



Labour Markets and Social Policy

A Review of Labour Markets in South Africa: Research Gaps: Labour Market Function and Policy in South Africa

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**RESEARCH GAPS - LABOUR MARKET FUNCTION
AND POLICY IN SOUTH AFRICA**

Final Report to Sida

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Review of Labour Markets in South Africa



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The Sida-HSRC project to review research on the South African labour market identified a set of knowledge gaps, based on the seven overview papers prepared. This outline briefly reviews findings and gaps identified. For more detailed insights, the reader is encouraged to review these papers.

Context

The labour market landscape has changed dramatically over the first decade of democratic governance. Of course, the most obvious change is extremely high and rising rates of open unemployment. This was partly caused by restructuring and capital intensification in traditional resource based industries, without a concomitant growth in manufacturing or services.

Historically, the South African formal work places were dominated by large public sector, industrial, mining and agricultural employers. This changed dramatically over the 1990s due to a combination of factors such as globalization, product market liberalizations, intensified domestic competition arising from easier market entry, greater alignment of labour market regulation. Services sectors, whether formal or non-formal, have been an important source of employment growth. People in part-time, temporary, home-based and externalized working situations can no longer be seen as “atypical” but rather as the norm. There is now a ‘diversity’ of workplaces, and continuous movement of workers between work states – ‘core’ formal, ‘non-core’ formal, informal and unemployed.

A paper by Gus Edgren situates South Africa in a global context, with comparisons drawn to Brazil, Mexico, Malaysia, Poland, Turkey and Slