to as the narrow definition) which only considers as unemployed those who have actively searched for work in the last 4 weeks and are able to accept a job within the next week. All other 'discouraged' workers (who would like to work but are not actively seeking work) are classified as not economically active. The broad definition includes as unemployed all those who would like to work (regardless of whether they actively sought work). The difference between the broad and narrow rates are fairly substantial, often exceeding 10%, meaning that there have historically been very high numbers of discouraged workers. However, the gap between the narrow and broad rates has narrowed dramatically more recently as the level of broad unemployment appears to have dropped substantially between 2005 and 2008. As alluded to in the earlier discussion of participation patterns, a substantial number of the broad unemployed appear to have withdrawn from the labour market over this period.

Table 1.6. **Unemployment rates^a**

	Narrow definition			Broad definition
	Male	Female	Total	
1993	11.9	15.8	13.6	31.2
1997	17.3	26.5	20.5	36.1
2001	25.3	33.3	28.9	40.8
2005	22.2	31.3	26.4	38.3
2008	17.1	30.1	23.4	28.9
Change 1997-2008 (in %)	-1.1	13.7	14.2	-20.1

a) The PSLSD narrow definition is smaller than expected since respondents are only asked if they have looked for work in the past week, as opposed to the last 4 weeks in the other sources used.

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

The youth in South Africa also suffer from very high unemployment rates, as can be seen in table 1.7. This rate has increased markedly for the 25-54 age group between 1997 and 2008, with the most marked rise occurring amongst those 21 to 30 years old. When birth cohorts are analysed trends in unemployment across the age groups are fairly stable, suggesting that the increase in youth unemployment is a result of new labour force participants battling to gain entry into the labour market (Burger & Woolard, 2005). In 1993 51% of the unemployed reported never having had a job before while in 2008 the figure was 59%. These percentages are likely to comprise the vast majority of the unemployed workforce less than 30 years of age.

Table 1.7. **Unemployment rates by age group**

	16-24	25-54	55-64
1993	29.9	11.2	5.5
1997	42.1	18.9	7.3
2001	53.6	25.2	10.9
2005	51.6	22.8	8.5
2008	39.4	21.5	6.8
Change 1997-2008 (in %)	-6.4	13.7	-6.5

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

The labour market in South Africa suffers from a history of unequal access to jobs and labour discrimination. Unemployment was formerly much more prevalent amongst the African and Coloured population while Whites enjoyed much higher levels of employment (table 1.8). One area where this race differential was most prominent was in the area of government administration, where all but the most menial jobs were reserved exclusively for Whites. In the economy in general, skilled jobs were reserved for the White population and the African labour force earned lower wages in relatively unskilled jobs. Thus the African population previously suffered not only relatively higher levels of unemployment, but lower wages for those that were employed. Table 1.9 shows the change in real wages over time by race.¹

1. Figures for Indians in all tables are unlikely to be representative measures due to the small sample sizes in most surveys.

Although African wages grew relatively quickly over time, they were still lower than all other race groups in 2008. In 1993, Whites earned on average 5.1 times more than Africans. Although this figure drops over time, in 2008 Whites still earned 4.4 times more than Africans on average. This is probably mainly due to the skills differential between races, which is still an exclusionary factor for Africans entering higher paid professions.

Despite policies such as affirmative action which attempt to redress the unequal distribution of employment by race, African unemployment increased and only started to drop after 2001, thus unemployment levels in 2008 are similar to levels in 1997. The increase in unemployment for the White population is striking, although the sharp rise between 2005 and 2008 is implausible and more likely a result of difficult sampling of Whites across surveys.

Table 1.8. Unemployment rates by race

	African	Coloured	Indian	White
1993	17	15.7	8.3	3.2
1997	27.1	15.2	9.8	3.9
2001	35.1	21.1	18.7	5.6
2005	31.1	22.3	15.6	4.9
2008	27	17.3	6.6	10.3
Change 1997-2008 (in %)	-0.3	13.4	-32.6	164.1

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

Table 1.9. Average monthly wage by race

(at ZAR constant 2008)"

	African	Coloured	Indian	White
1993	2,104	3,382	5,421	10,803
1997	2,969	3,017	5,270	9,508
2001	2,588	3,834	6,315	11,162
2005	3,118	4,381	6,940	12,026
2008	2,576	3,362	7,350	11,240
Change 1993-2008 (in %)	22.4	-0.6	35.6	4.0

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

During apartheid, the African population was largely confined to tribal ‘homelands’ and urban townships. This practice contributed to a spatially segregated workforce. The three largest homelands (Transkei, Ciskei and Venda) are now included in the Eastern Cape and Limpopo provinces. This legacy can still be seen in unemployment rates by province (Table 1.10), as the highest unemployment rates by far in 2008 are in the Eastern Cape and Limpopo. There has however, been a convergence to higher unemployment rates in all provinces, with a greater deterioration of the provinces that were previously faring better. In 1997 the highest provincial unemployment rate (Eastern Cape) was 2.5 times that of the lowest (Western Cape). By 2008 the highest (Limpopo) had dropped to twice the size of the lowest

(Western Cape). During this period KwaZulu-Natal was the only province to exhibit a drop in unemployment rate (-11.4%) while the Free State experienced the highest rise in unemployment (53%). Thus labour market dynamics are not homogeneous across the provinces, in fact the differences between provinces can be quite pronounced.

Table 1.10. Unemployment rates by province^a

	Western Cape	Eastern Cape	Northern Cape	North West	KwaZulu-Natal	Mpumalanga	Limpopo	Gauteng	Free State
1993	13.7	28.5	27.3	6.8	13.3	11.7	16.4	11	7.8
1997	11.8	28.7	18.4	21.1	22.8	23.3	25.7	21.4	18.8
2001	17.5	30.1	24.5	28.1	33.3	28.6	34	30.1	26.6
2005	18.8	29.3	24.4	27	32.3	26.6	29.7	22.5	30
2008	14.3	32.8	19.8	26.5	20.2	23.5	33	21.8	28.8
Change 1997-2008 (in %)	21.4	14.5	7.8	25.5	-11.4	1.1	28.4	2.1	53

a) Idem as for Table 1.2.

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

As well as high levels of unemployment, South Africa exhibits high levels of long-term unemployment. Long-term unemployment, defined as being unemployed for longer than a year, is prevalent mainly among the youth. In 2004, 67% of South Africa's unemployed were unemployed on a long-term basis. By 2007 this figure had dropped to just over 50%, as opposed to around 30% in OECD countries (OECD, 2008). A high level of long term unemployment generally means that the economy is not capable of creating sufficient jobs to support the working age population. However, the fact that in South Africa many skilled sectors are having difficulty in filling certain positions and unemployment is structural in nature, also contributes to long-term unemployment (Department of Trade and Industry, 2004). Unless South Africa manages to address its skills shortage, long-term unemployment will remain a dominant characteristic of the country's labour market.

1.2.3 Educational links

The highest rates of unemployment were formerly reserved for those with only a primary school education, whereas more recently those who have attended high school but failed to attain their grade 12 certificate are the most at risk. Even the better educated workforce appears to be subject to increasing unemployment risk over time. Unemployment has decreased for those with little education between 1997 and 2008, likely a result of decreasing labour force participation among this group. However unemployment has increased markedly for the better educated, with a particularly high increase of 97% for those with a tertiary education (Table 1.11). The increased unemployment levels of the better educated is the consequence of higher unemployment rates among the (relatively better educated) youth.

Table 1.11: Unemployment rates by education^a

	None	Primary	Secondary (incomplete)	Secondary (grade 12)	Tertiary
1993	10.5	17	16.2	12.7	2
1997	18.3	25.6	24.2	21.5	6.3
2001	20.2	28.9	36.4	30.4	11.1
2005	17.1	26.4	33.3	28	7.7
2008	16.9	20.7	30.2	25	12.5
Change 1997-2008 (in %)	-7.8	-19.1	25.1	16.7	97.3

a) Idem as for Table 1.4.

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

This relative increase in unemployment for the better educated does not indicate a shift in the demand for labour towards the less educated. Rather, the less educated groups make up declining shares of the labour force and sharply declining shares of new entrants. Table 1.12 shows how the employment share for the less educated was decreasing between 1997 and 2008, while the share for the better educated was increasing. Jobs for those with a tertiary education increased by 34% while jobs for those with no education decreased by 24%. There are 2.6 million more jobs since 1993 for workers with at least a grade 12 qualification and about 770 000 less jobs available for those with a primary education or none at all (table 1.13). Those who failed to complete high school comprise the largest share of employed across all years, but this has more to do with this category accounting for the majority of the working age population than a greater demand for this education level in the labour market. The high cost of labour relative to capital has resulted in a production shift away from unskilled labour, where South Africa does not have a comparative advantage, and towards more skilled and capital intensive production (Banerjee *et al*, 2008).

Table 1.12. Employment share by education^a

	None	Primary	Secondary (incomplete)	Secondary (grade 12)	Tertiary
1993	12	26.3	33.1	16.1	12.5
1997	8.5	21.3	33.1	22.8	14.3
2001	7.6	23.9	29.8	23.9	14.8
2005	6.2	19.4	31.9	27.3	15.2
2008	6.4	17.5	33.2	23.6	19.3
Change 1997-2008 (in %)	-24.3	-17.6	0.4	3.3	34.4

a) Idem as for Table 1.4.

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

Table 1.13. Job creation between 1993 and 2008 by education

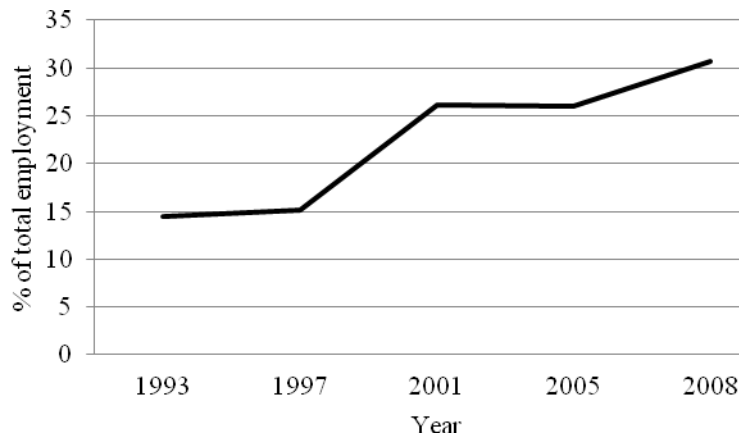
	None	Primary	Secondary (incomplete)	Secondary (Grade 12)	Tertiary
Job creation	-380,414	-392,005	919,923	1,394,167	1,199,989
Change (in %)	-31.9	-15	28	87.4	96.8

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

1.2.4 Casual or part-time employment

Employers often cite strict labour legislation and an inflexible labour market as a business constraint, and as such many employers turn to hiring part-time or casual labour in order to avoid the ‘hassle factor’ of permanent employment (Bhorat *et al*, 2002).² These inflexibilities include the difficulty of hiring and firing labour as well as adhering to bargaining council agreements, labour laws which only cover permanent workers.³ A sharp rise in casual and part-time work between 1993 and 2008 is shown in figure 1.1. This drastic increase after 1997 in the use of part-time labour coincides with the implementation of the Labour Relations Act of 1995, and the Employment Equity Act of 1998 and the Skills Development Act of the same year. This labour legislation is discussed in detail in Section III below. This data supports the argument that the implementation of firmer labour laws has resulted in an increase in the use of temporary workers and thus a fall in permanent, protected employment. This ultimately means that fewer workers are protected by legislation, and thus are likely to fall into unemployment far more easily.

Figure 1.1. Share of part-time and casual employment in total employment



Source: PSLSD (1993), OHS (1997), LFS (2001), LFS (2005) and NIDS (2008)

This trend in the use of part-time labour not only indicates a decrease in the use of workers full productive capacity, but also has inequality implications. The rise in casual labour is predominantly among the African population, where the share of part-time employment more than doubled, as opposed to a mere

2. Part-time employees work less than 35 hours per week. The terms ‘temporary’ and ‘casual’ are often used interchangeably and describe work with a fixed end date.
3. As detailed in section 3, part-time workers are only covered by minimum wages set by the Employment Conditions Commission (ECC), and the Basic Conditions of Employment Act (BCEA).

increase of only 22% among the White population. This may be explained by the fact that part-time labour generally comprises of workers with lower levels of education. In short, the proportion of the African employed population that is fully utilising their productive capacity and also enjoying the benefits of protective labour legislation is falling rapidly.

1.3 The Informal sector and barriers to employment

Not all jobs are created equal, and many fall outside what would be defined as the ‘formal’ sector. Informal jobs are defined as those within a business that is not registered, in addition to all domestic workers.⁴ Workers operating within the informal sector are not offered the rights and protections enshrined in South African labour law, and thus are open to exploitation in terms of wages, hours, leave etc. The informal sector is generally considered the last preserve of the unemployed for the reasons stated above. Considering the extent of unemployment in South Africa one would expect the informal sector to be fairly large, while in reality it is relatively small by international standards. Informal employment is much higher for females than for males, most likely as a result of females involved in domestic work, but at 20% and 34% in 2008 respectively they are both relatively low (Table 1.14).

If unemployment rates are high but these workers are still not entering the informal sector, this implies barriers to entry of some kind. Informal workers hired face similar problems with low labour demand as in the formal sector. Informal entrepreneurship however, must face some other barriers to entry.⁵ Capital and experience are cited as common barriers to entrepreneurship (Maloney, 2002), and are likely to be problematic areas for the South African unemployed. While it is known that access to capital for the poor is very low in South Africa, age appears to be less of a factor for entrance into the informal sector. Figure 1.2 illustrates the expected increase in informal sector employment as age increases, except for the 16-20 year age bracket. Across all years and surveys, this age bracket exhibits markedly higher rates of informal employment compared to other ages. This could be a symptom of the high rate of unemployment for this particular age group, as the unemployed youth resort to informal sector activities. Therefore the condition of the youth labour market is even worse than the 41% unemployment rate for this group would lead us to believe, since over 30% of the employed are in the informal sector in 2008, leaving less than 29% of the youth labour force formally employed.

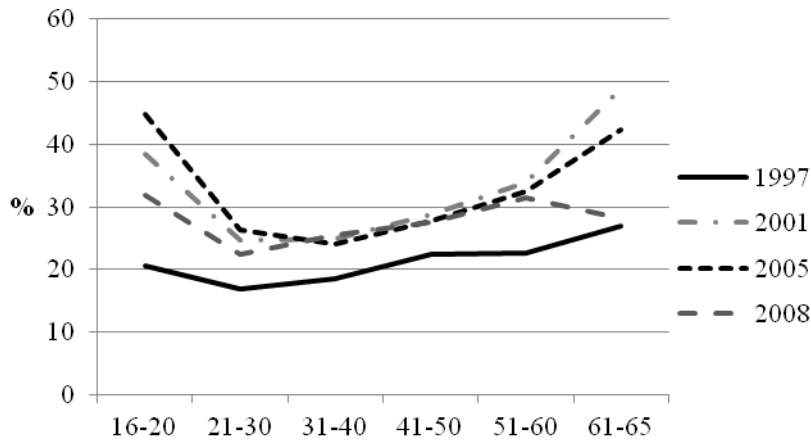
-
4. The 2003 International Conference of Labour Statisticians specifies a broader definition including those working within formal businesses without a labour contract, but this paper uses the narrower definition currently specified by Statistics South Africa (Devey et al, 2008). There are several ways of registering a business such as, registration at Registrar of companies, Commissioner of unemployment, South African medical and dental council or Commissioner of Workmen’s Compensation.
 5. The concepts of self-employment and informality are not necessarily mutually exclusive. A worker who is self-employed has created his own employment opportunity and is not accountable to an employer. An informal worker works for a company or entity that is not registered. An informal worker could be self-employed and someone working for themselves could be operating informally.

Table 1.14. Share of informal employment by gender

	Total	Male	Female
1997	19.8	15.3	26.9
2001	29.4	21.8	39.8
2005	30.2	23	39.9
2008	26.2	20.2	33.8
Change 1997-2008 (in %)	32.3	32.5	25.5

Source: OHS (1997), LFS (2001, 2005, 2008).

Figure 1.2. Share of informal employment by age group



Source: OHS(1997), LFS(2001-2008)

As can be seen in Table 1.15, Africans have had higher proportions of employed workers in the informal sector across all years. In 2008 the proportion of employed Africans working in the informal sector was sitting at around 33%, by far the highest of all the race groups. This could, of course, have more to do with higher unemployment rates amongst Africans when compared to the other races. The dominance of Africans in the informal sector does have inequality implications, as wages are generally much lower. The average wage in the informal sector in 2005 was USD 203 per month while the average wage for the formal sector was 3.5 times higher at USD 715 per month.⁶

6. Using October 2005 exchange rates, South African Reserve Bank.

Table 1.15. Share of informal employment by race

	African	Coloured	Indian	White
1997	26.1	13.4	6.1	7.2
2001	36.7	18.4	8.2	6.5
2005	37.1	14.0	7.6	5.0
2008	33.4	16.2	8.7	5.0
Change 1997-2008 (in %)	27.6	21.3	42.9	-30.3

Source: OHS (1997), LFS (2001, 2005, 2008).

Kingdon and Knight (2008) reiterate findings by Borat *et al* (2002) that stringent labour laws raise the cost of labour for small firms, creating a barrier for entry into entrepreneurship activities. Of course, these restrictions should not prove to be a significant impediment to entrepreneurial activity in the informal sector, which often operates outside of the sphere of regulations. Kingdon and Knight (2008) additionally propose that entrepreneurship amongst Africans is stifled by the legacy of apartheid, as informal enterprises were often heavily deterred or clamped down on in terms of racial segregation, strict zoning and restrictive by-laws.⁷ Geographically, Africans still find themselves located relatively far from business centres, mainly in rural areas and informal townships.

Kingdon and Knight's (2008) hypothesis finds some evidence in the low self-employment rate amongst Africans in 1993 when compared to other races (table 1.16). In 2008 African self-employment is still lower than that for White workers, by roughly the same margin, although it has increased rapidly for both.⁸ Coloured workers started out at roughly the same self-employment rates as African's in 1993, which is to be expected as they were largely subject to the same laws, but only increased by about half the rate of Africans through to 2008. This is likely to be a result of lower unemployment rates for the Coloured labour force.

Table 1.16. Self-employment rates by race

	African	Coloured	Indian	White
1993	1.9	1.1	3.0	7.8
1997	9.8	3.5	13.7	15.9
2001	10.6	4.8	12.1	20.6
2005	12.9	3.9	15.3	18.5
2008	10.9	5.9	20.1	17.7
Difference 1993-2008	9.0	4.8	17.1	9.9

Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

In conclusion, despite unemployment being very high, informal entrepreneurship remains underutilised, particularly in comparison to other developing countries. Firm level data often suggest that labour legislation and an inflexible labour market dominated by trade unions are considered by entrepreneurs to be barriers to formal self-employment. It has been proposed that barriers to entry into

7. Informal traders were often viewed as unsightly and hazardous to public health and there were frequent clearances of street vendors (Kingdon & Knight, 2008).

8. The self-employment figures include the formal and the informal sector.

informal entrepreneurship exist such as low access to capital, lack of business experience and crime. Workers under the age of 20 exhibit higher participation in the informal sector, possibly due to barriers to formal employment being sufficiently higher than for other age groups, evidenced by very high youth unemployment rates. The state of the labour market in this age group is in an even more critical position than previously outlined since not only is youth unemployment high, but of those employed more than 30% are in informal employment. There also does not appear to be much evidence for the hypothesis that Africans do not enter self-employment due to the legacy of apartheid. More likely deterrents are low levels of human capital or access to capital necessary for entrepreneurship.

1.4 Conclusion

This section has highlighted a number of key characteristics and dynamics of the labour market. Firstly labour participation has increased rapidly since 1993, especially for Africans, women and the youth. This increase in labour supply was not met with similar increases in labour demand, thus unemployment has also risen since 1993, particularly for the groups already mentioned. Given that labour force participation is still relatively low in South Africa, by international and developing country standards, there is still potential for further growth in labour supply, particularly if employment picks up and discouraged work seekers start to actively seek work. Unemployment also appears to be rising rapidly for the better educated. This is due to the fact that better-educated youth are the dominant share of new entrants into the labour market. Job creation remains much higher for those with completed high school or tertiary education. There is still a large differential in wages and unemployment by education and between races, particularly between Africans and Whites.

Given that employment is the main bridge between economic growth and higher living standards, a positive employment environment is the key requirement for sustainable social transformation in South Africa. Reductions in unemployment will depend critically on growth induced increases in labour demand and on the supply of a well educated labour force with the necessary skills to fill the jobs that are created. Given that the South African economy has moved into sectors such as financial services and other service sectors, and agriculture is on the downswing, the shift is increasingly towards a higher demand for skilled workers. Skill-biased technical change is, of course, a global phenomenon and is unlikely to be reversed. This section has shown that the employed have become more educated over the last fifteen years. Many of the unemployed with low levels of education are unlikely to be absorbed into formal sector jobs and require specific interventions, such as public works programmes (discussed in Section IV).

Other than government employment, there are a range of policy options that merit serious consideration and debate. For example, strategies to assist the youth in obtaining their first job might include a wage subsidy, a search subsidy and reduced regulations for first jobs. Such policies received endorsement from the Harvard Group report (Banerjee *et al*, (2008), Levinsohn, (2008)) and a number of these options are under consideration in the country. All of these policies are premised on some kind market failure in the market for youth employment and as such will require careful design. A wage subsidy is worthy of consideration if an important cause of youth unemployment is the level of entry wages for youth. A subsidy to employers would correct a situation in which these wages are too high from the employer's point of view but yet it would be socially sub-optimal for these wages to adjust downwards. This is a hard argument to make and such a subsidy would be hard to target. A search subsidy is premised on the argument that many unemployed are prevented from pursuing optimal job search strategies because of credit constraints. Reduced regulations such as making it easier for employers to hire and fire new entrants is premised on the presence of serious information asymmetries that prevent accurate assessment of the potential productivity of potential employees. Concerns over the quality of education make a plausible case for such asymmetries. Given that all of these policies are built on behavioural responses by employers and employees, the willingness of government to experiment with these options on a small scale before large-scale implementation is to be endorsed.

Policy responses to the constraint of the mismatch between where the unemployed live and where formal sector jobs exist might include transportation subsidies, housing policy and infrastructure investment. There is no doubt that the costs of job search are often highest for the poorest and, even if this consideration is not primary in motivating for improved transport, housing and infrastructure it is an important second order benefit.

Policy responses to the constraint of the mismatch between the skill set of the unemployed and the skills required in the labour market might include educational reform, training programmes and training subsidies. These policies are discussed in detail in section V.

Facilitating the growth of entrepreneurship represents an alternate employment strategy. Although there has been some growth in this sector, it has not been particularly responsive to growing unemployment. This seems to suggest that there are impediments preventing the participation of more of the unemployed in entrepreneurial activity, whether formalised or informal. Thus, potentially, the advantage of policy interventions in this sector is that gains could be seen relatively quickly. Increasing informal employment is not an optimal outcome, as wages are lower and working conditions are worse than the formal sector, but it would likely improve the lives of those without work and earning no wage income, at least in the short term.

That said, it proves difficult to clearly isolate specific impediments and targets for policy intervention. It seems that any policy that improves the human and financial capital of the unemployed or lowers the costs of moving informal participants and/or their goods to potential markets or increases the security of informal work will improve the productivity of informal work and the returns to such work. Improved human capital involves education and health interventions. These are discussed subsequently in Section V. Both are interventions that generate returns only in the long-run. Potential shorter run improvements come from the cross-cutting impacts of policies as diffuse as credit market interventions, which improve access to bank accounts and to credit, and the housing, transport and policing interventions that were mentioned above with regard to the formally employed. These apply at least as strongly to the informally employed.

2. LABOUR MARKET OUTCOMES, POVERTY AND INEQUALITY TRENDS: WHAT LINKS?

2.1 Introduction

Poverty and inequality in South Africa are inextricably linked with the labour market. This section draws on evidence from a related study carried out on trends in South African income distribution and poverty since the fall of Apartheid in order to provide evidence of the links between the changing post-apartheid labour market milieu described in the previous section, and changes in household-level poverty and inequality. In section 2.2 aggregate inequality and poverty trends are briefly presented. Section 2.3 goes on to look at the links between this situation and the labour market. Section 2.4 concludes.

2.2 Inequality and poverty trends⁹

Census-based analyses reaching as far back as 1917 indicate that average real incomes have been steadily increasing for all population groups. This trend has also persisted over the last 15 years according to work carried out on four household surveys, namely the Project for Statistics on Living Standards and Development (PSLSD), the Labour Force Survey (LFS), the Income and Expenditure Survey (IES), and the National Income Dynamics Study (NIDS). Income growth however, has not resulted in a decline in South Africa's historically high inequality. In fact aggregate inequality measures have shown an increase in inequality over the post-apartheid years. The rising aggregate Gini coefficients for 1993, 2000, 2005 and 2008 presented in Table 2.1 illustrate this point and the evidence reviewed in Leibbrandt *et al.* (2009) shows the same trend using other data sets for other years.

Table 2.1. Gini coefficients of per capita income, aggregate and by race

	Aggregate	African	Coloured	Indian	White
1993	0.67	0.55	0.43	0.46	0.42
2000	0.67	0.61	0.53	0.50	0.47
2005	0.72	0.62	0.60	0.58	0.51
2008	0.70	0.62	0.54	0.61	0.50
Change 1993-2008 (in %)	3.1	12.5	25.0	31.9	19.1

Source: PSLSD (1993), IES (2000, 2005) and NIDS (2008)

Regarding inequality in general, income has become increasingly concentrated in the top income deciles at the expense of all other deciles. This discrepancy is enforced by the fact that labour force participation rates are highest in the top income deciles, which also have the highest labour absorption rates. This translates directly into far higher employment rates among those located in the top income

9. The data in this section are drawn from: Leibbrandt, M., Woolard, I., Finn, A. and Argent, J. (2010) "Trends in South African income distribution and poverty since the fall of Apartheid" OECD Social, Employment and Migration Working Papers No. 101, January.

deciles. Unemployment rates have fallen in the top deciles since 1993, especially after 2000. However, overall unemployment rates have trended upwardly since 1993 due to sharply rising unemployment rates of those in the bottom four deciles. Income source decompositions identify the labour market as the leading factor driving inequality.

While these decompositions confirm the importance of rising unemployment as a key driver of inequality, they also emphasise the importance of the rising inequality of earnings for those households with access to labour market earnings. Earnings for those in the bottom deciles have not risen in real terms over the post-apartheid period and have fallen markedly relative to those in the higher deciles. Thus, having an earner with unskilled employment is no guarantee that a household will rise out of the lower deciles of the household income distribution.

For a country with a racially discriminatory past such as South Africa's, it is only natural that the large and increasing income disparities outlined above bear a strong racial footprint and there is a tendency to attribute the country's unusually high aggregate inequality measures to strong between race income disparities. While it is true that the between race component of inequality remains very high, when considering inequality between racial groups as a percentage of the maximum possible level, this measure declined by 21% from 1993 to 2008, with the largest decline occurring before the year 2000. As can be seen from the Gini coefficients for each racial group that are presented in Table 2.1, within-race inequality has increased markedly for all racial groups. By 2008 the most populous racial group, the African group, made up 80% of the population and had the highest inequality of the four major racial groups. The Gini coefficient for Africans was 0.12 points higher than the same measure for Whites. Thus, within racial group dynamics have become more important and within African dynamics have become especially important in driving aggregate changes in inequality.

In addition to the racial inequality, in South Africa inequality by geotype (urban versus rural) has proven to be a leading theme in inequality studies. This bears a strong link to racial inequality, as zoning policies under the country's apartheid government forced Africans, and thus predominantly poor people to live in allocated rural homelands. Survey data reveals that urban inequality has in fact increased since 1993, whereas rural inequality seems to have fallen. This is generally linked to the prolific migration of rural dwellers to urban centres, thus increasing urban income discrepancies.

Table 2.2 presents evidence on poverty trends over the last 15 years using two poverty lines. The headcount ratio for two poverty lines is shown to have fallen over time, which is in line with a substantial literature. This decline in poverty is more pronounced if measures of poverty (such as the poverty gap ratio) that are sensitive to the depth of poverty are used. One notable difference between the picture of Table 2.2 and this literature is that other studies seem to indicate an improvement in poverty levels only after 2000. Thus, there is some contention over the timing of the poverty declines. There is no such contention with regard to changes in non money-metric well-being. In all analyses, access to services, formal dwellings and private assets are shown to improve in the period from 1996 to 2001 and then on through to 2008.

All literature shows that African poverty incidence was and remains a lot higher than Coloured, which in turn is a lot higher than Indians/Asians and lastly Whites. Combining this relative incidence with population shares, Africans account for more than 90% of the country's poverty share, with Coloureds making up the remaining share, with some nuances. In line with declining national poverty rates, African poverty decreases over time. However, Coloured poverty incidence is actually shown to increase over the same period. Then, in accordance with the change in urban/rural Gini coefficients pointed out earlier, rural poverty incidence barely changed over the last 15 years, whereas an increase in poverty was seen in urban centres. Unfortunately youth unemployment has increased over time and remains an important characteristic of the South African poverty scenario. Furthermore, the stubbornly high poverty incidence of

one worker households highlights the notion that not only are employment levels a fundamental concern, but the quality of support coming from employment has been identified as another factor putting pressure on the high incidence of poverty and inequality.

Table 2.2. **Poverty headcount ratios**

	Total Population	\$1.25 per day	\$2 per day
1993	40,002,316	20.7	33.9
2000	45,134,247	16.8	28.5
2005	46,971,312	16.8	31.5
2008	48,687,036	17.7	30.0
Change 1993-2008 (in %)	21.7	-14.8	-11.5

Source: PSLSD (1993), IES (2000, 2005), NIDS (2008).

Poverty remains prevalent in households headed by persons with an education level of grades 10-12. This is an indication of a decrease in the demand for workers with this level of qualification. Leibbrandt *et al* (2010) show that, despite an increased unemployment risk for household heads, these households have not become poorer over time. This highlights the presence of some alternative form of income, namely, social grants. In contrast to the major income source of wealthy households, the labour market, studies have shown that poor households receive most of their income from government grants. In addition, as one moves down the income deciles, the proportion of multiple worker households decreases, and the proportion of no-worker households increases monotonically. This emphasizes the increased reliance of poor households on state assistance.

Furthermore, the effectiveness of such assistance is revealed by the substantial decline in poverty incidence in two of the oldest age cohorts examined, those who are no longer considered a part of the labour market. In this case, the state old age pension is shown to play an important role in poverty alleviation. Finally childless households, as opposed to households with children, have become poorer over time. This signifies that the government's child grant programme has been instrumental in lifting households with children out of poverty. State transfers have been shown to have a neutral effect on aggregate inequality levels because they provide sufficient support to households to move out of the bottom two deciles, clustering transfer recipients nearer the middle of the income distribution. Therefore, households at the bottom of the income distribution are those without access to income from the labour market or to grant income.

2.3 Links to the labour market

Figure 2.1 shows the share of income sources in total household income by income decile in 2008. The proportion of income derived from wages increases linearly by income decile. If a person is a member of a household situated in the poorest five deciles they are likely to receive relatively little wage income and depend quite heavily on government grants and subsidies. Figure 2.2 complements this picture by showing South African unemployment rates by decile for 1993, 2000 and 2008, with very high unemployment rates in the lower deciles that fall as one move to higher deciles. As discussed, this unemployment situation has worsened between 1993 and 2008; especially in the lower deciles.

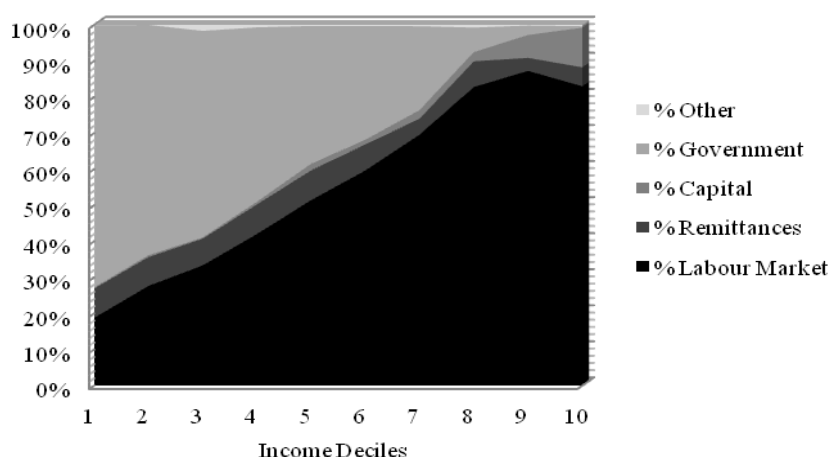
The major findings concerning poverty and the labour market are easy to discern from these two figures. While the presence of an employed person in one's household is not a guarantee that one will not be poor, lack of access to employment is a very strong marker of poverty. Despite strong overall economic

growth in the post-apartheid period, the labour market has not had a positive impact on poverty because of the failure to pull individuals from poor households into employment. In general, no-worker households are shown to have increased by 3% in the last 15 years, escalating the number of households relying on among others, child grants as their main form of income. Indeed, in general, the improved aggregate poverty situation is due to the increased support coming from social grants and not from the labour market. Even in one-worker households, the poverty incidence remains high. This emphasizes the point stipulated earlier with regards to employment quality, that having some form of wage income in a household does not guarantee that any individual in that household will not be poor. Finally, the difficulty in accessing wage income, despite a general increase in education levels, is partly indicated by the finding that the incidence of two-worker households has declined. While it is true that the high and increasing incidence of HIV/AIDS of the country's labour force has led to impacted negatively on the numbers of workers in some economically active age groups, the greatly increased participation rates in the labour market has more than offset this. Thus, the reason for this decline has to be driven by the poor labour absorption of the South African labour market.

This poverty situation will be discussed in more detail in section IV and the rest of this section explores the inequality situation. Formal income source decompositions tease out key implications of Figure 2.1 for inequality. They show that the labour market plays a dominant role in driving inequality. For example, a decomposition of the Gini coefficient shows that, even though the average share of wage income in total income has remained relatively constant at around 70% over the post-apartheid period, wage income has contributed between 85% and 90% of total inequality of household income over the years 1993, 2000 and 2008. In contrast state transfers are shown to make up less than one percent of the overall Gini coefficient.

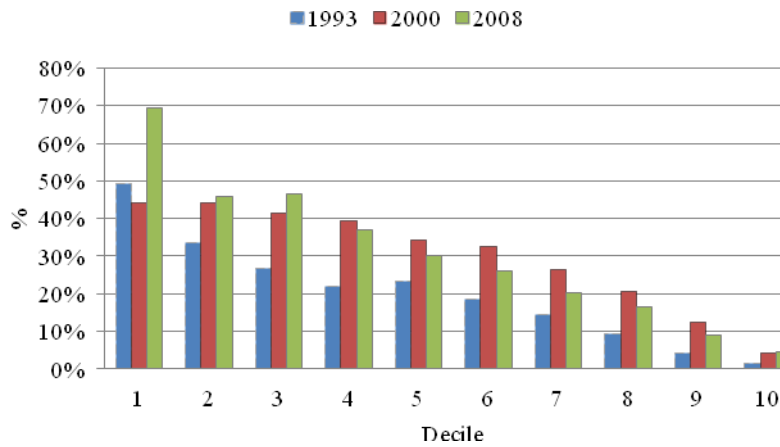
Figure 2.2 clearly shows the inequitable distribution of unemployment across the deciles. Since the labour market is an important source of income, it is not surprising that employment and income deciles are linearly related. This serves to highlight the important role that has been played in labour market inequality by the difficulty in accessing employment and by the growing number of zero-earners within households.

Figure 2.1. Income decomposition by decile, 2008



Source: NIDS (2008).

Figure 2.2. South African unemployment rates by income decile and by year



Source: PSLSD (1993), LFS (2000) and NIDS (2008).

While a focus on unemployment and zero-earners is important, income source decompositions are clear that inequality of labour income is equally important and perhaps more so. There is evidence to suggest that wage inequality is high and increasing. Figure 2.4 shows a large degree of inequality amongst those who do earn wage income. Decile 9 earned on average 20 times more than decile 1 in 1997 and this has almost doubled between 1997 and 2008 (table 2.3). The ratios between the wealthy and the middle class and the poor and the middle class are fairly stable, although both have seen increases in inequality since 1997. This increase in wage inequality has been largely fuelled by the fact that between 1997 and 2008 deciles 9 and 10 were the only ones to experience any growth in real wages, all other deciles suffered a decrease in real wages (table 2.4). During this period average real wages in decile 1 almost halved, while real wages in decile 9 increased by 12%. Ultimately the highest decile enjoyed the highest increase in real wages while the lowest decile suffered the highest decrease, further entrenching wage inequality.

Table 2.3. Wage inequality by decile ratios

	D9/D1	D9/D5	D5/D1
1997	19.7	3.0	6.5
2001	28.0	4.3	6.6
2005	29.2	4.5	6.4
2008	38.7	4.5	8.6
Change 1993-2008 (in %)	96.6	49.6	31.5

Source: OHS (1997), LFS (2001, 2005), NIDS (2008).

Table 2.4. Real monthly wages by decile

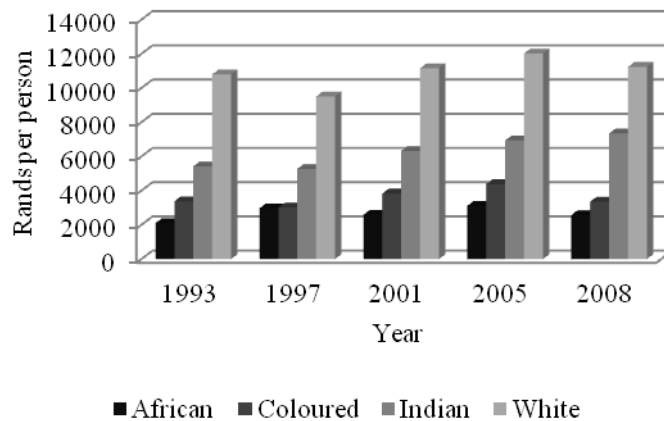
(in ZAR) TC \f t \ \ 2 " Table 2.4: Real monthly wages by decile (in Rands) "

	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
1997	325	687	1109	1607	2125	2753	3495	4620	6392	16824
2001	306	605	970	1387	2010	2920	4219	5873	8542	19846
2005	296	662	1003	1434	1902	2537	3597	5300	8634	22026
2008	186	578	899	1200	1597	2159	3031	4335	7186	20771
Change 1993-2008 (in %)	-42.8	-15.9	-18.9	-25.3	-24.8	-21.6	-13.3	-6.2	12.4	23.5

Source: OHS (1997), LFS (2001, 2005), NIDS (2008).

Due to the fact that income deciles in South Africa are racially biased, with Africans pre-dominantly occupying the lower deciles, it is important to decompose wage inequality by race. As is shown in Figure 2.3, racial wage gaps have remained fairly steady over the last fifteen years. Such information may lead one to believe that racial inequality as a whole is fundamentally driven by the labour market. The prevalence of such vast wage gaps may be explained by the remarkable difference in education level attained by different population groups, with Africans suffering the lowest levels. However, the number of Africans with a tertiary level of education has in fact increased far more drastically than the number of Whites in the same category. This suggests that Africans experience a lower return to tertiary education than other population groups, which coincides with findings by Keswell (2004). A couple of factors could be held accountable for this, namely, quality of education and employer bias. In the post-apartheid labour market an increase in employer bias seems implausible and Pauw *et al* (2008) and Chamberlain and van der Berg (2002) suggest that controlling for specific tertiary qualifications and for the quality of education more generally remove a great deal of these lower returns.

Figure 2.3. Real wages decomposed by race

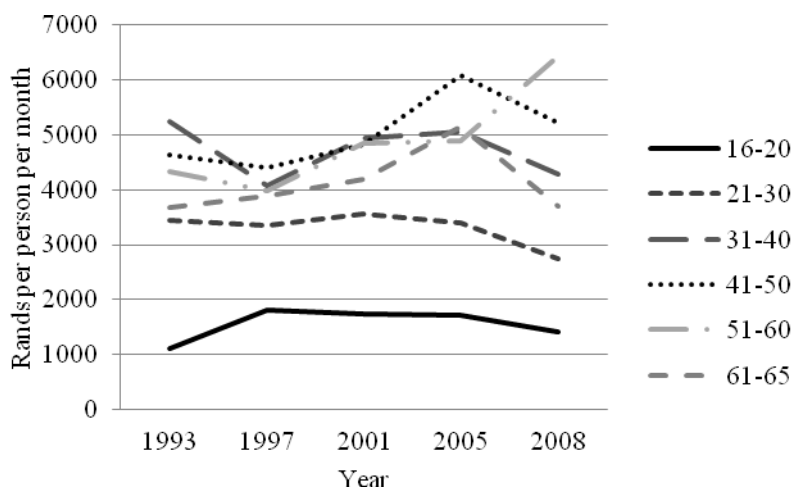


Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

Similarly, inequality can be decomposed by age as shown in figure 2.4. What is striking here is the low wage earned by 16-20 year olds as compared to the other age cohorts. This is likely a result of this age group participating more in casual and part-time labour, or being paid low wages due to their lack of experience or education. There has been a clear decrease in real wage earned in all age groups except

51-60 year olds in the last 3 years. This has resulted in most real wage increases since 1993 being cancelled out, with the elderly suffering the largest fall. This coincides with a study carried out by Banerjee *et al* (2006), who find that in general, real wages in South Africa have declined.

Figure 2.4. Real wages decomposed by age cohort



Source: PSLSD (1993), OHS (1997), LFS (2001, 2005), NIDS (2008).

2.4 Conclusion

Income inequality has risen in South Africa post-apartheid, aside from a slight drop between 2005 and 2008, and remains particularly high within the African population. Despite South Africa's racially segregated past, between race inequality has been declining while inequality within races is increasingly gaining more prominence. The labour market is identified as the leading driver of this inequality, since wages appear to comprise an important part of income generation, with the upper deciles making gains in real wages over time and the lower deciles making losses in this department. On the other hand, welfare improvements appear to have been made, with both poverty headcounts and poverty gaps declining post-apartheid. Access to services also improved during this period. However, young Africans still find themselves bearing the brunt of poverty and becoming increasingly dependent on social grants as employment opportunities are denied to them. Thus any declines in poverty levels have little to do with the labour market, where those in the lower deciles have increasing difficulty finding work, and more to do with an expansion in social assistance. This is discussed further in section 4.

3. THE ROLE OF LABOUR MARKET INSTITUTIONS AND POLICIES

3.1 Introduction

The functioning of any labour market occurs within the framework of the labour market policies and institutions governing collective bargaining and the conditions of work. This section presents these institutions in order to integrate them with the empirical picture of the first two sections.

The evolution of these institutions in South Africa is especially interesting. With the suppression of Black political organization under apartheid, struggles over the rights of Black workers to unionise and to participate in collective bargaining were integrated with broader political struggles and from the late 1970s were seen as a major part of these struggles. Fundamental to apartheid were labour policies which undermined the rights of Black workers (Nattrass, 1997). Not only were well-paying, skilled jobs reserved for White workers, but Blacks were excluded from participating in the statutory collective bargaining framework of the time, namely Industrial Councils, (Godfrey *et al*, 2007). As Black unions were not being afforded legislative protection, wages and conditions of employment for Black labourers turned out to be especially dire. Yet the rapid increase in the number and strength of some Black unions, and principally their active pursuit of plant-level bargaining, resulted in the legalisation of Black trade unions and their inclusion on Industrial Councils and conciliation boards (Ibid).

In the 1980s, major differences between the objectives of established White unions and the emergent Black unions were due to the differing skill levels of workers they represented and the level of bargaining they promoted. White unions concentrated their efforts on improving working conditions for skilled workers, ran membership benefit schemes, conferred with management and administered the system (Moll, 1993). Black unions, on the other hand, focused on gaining recognition, plant by plant, via the organization of operations at the factory floor level and the training of shop stewards (a union elected intermediary who negotiates with management) (Ibid). Despite the recognition of Black trade unions, White (and consequently established) unions dominated the collective bargaining body (Ibid). In addition, employers resisted attempts by the Black unions to organize their workers. The milieu for Black unions was conflictual and difficult.

Along with the induction of the ANC government in 1994, came the task of rewriting the labour legislation. The negotiations that gave rise to the revised legislation took place in the same year within NEDLAC (the National Economic Development and Labour Council); which was established with representatives from government, business and labour as a means to facilitate the development of formal negotiations over labour market regulation (Benjamin *et al*, 2007). These negotiations resulted in the new Labour Relations Act (LRA) and a brace of new legislation governing conditions of work and employment standards. Table 3.1 provides a snapshot of this legislation.

Table 3.1. Coverage of South African labour legislation

Name of Act	Key aims	Coverage
Labour Relations Act (1995)	Orderly collective bargaining Workplace democracy Effective labour dispute resolution (Provision for the Council for Conciliation Mediation and Arbitration)	All workers except the defence force, secret services and essential services
Basic Conditions of Employment Act (1997)	Improve minimum rights for all workers Improve enforcement mechanisms Makes provision for the Employment Conditions Commission to advise the Minister on minimum wages in "vulnerable" sectors	All workers except the defence force and secret service, including part-time and
Employment Equity Act (1998)	Eliminate unfair discrimination Ensure implementation of affirmative action	Employees in 'designated' companies
Skills Development Act (1998)	Devise and implement national, sector and workplace strategies to improve skills of the workforce	Designated employers and sectors

Source: Adapted from Borat *et al* (2001).

The evolution of these post-apartheid South African collective bargaining institutions did not follow the international trends and thinking. At the time, these international trends were towards increased decentralization of bargaining (Calmfors *et al*, 1988, and Soskice, 1990). In contrast to this, the negotiations at NEDLAC resulted in a unanimous acceptance of sectoral or industry level bargaining systems for South Africa. Some saw this result as being little more than a consolidation of the strength of the non-racial trade union movement, reflecting a pro-labour ideology (Boccaro *et al*, 1996). A more positive view of this negotiation process states that since this new legislation was founded upon a tripartite process (negotiations between government, labour and employers), 'its core principles enjoy a high degree of legitimacy among the key stakeholders within the economy' (Benjamin *et al.*, 2007, p. 7).

Section 3.2 details the set of wage bargaining institutions that were established in the NEDLAC negotiations and assesses them. This includes a discussion of the sectoral bargaining process and a discussion of trade unions. Section 3.3 goes on to discuss some of the other institutions that define South Africa's employment standards and bargaining over non-wage conditions. With this detail as the context, Section 3.4 concludes by pulling together the debates over labour costs and the flexibility of the South Africa labour market.

3.2 Collective bargaining: Councils and agreements

The structure of the South African collective bargaining process gives significant leeway to negotiating parties in determining the influence of statutory regulation and the levels at which industry negotiations should occur. Negotiations may take place at sectoral bargaining councils, statutory councils (introduced at NEDLAC), or outside of statute; at firm and plant level or in non-statutory centralized bargaining forums (Godfrey *et al*, 2007). The functions of these bargaining mediums are outlined in Table 3.2. To this day, bargaining councils remain the anchor and focus of the LRA for union-employer negotiations, whereas statutory councils seem to have been less successful (Ibid). Statutory councils were established as a compromise between the voluntary nature of bargaining councils and the obligation to bargain, as demanded by COSATU (Congress of South African Trade Unions), as well as acting as a spring board to the formation of more influential bargaining councils (Godfrey *et al*, 2007).

Within the LRA, workplace forums were instituted to serve the purpose of minimizing workplace conflict at the plant level and encouraging relevant parties to contribute to problem-solving (Ibid). The hope was that these forums would accentuate the common ground, rather than the discrepancies, between management and workers (Ibid). Furthermore, matters dealing with distributive issues would be located at the industry level, whereas productivity- and performance-related concerns would be dealt with at plant level by workplace forums (Ibid). According to Godfrey *et al* (2007), however, workplace forums are a 'dead duck', and are an ineffective tool in supplementing centralized bargaining (Ibid, p.102). When putting forward this argument, they point out that the effect of the employment equity and skills development committees set up in terms of the Labour Relations Act has been to eliminate evaluation and training issues from the workplace forum bargaining agenda. According to the authors, these issues are critical if one is to link skills to rewards.

As depicted below, South Africa's collective bargaining framework exists on two levels: one more centralized at the industry level in bargaining councils and one decentralized to individual firms or plants. The 1990s view of the interaction between industry-level and firm-level bargaining is well summarised by Macun (1997). Using the South African Labour Flexibility Survey (SALFS) he argues that, although bargaining levels vary considerably across sectors, there is a trend towards greater centralization of bargaining at the sector level. Plant level bargaining remained in place but the balance in collective bargaining in South Africa was seen as being positioned at a point closer to between being centralized and being decentralized (Macun, 1997). For Moll (1993) this was a predictable outcome of employers refusing to negotiate on two levels and trade unions compromising plant level bargaining for the ability to set actual wage increases at councils. With some foresight given the debates that ensued, this led Moll (1993) to predict the possibility that wage hikes would thus, automatically be transferred to smaller firms in the industry who are unable to afford them and that productivity bargaining at firm level would be seriously undermined.

In sharp contrast to this 1990s view, by 2007 Godfrey *et al* (2007) saw a tendency in the South African collective bargaining system for bargaining units to become increasingly decentralized, as the process of firm and plant level bargaining was put under increasing pressure to fragment into ever smaller bargaining units. As a consequence, agreements reached at such decentralized levels were generally limited in scope, dealing only with wages and basic conditions of employment (Godfrey *et al*, 2007). The evidence also suggests that the new LRA seems to have failed in promoting a more unified bargaining scheme (Ibid).

Furthermore, questions have been raised with regard to the binding nature of minimum wages imposed by bargaining councils. By the late 2000s Godfrey *et al* (2007) reported that most firms cited poor enforcement of bargaining council rulings as a fundamental flaw of the system and demanded more rigorous enforcement. Interestingly, small firms turned out to be far more perturbed by a lack of enforcement, as they regarded themselves to be at greater risk from unregistered competition than their larger counterparts (Ibid). It must be pointed out that the growing trend towards outsourcing labour in South Africa is making enforcement of rulings a far more challenging task, as such workers are generally not registered with the relevant council (Ibid).

Table 3.2. Levels of bargaining in South Africa under the Labour Relations Act

Governed by statute	Functions and Powers	Registration
1. Bargaining Councils	Make and enforce collective agreements; Prevent and resolve labour disputes; Establish and manage a dispute resolution fund; Promote and establish training and education schemes; Establish and manage schemes or funds to benefit its parties or members; Make and submit proposals on policies and laws that affect a sector or area.	May be formed by one or more registered trade unions and one or more registered employers' organizations, given that these parties are "sufficiently representative". NEDLAC is assigned the task of determining their scope and area of jurisdiction.
2. Statutory Councils	Resolve labour disputes; Promote and manage education and training schemes; Form and manage schemes or funds for the benefit of its parties or members; Make collective agreements; May perform any other bargaining council functions.	May be formed by a registered trade union or employers' organization which does not boast sufficient membership to meet the representivity requirement to form a bargaining council. Thus, registration is unilateral.
Outside of statute	Functions and Powers	Description
1. Plant or firm level bargaining	Bargain over issues otherwise covered by Bargaining or Statutory Councils.	Collective bargaining between an individual employer and the trade union(s) representing the employees of that particular employer.
2. Workplace forums	They promote the workers' interests by consulting and making joint decisions. Employers must provide relevant information to workplace forums. A workplace forum has the right to be consulted by the employer on: restructuring and new work methods; partial or total plant closure; mergers and ownership transfers; retrenching workers; job grading; criteria for merits and bonuses; education and training; product development plans; export promotions; health and safety measures.	Workplace forums may be formed when there are more than 100 workers by applying to the Commission for Conciliation, Mediation and Arbitration (CCMA)

Source: Department of Labour, Republic of South Africa (available at www.labour.gov.za) and Godfrey *et al* (2007).

South African labour unions feature prominently in bargaining at the sectoral level bargaining councils as well as at plant level bargaining, in addition to advising workers to resolve disputes through the CCMA. Thus, they are central to the entire bargaining system and need to be spliced into this discussion. Commentators agree that because of the history associated with collective bargaining in South Africa, the unions see their mandate and objectives as being fairly broad. For Moll (1995) they were primarily driven by concerns regarding economic justice, fair working conditions and standardization of wages within and across firms and within occupations. This view is consistent with Godfrey *et al.* (2007) that the main agenda of South African labour unions is to address the effects of the inequalities created by the racially warped labour market of the Apartheid era. This includes raising wages, improving working conditions and expanding social benefits (Ibid).

In South Africa, the three major union federations, with a vast membership majority and forming the labour constituency at NEDLAC, are COSATU, FEDUSA (the Federation of Trade Unions of South Africa) and NACTU (the National Council of Trade Unions) (South Africa.info). According to Moll (1996), in 1996 the share of the labour force which was affiliated to a union was high for a country with

the income levels of South Africa (Moll, 1996). In a 1997 study undertaken by Macun, it was found that 86% of firms had a recognized trade union, with COSATU claiming a 75% majority of membership (Macun, 1997). Trade union membership has begun to decline in recent years, however, with a drop in actual membership of just over 600 000 workers from 2005 to 2008 (Statistics South Africa, 2005 and SALDRU, 2008). The biggest drop in membership occurred in the finance and utilities sectors (Ibid). Union representation in South Africa generally also reflects a relatively narrow spectrum. Small businesses demonstrate low union participation, an overwhelmingly high percentage of unionized workers are either unskilled or semi-skilled, and Black trade unions lack representation in the semi-skilled sector overall. Furthermore, it was found that union affiliation was dominated by African males (Ibid).

Thus, the contemporary assessment of the wage bargaining apparatus is that it is facing significant challenges. This appears to be part of a more general set of challenges facing the collective bargaining apparatus as a whole, encompassing both the bargaining councils as well as the trade unions. The number of bargaining councils in the private sector has fallen dramatically since the inception of the LRA, despite the fact that the legislation was intended to promote sector level bargaining (Benjamin *et al*, 2007). As a result, coverage by bargaining council agreement has become severely limited and confined to a few sectors of the economy (Godfrey *et al*, 2006 in Benjamin *et al*, 2007). The diminishing influence of such agreements is exacerbated by developments in the tertiary or services sector, where union membership in the private division has plummeted significantly. Indeed, Benjamin *et al* (2007) makes the connection between the lack of bargaining councils within the private services sector and the difficulties faced by unions in organising this private sector workforce. Representation in unions has not only diminished in the private sector, but also, from the employer's side, the increased use of atypical (non-permanent) labour appears to circumvent plant-level bargaining almost entirely (Rosenthal *et al*, 2007).

3.3 Institutions covering conditions of employment

3.3.1 Dispute resolution and the Commission for Conciliation, Mediation and Arbitration

The dispute resolution function of the LRA is carried out via the Commission for Conciliation, Mediation and Arbitration (CCMA), formerly known as Conciliation Boards and the Industrial Court. Conflict resolution was an important new function that CCMA-accredited bargaining councils would need to perform within their designated scope and area (Godfrey *et al*, 2007). The CCMA as a dispute resolution mechanism is carrying out a substantial role and function in ensuring the effective application of South African labour legislation. According to the positive view of Benjamin *et al* (2006), the CCMA is far more effective at settling labour disputes and is a considerable contributor to South Africa's solid industrial relations (Benjamin *et al*, 2006). In addition, strike action as a means of labour retaliation has begun to decline since its implementation (Ibid). The main objective of the CCMA was to improve the efficiency of dispute resolution relating to issues of employment (Benjamin *et al*, 2006). Today, the vast majority of cases that are being referred to the body deal with unfair dismissals, as well as unfair labour practice, collective bargaining and severance pay (Ibid).

The issues raised above may be considered a strong indication of internal inefficiency within the country's main dispute resolution mechanism (Bhorat *et al*, 2009). This is certainly a cause of the system's 'tremendous backlog' (CCMAil, 2005, p. 16). Moreover, the subsidy provided by the CCMA to unions is perceived to be of insignificant value, as it does not fully cover their costs in carrying out conflict resolution services (Godfrey *et al*, 2007). Similarly, an escalation in legal costs may also be attributed to the fact that High Courts dealing with more complex issues do not have national jurisdiction, and consequently, if a single employer engages in industrial action in different jurisdictions, the applicant will be forced to bring separate applications in the respective jurisdictions (Roskam, 2007). The CCMA has also been accused of employing under qualified and inexperienced judges, and delays in rulings are becoming longer and a more frequent occurrence (Ibid). In addition, the high turnover rate of acting judges

makes it practically impossible for important precedents to be set (Ibid). Roskam (2007) believes that the training of CCMA commissioners would improve labour market efficiency more than any amendments to the labour legislation would (Ibid).

3.3.2 Basic conditions of employment and protection for uncovered workers

As shown in Table 3.1, much of the legislative framework put in place in the immediate post-apartheid bargaining pertained to general conditions of employment rather than narrow wage bargaining. The Basic Conditions of Employment Act (BCEA), promulgated in 1997, covers all workers that can be considered “employees”. The BCEA also made provision for the establishment of the Employment Conditions Commission (ECC). The Minister in consultation with NEDLAC appoints the Commissioners. The Commission consists of five members, two members representing organised business and organised labour respectively, and three members who are knowledgeable about the labour market and conditions of employment, including the conditions of employment of vulnerable and unorganised workers.

The Minister of Labour requests the Commission to conduct investigations into appropriate conditions of employment and minimum wages for workers in certain sectors with a view to making sectoral determinations for those sectors. In general, these are sectors in which no bargaining council exists. It is estimated that between three and four million workers are afforded protection via these sector-specific determinations made by the Minister of Labour on the advice of the ECC. Sectoral determinations are in place in the following sectors: domestic work, agriculture, forestry, contract cleaning, private security, civil engineering, hospitality and tourism, the taxi sector and wholesale and retail trade. The Minister of Labour can add additional sectors at any time if it is considered that there are significant numbers of “vulnerable” workers in the sector.

As part of the investigations into making sectoral determinations, the Commission holds public hearings nationwide and obtains views from representatives of business, labour, civil society, academics and other interested parties on various issues around wages and conditions of employment. All sectoral determinations are reviewed every three years but make provision for inflation-linked increases in the intervening years. The annual increases in these sectoral minimum wages are usually set at one or two percentage points above inflation.

Little research has been done on the impact of these sectoral determinations on employment levels and wages. The best researched sector in this regard is the domestic worker sector which employs about a million individuals, mainly women. This sector was completely unregulated prior to 1993 and had no prescribed minimum wage before 2002. At the time of the introduction of the minimum wage there was considerable concern that massive job losses would ensue but the data does not bear this out. Hertz (2004) finds that among domestic workers regulations appear to have increased wages and improved certain non-wage conditions as well. Also, Benjamin (2008) finds that the use of the statutory dispute resolution mechanism (the CCMA) is heavily used by domestic workers, with an excess of 10 000 unfair dismissals referred to it by domestic workers annually.

3.4 Conclusion: Taking stock of labour costs and flexibility of the South African labour market

It is generally accepted that well-intentioned labour regulations may sometimes have unfortunate and unintended consequences. From the outset, the key criticisms of South Africa’s labour legislation have been related to its indirect effects on employment levels, equality and investment. These criticisms were strident in the 1990s.

Moll (1996) identified three ways in which labour market rules and regulations may influence unemployment: a) ‘Wage-cliffs’ induce covered firms to substitute capital for labour in the short-term, and,

hence, employ more capital-intensive technologies in the long-term; b) Large 'wage-cliffs' encourage search behaviour which results in 'wait' unemployment; and c) Adjustment to equilibrium is retarded, as wages are left sticky in response to shocks (Moll, 1996). According to Schultz *et al* (1998), not only do firms substitute capital for labour, but a reduction in working hours may also be a direct result of an increase in the cost of labour. This may provoke workers to seek employment in sectors not covered by collective bargaining agreements, thereby reducing wages in uncovered sectors. In addition, participation in the labour force is likely to contract (Schultz *et al*, 1998). This is indicated by the fact that in regions where the 'wage-cliff' was found to be exceptionally high, young African men and women were more likely to have left the labour force (Ibid). Using the Labour Flexibility Survey, Standing (1997) found that the preferred means by which to avoid escalating labour costs was to introduce technological changes. This not only decreases the demand for labour overall, but increases the demand for skilled relative to unskilled labour. This is a shift in demand away from a pool of labour in which South Africa is abundant to a pool of skilled labour that is scarce.

One of the themes of the review in this section is that some of these initial fears concerning South African labour legislation have not been realised. Indeed, there are some contemporary arguments that labour legislation may not always exert these severe ramifications for unemployment. Benjamin *et al* (2007) report the findings of the Small Business Project (a South African survey carried out on small businesses) as showing that, while a preference for more flexible labour agreements was raised by most employers, only 20% cited labour laws or government regulations in general as discouraging them from hiring more employees. This may be why employment levels were relatively unaffected by the implementation of any specific regulation (Benjamin *et al*, 2007). As such, the 'rigidities' identified by employers within the South African labour legislation may not translate directly into labour market inflexibilities in view of the fact that, as pointed out in Section I, there are means to circumvent certain regulations, for instance increasing the use of temporary or part-time labour. Furthermore, Benjamin *et al* (2007) argue that the legislation-employment trade-off is considerably more complex than is generally believed, and that the idea that high unemployment and poverty levels are necessarily a result of labour market regulation, is as of yet unproven (Benjamin *et al*, 2007). Similarly, Godfrey *et al* (2007) found that many firms had in fact increased employment levels, and where employment levels had decreased, it was usually for reasons unrelated to labour legislation. In addition, Roskam (2007) claims that a 'one size fits all' approach to labour legislation is becoming increasingly inappropriate. This train of thought extends beyond the labour market debate in South Africa, as it is also one of the central themes of the 'flexicurity' debate in Europe. Some general support for this view comes from the OECD's Economic Assessment of South Africa (2008). The assessment calculated South Africa's Employment Protection Legislation (EPL) indicator and found it to be less restrictive than the average for OECD countries as a whole.

Nonetheless this positive view is not shared by all. There is a strong group who are critical of the functioning of South Africa's labour market institutions over the post-apartheid period. One of the core goals of the new LRA is equality and some, for example Aron *et al* (2008), believe that South Africa's labour legislation in terms of the labour market governance embodied in the Labour Relations Act, the Basic Conditions of Employment Act and the Employment Equity Act is far too rigid for a country with the kinds of unemployment conditions and labour market segmentations as they currently exist. Bhorat *et al* (2002) identifying rigidities in the bargaining system based on the fact that employers speak of high transactions costs or a 'hassle factor' associated with labour legislation which extends far beyond meeting minimum wage requirements. It includes the costs to employers of complying with wage and benefit standards, and issues such as the legal and procedural requirements with respect to hiring and firing employees, the extension of agreements and the number of trade unions firms are required to interact with. According to the authors, this 'hassle factor' has contributed significantly to South Africa's low employment level (Bhorat *et al*, 2002, p. 47). The resources utilized in addressing these issues are considered by businesses as an increase in implicit fixed costs of interacting with labour (Ibid). As with any additional costs, firms employ various methods in order to avoid such expenses. These include hiring

less labour, substituting capital for labour, increasing the use of temporary workers and using sub-contractors (Ibid). The implication here is that as a result of stringent labour legislation, not only is labour being replaced by capital, and workers are enduring unemployment for a substantial length of time, but firms are also keeping employment levels to a bare minimum.

Godfrey *et al* (2007) found that a majority of firms are reluctant to increase the number of people they employ, due to the negative impact of the country's labour legislation. Similarly, Rankin (2006) found that the most frequently mentioned constraint to hiring new workers, especially the unskilled, after other business factors, were inflexible labour laws, in terms of the hiring and firing of employees and adhering to minimum wage laws. In addition, the 1990s argument that our labour market legislation has a negative effect on the country's investment levels has not disappeared. For example, according to Rankin (2006), analysis of firm level data indicate that labour legislation is perceived to be a constraint to investment that is as critical as the level of the interest rate.

Some of the stronger claims about the impact of rigidities and high costs are hard to prove because they revolve around the claim that there would be more firms and therefore more workers than are seen in the data were the regulations not so cumbersome for small firms and were the bargaining processes within the bargaining councils not dominated by larger firms and large unions. As such, it is the absence of these firms that is contributing to exacerbating income inequalities and hampering employment creation.

Finally and importantly, the increased use of atypical (or non-permanent) workers can be seen as a reaction to the labour market institutions. They allow firms to avoid increased labour costs but may have detrimental effects on the protection and remuneration of this form of labour and may threaten the very existence of bargaining councils. According to Benjamin *et al* (2007), the use of atypical labourers in South Africa is growing at a rapid pace. Rankin (2006) found that increasing sub-contracting and outsourcing was a more common response to labour regulations than labour shedding. Generally, temporary workers are paid less than permanent labour, receive fewer or no benefits, and the value of benefits provided is lower. According to Roskam (2007), casual labourers work for wages well below the poverty line, often only work for a few hours a day, and have no access to medical aid or retirement fund schemes. In addition, temporary workers have virtually no job security, and supervision of labour standards by labour inspectors becomes more difficult (Roskam, 2007).

Thus, it seems that there are some negative consequences from the legislative milieu. These raise problems for the calls for nuance and South African specificity as there is little evidence that our collective bargaining institutions have provided any positive benefits to offset their costs.

4. WHAT ROLE FOR SOCIAL POLICIES?

4.1 Introduction

This section discusses the role of social policies in complementing the labour market policies which were discussed in the previous section. While the assimilation of more people into the labour market is at the heart of South Africa's poverty reduction strategy, there remains a need for programmes that provide income support to the unemployed and people that are unable to work. In this section we discuss the role of unemployment insurance, the Expanded Public Works Programme and social assistance grants (*i.e.* non-contributory and income-tested benefits provided by the state to vulnerable groups). Once again, much of the information in this section is drawn from a previous study on trends in South African income distribution and poverty since the fall of Apartheid¹⁰.

To frame the discussion, we begin by looking at the extent to which the unemployed are able to rely on the labour market income of other (employed) household members or on remittances (which usually represent labour market income of non-resident family members) or on social assistance grants (of any household member). Table 4.1 shows that in 2008 just under half of the unemployed were living in households that contained at least one employed person. Another 13% were living in households that received some indirect labour market income in the form of remittances. Most pertinently for this section, about one quarter of the unemployed was living in households that were receiving social assistance grants and had no access to labour market income. The share of households with no link to the labour market has risen sharply, from 30% in 1997 to 42% in 2008.

Table 4.1. Household labour market attachment and access to grants of the unemployed

(in percentage) "

	1997	2006	2008
No-one employed, no remittances, no social grants	11.8	13.2	16.9
No-one employed, no remittances, social grants	17.5	24.7	24.9
No-one employed, remittances	21.3	11.2	12.9
1 employed	35.8	39.4	36.6
2 or more employed	13.5	11.5	9.4
Total	100	100	100

Note: This table is only done for selected years owing to the absence of data on either remittances or labour market status in other surveys.

Source: 1997 October Household Survey; September 2006 Labour Force Survey, Statistics South Africa and 2008 NIDS data.

10. Leibbrandt, M., Woolard, I., Finn, A. and Argent, J. (2010) "Trends in South African income distribution and poverty since the fall of Apartheid". OECD Social Employment and Migration Working Papers No. 101, January.

4.2 Unemployment insurance

The Unemployment Insurance Fund (UIF) provides short-term income support to individuals that are not currently working because they lost their job, became ill or went on maternity leave. (Workers that voluntarily resign are not eligible for unemployment benefits.) Benefits are only paid in the period immediately following the cessation of work and the person must have been contributing to the UIF at the time the event related to the cessation of work occurred. Benefits may be claimed for up to 238 days.

In the 2008/09 fiscal year, 442 000 people claimed unemployment benefits. Given that the maximum claim period is 238 days and many claimants will receive benefits for a shorter time, this implies that significantly less than 442 000 people were in receipt of unemployment benefits at any given time. This figure is in stark contrast to the number of unemployed, which currently stands at 4 125 000 (Stats SA, 2009). It may seem surprising that less than 10% of the unemployed are in receipt of unemployment benefits. Part of the explanation lies in the fact that slightly more than half (55%) of the unemployed report that they have never worked (Stats SA, 2007) and thus have not contributed to the UIF. Furthermore, of those unemployed that have previous work experience, 44% have been unemployed for more than a year and would have exhausted their benefits if they were ever eligible for them. Thus, while the UIF clearly has an important role to play in providing replacement income to the short-term unemployed with work experience, the vast majority of the unemployed fall outside of this system.

The Unemployment Insurance Fund is currently running a large and growing surplus. In the 2008/09 fiscal year, expenditure by the UIF was approximately R4.5 billion while revenues exceeded R12 billion. This level of expenditure equates to less than 0.2% of GDP. This has prompted calls for reforms to the system to allow for non-contributors to benefit in some way. Given that more than 90% of the unemployed do not receive currently receive UIF, the surplus would not stretch very far if they were all drawn into the current system. It would also require a complete overhaul of the existing system given that it currently operates as an insurance scheme for contributors. It may be more feasible to reach non-contributors via the social assistance system.

4.3 Public works programmes

The “Expanded Public Works Programme” (EPWP) was implemented in 2004. EPWP aims to create productive employment opportunities by increasing the labour intensity of all government programmes. Most EPWP jobs are in government-funded infrastructure projects (*e.g.* road building), but there are also work opportunities in public environmental programmes (*e.g.* the removal of alien vegetation) and in public social programmes (*e.g.* early childhood development and home-based care programmes).

Under this scheme, all government bodies and state corporations are required to make a concerted effort to increase the use of unskilled labour. Through the use of public expenditure, temporary, generally unskilled employment is created for the jobless. This temporary employment is coupled with on the job skills development and training. The intention is that this will provide the participants leaving the programme with a better chance of finding regular employment.

Over the past five years, the size of EPWP has grown steadily. As shown in table 4.2, EPWP provided 1.4 million “work opportunities” between 2004/05 and 2008/09. It should be noted that a “work opportunity” is defined as “paid work created for an individual on an EPWP project for any period of time” (Department of Public Works, 2009). Ideally, these figures should be converted to full-time equivalents to give a more accurate sense of the employment effects of EPWP. This data is not, however, readily available. Hemson *et al.* (2007) report that in 2006/07 the average length of a work opportunity was 51 days in the infrastructure sector and 165 days in the social sector. They estimate that the number of full-time person years of work created is about one quarter of the number of “work opportunities” reported.

Table 4.2. **Work opportunities and budget for EPWP, 2004/05-2008/09**

	2004/05	2005/06	2006/07	2007/08	2008/09
Cumulative number of work opportunities created	393 441	503 843	592 990	1 107 162	1 449 806
Cumulative total expenditure (in billions ZAR)	7.8	6.1	11.2	30.2	54.2

Source: Department of Public Works, Republic of South Africa (available: www.epwp.gov.za).

It is important to note, however, that only a small proportion of the expenditure figures above represent wages paid to EPWP participants. Most of the spending in EPWP projects goes on non-wage costs such as building materials. Hemson *et al.* (2007) report that in 2006/07 wage costs accounted for only 8% of spending in EPWP infrastructure projects and 48% of spending in social sector projects.

Currently, EPWP transfers fairly modest amounts of income into a relatively small number of households. However, the intention is to increase the scale of the project to provide the full-time equivalent of more than 400 000 jobs a year over the medium term (National Treasury, 2009). If the state has the capacity to implement the programme at this level of intensity, it has the potential to make a significant contribution to poverty alleviation through providing short-term income support.

4.4 Social assistance grants

As discussed in Section II, social assistance grants have far-reaching poverty alleviating implications, particularly for households that have little connection to the labour market. There are several kinds of Social Assistance Grants, namely, the State Old Age Pension, the Disability Grant, the Child Support Grant, the Care Dependency Grant and the Foster Care Grant. There has been a rapid expansion in spending on social assistance between 2000/01 and 2006/07. While spending on most budget items (*e.g.* education and health) have remained fairly constant in real terms, consolidated expenditure on welfare and social assistance has increased 3.2 per cent of GDP in 2000/01 to 4.4 per cent of GDP in 2008/09 (National Treasury, 2002 and 2009).¹¹ In April 2009, 13.4 million people were benefiting from social grants. Of these, 2.3 million were receiving old age pensions, 1.4 million were receiving disability grants and 9.1 million children were benefiting from Child Support Grants. All these grants are means-tested unconditional cash transfers, apart from the disability grant which does not require means testing.

Table 4.3 looks at the percentage of households in each income quintile that received income from specific social grants in 2008. More than half of households in the bottom quintile receive some income from the Child Support Grant, in comparison with only 9% of households in the top quintile.¹² Because the size of the Old Age Pension is sufficient to lift many households out of the poorest quintile, households receiving the Old Age Pension are more likely to be in the second and third quintile rather than the very poorest quintile. As seen in figure 2.1, the bottom income quintile receives nearly two-thirds of its total income from social assistance grants, predominantly from the child support grant.

11. This figure includes social grants administration and welfare services such as old-age homes and drug treatment centres. If only direct cash transfers to households are considered, these account for an estimated 3.5% of GDP in 2009/10.

12. Since means testing is done at the individual level, and quintiles are assigned at the household level, it is possible for a poor individual residing in a relatively wealthy household to receive a means tested grant.

Table 4.3. Percentage of households reporting income from social grants, by quintile

Quintile	% reporting any income from Child Grants	% reporting any income from Disability Grant	% reporting any income from Old Age Pension
1	55.8	5.7	9.8
2	57.9	10.9	27.1
3	45.4	14.7	23.5
4	26.5	9.9	17.7
5	9.0	2.8	5.0
All	33.6	8.2	15.3

Source: NIDS, 2008.

Whether social assistance grants decrease labour force participation or not is unclear, as empirical studies present conflicting evidence. Bertrand *et al.* (2000) find a reduction in working hours of members of working age when another member of the household reaches pensionable age. The reduction is greater when the older person is a woman. Working age women tend to reduce their working hours less than working age men and the oldest son tends to reduce his working hours more than other members. Klasen and Woolard (2009) argue that access to state transfers results in the unemployed basing their location decisions on the availability of financial support rather than on the best location for employment search. Because a lot of financial support (specifically that provided by the elderly) is based in rural areas, this leads to reduced opportunities for job matching. Posel *et al.* (2004) find that African women are significantly more likely to be migrant workers when they are members of a household in receipt of a pension, especially when the pension recipient is female. Labour migrants in age-eligible households are slightly more likely to be female, to be more educated, and to be older than those in non-age-eligible households. The authors hypothesize that the reasons for the relationship between pension income and migration could be that the pension provides the means to migrate, and/or that the pension provides the means for the older person to care for the child/children of the migrant.

4.5 Conclusion

This section has provided a review of the current and potential impacts of three major policy prongs. At first pass, the unemployment insurance fund and expanded public works programme have potential as they are explicitly directed at the unemployed. However, both of these policies are shown to be quite limited in their impact currently. The UIF aims to provide relief for the short-term (frictional) unemployed and is financed out of employer and employee contributions made while employed. This meshes poorly with the circumstances of most of South Africa's unemployed; many of whom have never been employed and who are unemployed for long periods of time. Thus, only 10% of the unemployed receive benefits and the UIF seems to have limited possibilities looking forward. In contrast a significantly expanded public works programme with improved targeting and efficiency (in terms of increasing the share of wage costs in overall programme costs) could have a larger impact, an expansion which has been underway since early 2009. However, this will require a large budget allocation and employment will need to be carefully targeted to ensure that these jobs reach the most needy unemployed rather than opening up additional possibilities for those already in employment.

Social grants are shown to have been central to poverty alleviation over the post-apartheid years. A quarter of the unemployed derive income support exclusively from the grant income of other members of their household. These grants assist in reducing unemployment only indirectly: through funding job search or migration or the establishment of a business. Some of these grants involve large cash transfers and there is some concern about negative labour supply effects from these transfers. However, there is little empirical evidence to support this concern.

5. OTHER POLICIES IMPACTING ON INEQUALITY

Two policies that are central to the longer-run amelioration of inequality are education and health. The effectiveness of post-apartheid education and health policies is explored in this section. The data has shown unambiguously that levels of education determine the opportunities facing South Africans in the labour market. There is an urgent need for education and training policies that raise the levels of education and productivity of South Africans. The same is true of health policies. However, education and health policies have been producing unsatisfactory outcomes, not because of under-resourcing but because of inefficiencies in service delivery and quality.

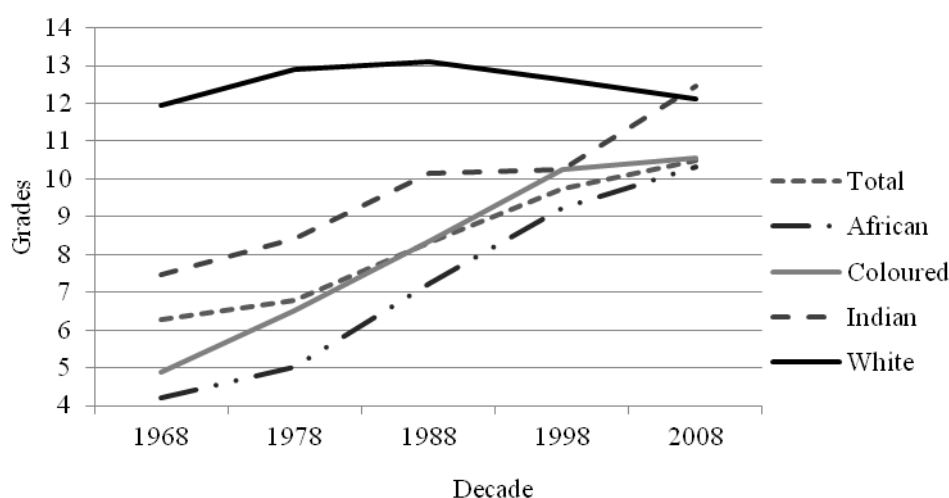
5.1 Inequality in Education

Education policy under apartheid was starkly inequitable in terms of how it treated people of different races. The majority of state resources were diverted to schools in 'white' areas while the population living in 'Black' areas was subjected to very low quality schooling. As such, South Africa developed a high quality education system that only benefited a minority of the population. The task of the government post-apartheid has been to extend this well functioning education system to the entire population. But, despite massive shifts in the allocation of state resources, educational inequalities have proven to be remarkably persistent.

Figure 5.1 illustrates how educational attainment has changed over time for each race. The differences in educational attainment by race are startlingly large, with Whites receiving on average 8 more years of schooling than Africans in the 1960's. This differential has been decreasing over time with educational attainment for all races except Whites increasing rapidly since the 1960s. Despite this convergence, educational inequality still exists; while Whites and Indians now have equal years of schooling, Africans and Coloureds still achieve 1.5 grades less on average in 2008.

There is a large difference in quality of education between formerly White schools and formerly African schools. The majority of South African learners attend poor quality schools and thus educational attainment figures could be exaggerating the level of education (Van der Berg, 2008). Only grade 12 has externally set examinations, so all grades below this are likely to exhibit varying levels of learning dependent on the school. South African learners perform very badly when compared to other countries, even at a primary school level. Table 5.1 compares South African literacy performance with an international benchmark of 40 other countries, both developed and developing. The vast majority of South African learners (78%) could not attain the basic level of 400, compared to 94% of students from other countries that could. Being an Afrikaans or English first language speaker (and thus more likely to attend a historically "White" school) greatly improves test scores but performance is still poor in comparison to international standards. Scores for learners with an African first language were particularly low, which signals that these children are getting an extremely poor quality education.

Figure 5.1. Educational attainment of 21-30 year olds across cohorts¹³



Source: NIDS(2008)

Even using the Department of Education's own standardised assessments, primary education is poor. Table 5.2 shows that even though standards have increased between 2001 and 2007, levels of competency are still low. There are also large variations by province. The Western Cape and the Free State have made the largest improvements in literacy and numeracy. The worst performing provinces are once again the former homelands; Limpopo, KwaZulu-Natal and Mpumalanga. There is also a large amount of variation to be expected within provinces. Ultimately, these scores show that not only is the standard of education poor, but there is also a large degree of variation in quality by region and school.

Table 5.1. Literacy standards for grade 5 learners, 2006a

Mark (benchmark/competence)	All	South Africa	Afrikaans	English	African language
400 (low/basic)	94	22	55	52	4-14
475 (intermediate/some)	76	13	35	36	0-3
550 (high/competent)	41	6	17	18	0
625 (advanced/fully competent)	7	2	5	5	0

a) Figures represent the percentage of students who achieved that score or higher. Afrikaans, English and African refer to the first language of the student. The ranges refer to variance across the African languages, with Setswana and Sesotho speaking learners performing best

Source: Progress in International Reading Literacy Study, 2006

13. Educational attainment does not reflect years in school, but rather highest grade achieved. Those aged 21-30 were measured as they should have completed their schooling by this age and this age bracket best reflects the most recent trends in education.

Table 5.2. **Grade 3 standardised assessment scores by province**

	Literacy		Numeracy	
	2001	2007	2001	2007
Eastern Cape	24	35	34	36
Free State	27	43	29	42
Gauteng	33	38	32	42
KwaZulu-Natal	35	38	31	36
Limpopo	27	29	26	24
Mpumalanga	28	32	29	31
North West	29	35	25	29
Northern Cape	23	34	26	31
Western Cape	33	48	32	49
South Africa	30	36	30	35

Source: Department of Education, Grade 3 Systemic Evaluation.

5.1.1 Access to education

Educational attainment has been increasing across all race groups, particularly for Africans. In 2007, 94% of all school age children were enrolled in school, which means there is close to universal access to primary and secondary education.¹⁴ There is however, still a high rate of grade repetition, particularly in secondary school. Enrolment of age appropriate children in grade 12 has increased over time but at 62% in 2007, still suggests either a high drop-out rate or a high repetition rate at earlier grades.¹⁵ Dieltiens & Meny-Gibert (2008) suggest a phenomenon of ‘discouraged learners’, where students are withdrawing from education without entering the job market due to disillusionment regarding their chances of employment. Anderson *et al* (2001) provides evidence that African students are more likely to be repeating grades than dropping out due to high enrolment ratios, particularly after the age of 18.¹⁶ In 2008, more than half of African males and 40% of African females had repeated at least one grade by the time they reached grade 10. Previously students were allowed to repeat grades as often as they liked, which resulted in schools and classrooms being disrupted by the presence of much older children. Regulation has been implemented which prohibits children from continuing in a grade past certain ages, forcing many students to discontinue their education and join the labour force.

African students are also battling to attain their school-leaving certificate when they do reach grade 12.¹⁷ Many students in poor quality schools find themselves inadequately prepared for this national exam and end up repeating this year in particular. Figure 5.2 shows that the Grade 12 pass rate increased rapidly after 1999 but appears to have been falling again since 2003. Due to the low level of education experienced

14. Department of Education, Annual Reports.

15. Department of Education, Annual Reports.

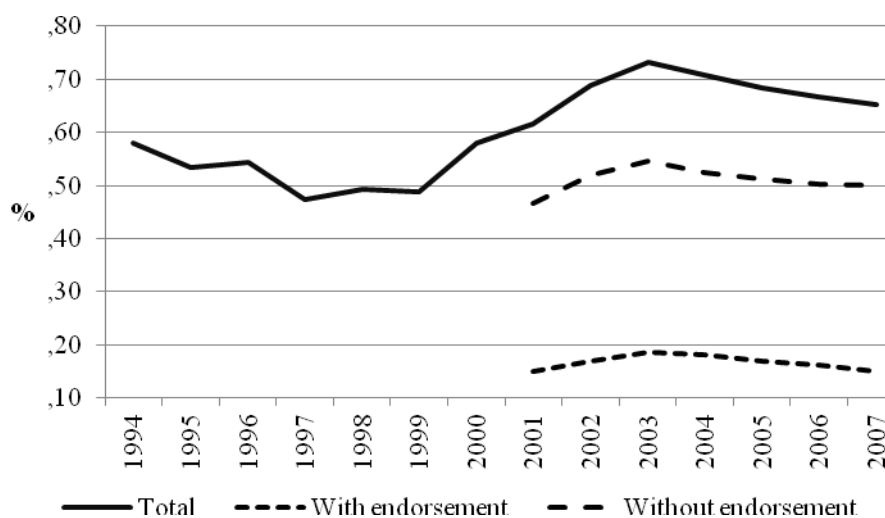
16. Enrolment ratios are the number of students enrolled in a particular grade (irrespective of age) divided by the population who should be enrolled in that grade according to their age.

17. A matric certificate is the final exam in grade 12, set externally by the Department of Education, which signifies the end of secondary schooling (high school) and is most often a minimum requirement for access to tertiary education.

by the majority of the population pre-1994, reallocating resources resulted in large gains post-1994, particularly in secondary education. The fruits of this investment are borne out in Grade 12 pass rates post-1999. However, it appears that factors other than access affecting the quality of education have become more dominant since 2003. More troubling is the low achievement of the certificate with endorsement, which is required for entry into university. This results in access to university education being denied to more than 70% of those passing Grade 12.

The standard of university education in South Africa is relatively high, but unfortunately large variances in the quality of education received at the primary and secondary level results in only a small percentage of the population able to fully benefit from these institutions. In 2008, only 1.4% of working age Africans held a degree, compared to almost 20% of working age Whites (Table 5.3). This proportion for Africans has hardly increased since 1993, while the proportion for Whites has grown by 5.4%. Tertiary education policy provides many incentive and support schemes for Black students but the poor quality and success rate of their secondary schooling effectively excludes them from achieving a university education.

Figure 5.2. Grade 12 pass rates



Source: Department of Education.

Table 5.3. Proportion of working age population with a degree or higher by race ^{a,b}

	African	Coloured	Indian	White
1993	0.5	0.8	6.7	14.2
1997	0.8	1.3	5.5	12.5
2001	1.6	1.5	8.2	15.7
2005	1.6	1.3	6.5	18.5
2008	1.4	2.7	5.5	19.6
Difference 1993-2008	0.9	1.9	-1.2	5.4

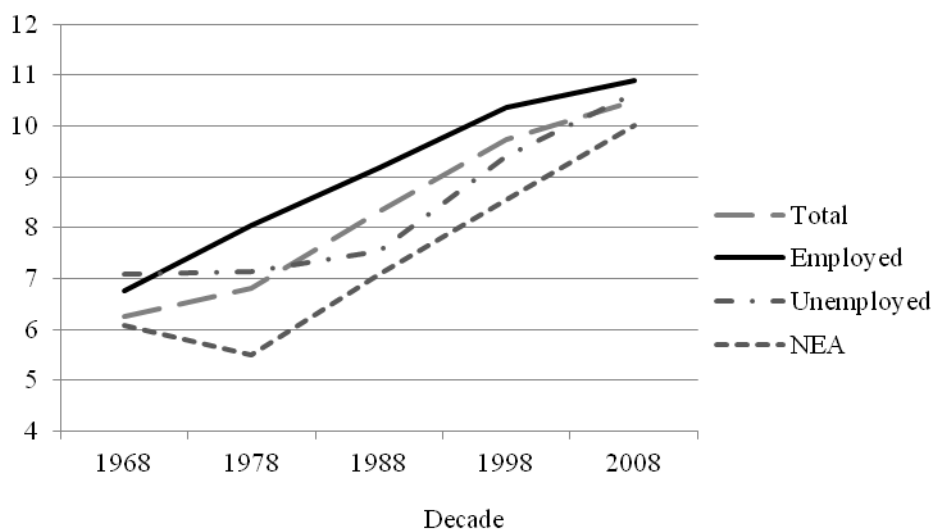
a) Working age refers to the population between the ages of 16 and 65.

b) This includes those with a Bachelor, Honours, Masters or Doctorate degree.

Source: PSLSD (1993), OHS (1997), LFS (2001), LFS(2005), NIDS (2008).

This inequality could go some of the way towards explaining high levels of unemployment amongst Africans, as well as lower average wages. Education is clearly a factor which makes a worker more competitive in South Africa's tough labour market. However, as labour demand fails to keep pace with labour supply, the better educated increasingly find themselves amongst the unemployed. Figure 5.3 shows that the education levels of the employed have been increasing over time, as well as those of the unemployed. In fact the education differential between the employed and the unemployed is smaller now than for previous generations. This suggests that labour demand simply does not have the capacity at present to absorb an increasing number of educated labour force participants.

Figure 5.3. Educational attainment by employment status across cohorts¹⁸



Source: NIDS(2008)

Since education is not homogeneous

us, and exhibits varying functionalities and degrees of quality, the pertinent question to ask is what types of education or skills are lacking in the labour market? The Department of Labour, together with other departments, drafts a national scarce skills list annually in order to try and identify which skills are lacking in the labour market (see box below). These skills are then promoted through Sectoral Education Training Authorities (SETA's) at a sectoral level through various policy interventions and training.¹⁹ Unfortunately these SETA's have proven very ineffective and unsuccessful at producing meaningful levels of change. Generally the skills deficit revolves less around qualifications, although this is important, and more around a lack of work experience within these occupations. What are needed are senior level professionals and managers, which require internships, mentoring programmes and individual career building within an industry (see box 5.1 for details). This helps to explain why unemployment is such a pervasive and growing problem among the youth, despite higher levels of education.

In conclusion, skills shortages suggest some level of excess demand in the labour market that is currently not being met by supply. Tertiary education, particularly in the areas highlighted above, is necessary in order to bridge the divide between labour demand and supply and lower unemployment. Adjusting policy at the tertiary level will not prove very effective if not combined with increased

18. NEA refers to Not Economically Active, in other words, those not included in the labour force.

19. SETA refers to Sector Education and Training Authorities. There are various SETAs catering to different sectors in the economy.

educational attainment and quality at the primary and secondary level. While education policy has taken great strides in improving access to education and educational attainment, particularly for Africans, the quality of education is still very poor. Variable quality of education between previously advantaged and disadvantaged schools serves to reinforce inequality, particularly between areas and races. This unequal access to quality education persists through primary and secondary school, and effectively reinforces inequality at the tertiary level. Low skill levels result in low wages or become a barrier to employment, which reinforces a cycle of poverty and inequality. While chances of employment remain higher for workers with a tertiary education, unemployment in South Africa is increasing across all education levels, possibly eroding the returns to education over time. While increasing skills in identified areas of skills shortage will help decrease unemployment (and boost economic growth) it is unlikely to provide a sufficiently large change due to the extent of the unemployment problem. Thus while more equal access to quality education is necessary, a simultaneous increase in labour demand is required if these newly educated are to avoid joining the ranks of the unemployed.

Box 5.1. National Skills Shortages

The Department of Labour publishes annually a national skills shortage list which explains in detail which occupations the government has deemed as 'scarce skills' for policy and intervention purposes, which can be found at: <http://www.labour.gov.za/documents/useful-documents/skills-development/useful-documents>

This list is too exhaustive to publish here so instead what follows is a list of the annual scarce skills working visa quotas for 2007, as published by the Department of Home Affairs. This list is derived from the national scarce skills list as crucial occupations where the department is willing to import skills, and as such provides a more meaningful indicator of scarce skills than the more expansive list. Including the number of visas allocated for workers also assists in quantifying the extent of the scarcity.

- 5000 – Clinical & biomedical engineers, agricultural science technicians
- 4000 – School teachers (maths, science, design & technology specialisations)
- 1500 – Civil engineering draftspersons & technicians, structural steel & welding trade workers, precision metal trade workers & toolmakers
- 1000 – Civil engineers, biological science technicians, industrial technologist & testers, aircraft & avionics technicians
- 800 – Millwrights & mechatronics trade workers
- 500 – Actuaries, statisticians, economists (in particular agricultural economists), aeronautical engineers, aircraft maintenance engineers, electrical engineers (including draftspersons & technicians), specialist pipe engineering & manufacturing, agricultural & forestry scientists, bioengineers, sheet metal trades workers, boilermakers, metal fitters & machinists, fitters & turners, ICT network & support professionals
- 350 – Autotronics technicians
- 300 – Research & development pharmacologists
- 250 – Avionics engineers, quality engineers & inspectors, veterinarians, earth science technicians, electronics technicians, mechanical engineering draftspersons & technicians, hydraulics & pneumatics technicians, jewellery designers
- 200 – Chemical engineers, astronomers, astrophysicists, atmospheric physicists, space scientists
- 150 – Structural engineers, geophysicists, mechatronics technicians, manufacturing technologists & technicians, electricians
- 100 – Industrial & mechanical engineers, mining engineers, chemists, food technologists, geologists
- 50 – Education planners

5.2 The state of healthcare

In 1994, the newly elected ANC government inherited a health system which was divided in terms of access and quality along racial, geographical and socio-economic lines. The previous apartheid government encouraged the growth of the private healthcare sector in the 1980's in order to reduce demand for public health services through various measures such as deregulating and promoting private medical aid schemes (Centre for Health Policy, 2007). The public sector, which primarily catered for the poor, was commercialized by increasing its reliance on user fees at public health facilities (Centre for Health Policy,

2007).²⁰ Thus, by 1993, private health facilities were being accessed by 23% of the population yet received 60% of the total national health expenditure (Centre for Health Policy, 2007). Consequently, one of the major challenges which faced the new health department was to address the disparities in health care resource allocation.

In an attempt to curb the growth of private health providers, the Medical Schemes Act of 1998 imposed a moratorium on the construction of private hospitals, restricted dispensing of medicines by private practitioners, introduced drug price regulations, and capped dispensing fees (Centre for Health Policy, 2007). The Act also limited the extent of risk-rating by medical aid schemes, and thus encouraged the subsidisation of the sick by the healthy within the population covered by private health insurance. In addition, this subsidisation also prevented sickly patients who had exhausted their private medical insurance benefits from becoming reliant on the public sector (Centre for Health Policy, 2007 and McIntyre *et al*, 2002). It is important to bear in mind that South Africans not covered by private medical insurance had and still have no access to health insurance at all. As such, any reference made to medical schemes, necessarily refers to the private health care sector. The Act does not allow for cross-subsidisation between higher and lower income groups, as it does not require medical schemes to establish income-related premiums (Centre for Health Policy, 2007). Therefore the divide which exists between those who have access to and can afford world-class health care, and those who find access to quality health care nearly impossible, has yet to be adequately addressed.

5.2.1 Private versus public healthcare

Despite attempts by the government to promote equality, especially in terms of access to health care, figures still seem to suggest that South Africa's health care system is dual in nature. Since 1994, divisions within the health sector between rich and poor, African and White, insured and uninsured have broadened (Centre for Health Policy, 2007). On the one hand there is public healthcare, which is cheap and of poor quality, and on the other there is private healthcare, which is unaffordable to the vast majority of the population yet of a very high quality. According to Burger *et al* (2007), household surveys indicated that cost was the main complaint of private health care users, whereas users of public services complained of long waiting times, unavailable drugs, incorrect diagnosis and rude staff. The quality divide between private and public healthcare is further intensified due to the shortage of skilled staff in the public sector due to the low wages offered. Most recently qualified doctors who have completed the compulsory two years of working in public health care either move into private practice or leave the country (Banderker *et al*, 2006). Those without comprehensive private medical insurance are effectively excluded from accessing private healthcare and become reliant on the public health system. This results in a large amount of inequality in quality healthcare provision by income.

It is important to note that access to medical schemes in South Africa is highly unequal. Table 5.4 shows that while 66% of the White population is covered by medical aid (private health insurance), only 7% of the African population belong to these schemes. Since there is no discrimination by medical aids on race, this difference more closely reflects income inequality between races. The proportion of Africans covered by medical aid appears to have decreased since 1996 while the coverage of the White population has remained stable. In addition, older working age adults are more likely to have medical coverage, whereas retirement age individuals are least likely to (Koch, 2009). A vicious cycle develops where unemployed Africans living in poverty are unable to access medical aid and hence quality healthcare, suffer greater ill health, and are thus less likely to be employable and productive in the future.

20. User fees refer to payments made by patients for health services, as opposed to services which are provided free of charge. They are normally adjusted based on the patient's income level.

Table 5.4. Medical scheme coverage by race (in %)

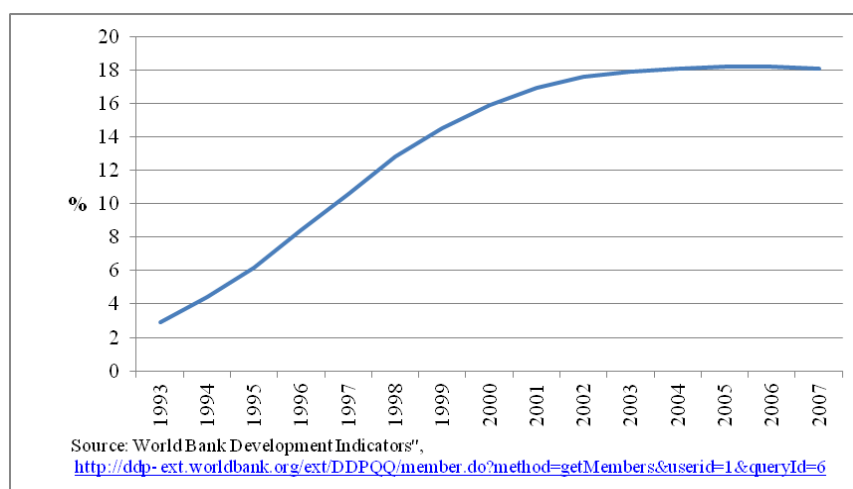
	1996	1999	2004	2007
African	10	8.4	7.2	7.3
Coloured	21.7	21.3	18.4	18.9
Indian	29.5	28.9	36	31.2
White	68.8	67.8	69.7	66.1

Source: Health Systems Trust.

Box 5.2. Impact of HIV/AIDS

One of the fundamental factors placing severe strain on health care service delivery in South Africa is the country's high incidence of HIV/AIDS. Although the percentage of 15 to 49 year olds who are living with HIV/AIDS seems to have reached a plateau, an incidence of over 18% remains critically high (Figure 5.4). The mortality rate for adult males has increased by 24% between 2000 and 2008 and the rate for adult females has increased by 48%, largely a result of the spread of HIV/AIDS (figures from Health Systems Trust). Life expectancy, particularly for females who have the highest infection rate, has been decreasing since 1995. Female life expectancy has dropped by 13 years, from 65 in 1995 to 52 in 2008, while male life expectancy has dropped by 8 years, from 57 in 1995 to 49 in 2008 (figures from Health Systems Trust).

Figure 5.4. The incidence of HIV/AIDS for 15 to 49 year olds



The spread of HIV/AIDS will undoubtedly have an impact on the labour market through slower labour force growth, increased absenteeism, lost skills, higher staff turnover and decreased productivity (Smit & Ellis, 2008). Labour market size projections carried out by Vass (2005) show that HIV/AIDS will result in a smaller labour force, and that workers may become both younger and older, due to the prevalence of the illness in 15-39 year olds. In addition, because women and Africans are disproportionately negatively affected by HIV/AIDS, a decrease in the supply of female and African workers may be predicted (Vass, 2005). The overall impact is hard to quantify since slower labour force growth should positively impact unemployment, but higher mortality and ill health will negatively affect productivity. However, as HIV/AIDS is most prevalent among the unskilled and semi-skilled portion of the labour market, according to Vass (2005) the distribution of HIV infections and mortality will serve to impact economic indicators significantly less than predicted by the World Bank. While GDP is generally expected to fall, GDP per capita may not and may in fact even rise over time as the population losses outweigh the productive losses (Smit & Ellis, 2008). At a micro level, the loss of breadwinners lowers household income and pushes many families below the poverty line. This is likely to exacerbate inequality between races and the socio-economic divide.

The duality inherent in South Africa's health care system is exacerbating inequalities mainly among racial and geographic divides. Due to high private sector costs and low medical scheme coverage the majority of South Africans, particularly Africans and the poor, are denied quality healthcare. Populations residing in rural areas also suffer from a lack of adequate public treatment centres. This results in these populations suffering from greater ill health and less likely to become productive members of society. The progression of the HIV/AIDS pandemic serves to further increase this divide. At present, government policy does not play enough of a redistributive role in terms of equal access to quality healthcare.

5.3 Redistributive impact of fiscal policy

Fiscal policy redistributes resources through tax collection and subsequent social expenditure. South Africa's income tax system is redistributive in nature and levies progressively higher tax rates on higher income earners. Analysing income distribution before and after taxation or social expenditure provides a window through which the effects of redistributive policies can be analysed. In 2006 the Gini coefficient for income before receiving social transfers was 0.69, for income after social transfers was 0.52, and for income after taxes was 0.47 (Van der Berg, 2009). Despite the large difference social spending makes, the level of inequality after social transfers is still relatively high. Therefore the scope is fairly limited for decreasing inequality through further fiscal reforms.

There was a large redistributive shift in social spending towards the poor post-1994 and pro-poor targeting of social spending has continued to be a priority. Social spending impacts on inequality directly, through measures such as social grants, or indirectly, through the human capital gains of health or education. Expenditure as a percentage of GDP shows the relative size of various measures of social expenditure (Figure 5.5). While education spending has remained the largest, social spending is rapidly catching up, fuelled by greater tax receipts and lower debt servicing. How effective these expenditures are depend on the targeting of the population as well as the transfer of this expenditure into improved living standards for the poor.

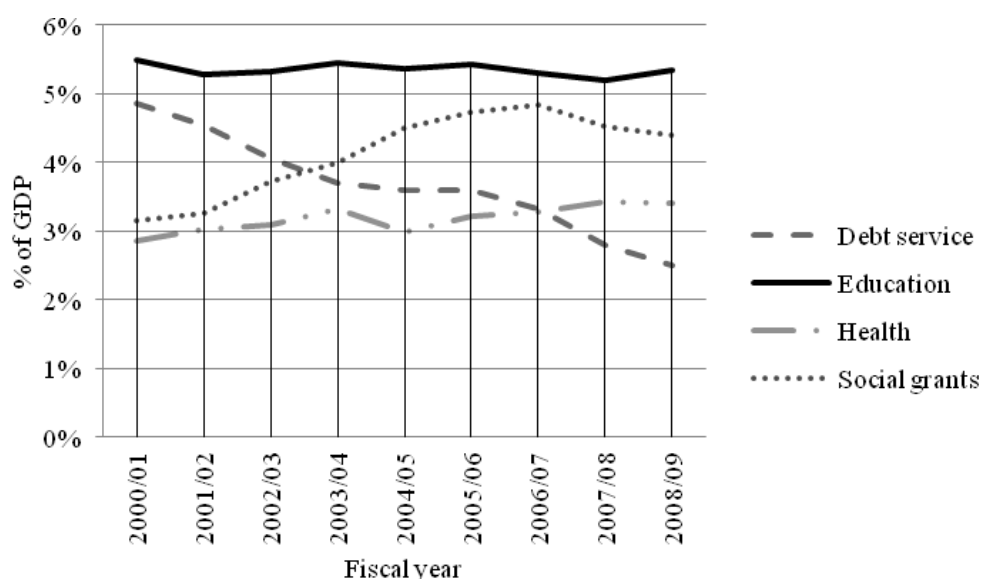
The country's health expenditure varies widely by province and by private or public. In 2007 the Western Cape was spending the highest amount per capita on health (ZAR1272) despite containing a relatively small proportion of the country's poor. Conversely, Limpopo was spending the smallest amount per capita on health (ZAR 720) despite containing a relatively large proportion of the poor.²¹ The average amount spent on each person in the private sector is more than 5 times higher than the amount spent on each person in the public sector, due mostly to the relatively large number of people using public healthcare. This ratio increased between 1997 and 2002 but started to decrease after that year, showing an improvement in the allocation of health resources.

In an attempt to address the variable quality of education across schools and provinces, government has attempted to shift the distribution of resources towards formerly disadvantaged schools and poorer provinces. Gauteng and the Western Cape received the smallest increases between 1999 and 2007, while the North-West and KwaZulu-Natal have received relatively large increases.²² Large resource shifts towards previously disadvantaged schools in poor areas have failed to address unequal quality of education, as discussed previously. Van der Berg (2008) shows through regression analysis that variances in grade 12 pass rates cannot be explained by the level of school fees, or government resource allocations. So while educational spending has become more redistributive, quality of education received remains unrelated and unequal.

21. This data comes from the Health Systems Trust database.

22. Data comes from the Department of Education and the Reserve Bank.

Figure 5.5. Expenditure items as a percentage of GDP



Source: South African National Treasury (various years).

Table 5.5. Concentration ratios by social sector ^a

	Education		Social grants				Health			Housing	Total
	School	Tertiary	Child support	Disability	Old age	Total	Clinics	Hospitals	Total		
2000	-0.121	0.528	-0.247	-0.291	-0.412	-0.371	-0.177	-0.105	-0.118	0.16	-0.112
2006	-0.128	0.641	-0.318	-0.288	-0.436	-0.359	-0.257	-0.103	-0.137	0.07	-0.152
Change 2000-2006 (in %)	5.8	21.4	28.7	-1	5.8	-3.2	45.2	-1.9	16.1	-56.3	35.7

a) Concentration ratios are similar to Gini coefficients and describe the distribution of expenditure by population income. A positive value means spending is biased towards the wealthy, a value of zero means no discrimination by income, and a negative value means spending is biased towards the poor.

Source: Van der Berg (2009)

South Africa has been fairly successful at targeting the poor through social expenditure. Table 5.5 illustrates how concentration ratios remain negative and decreasing across most categories of expenditure. In comparison, amongst a group of 30 developing countries the average value for school education was 0.01, for tertiary education it was 0.39, and not a single negative value was found for health expenditure (Yaqub, 1999). Social grants are the most successfully targeted form of social spending, due largely to the means testing required to qualify. Health expenditure is also well targeted, as a result of those with higher incomes shunning public healthcare in favour of the higher quality private sector (Van der Berg, 2009). Housing still exhibits some bias away from the poor, although this has decreased between 2000 and 2006. This is a result of housing subsidies largely benefiting urban residents and excluding some of the poorest of the population living in rural areas (Van der Berg, 2009).

The least redistributive form of social spending is that on tertiary education. Tertiary education subsidies are 2.5 times larger for the natural sciences as opposed to the humanities or social sciences, in an

attempt to encourage the development of scarce skills. Since less African students register to study in the natural sciences, the allocation of resources becomes biased towards White students (Van der Berg, 2009). Barriers to entry into tertiary education often prove too high for poorer students and as such tertiary institutions are populated mainly by more affluent learners. Poorer students attend poor quality schools and as such are unlikely to perform to the standard required to enter tertiary education. For those whose performance is high enough, the opportunity cost of not earning any wages while studying is often too high, as well as the actual cost of education itself (Van der Berg, 2009). Bursaries and scholarships are available to poorer students but do not make enough of a difference to alter the demographic of tertiary institutions.

5.4 Conclusion

The post-apartheid labour market has not translated South Africa's strong macro-economic and growth performance into substantially improved inequality and poverty outcomes. However, an additional benefit of strong macro-economic performance and economic growth is that it generates tax revenue for use by the state on social expenditures. The last two sections of this report have shown that the state has used increased tax revenues to follow an aggressive set of social expenditure policies. On the social assistance side, these expenditures have been successful and key to poverty alleviation efforts. Also, there have been continual improvements in access to services such as water, electricity and housing. However, in terms of human capital policies, this revenue has not translated into improved education, training and health services. The labour market is demanding an increasingly skilled and productive workforce and the weakness of our human capital policies continues to leave those who were particularly disadvantaged by apartheid poorly equipped to face this future.

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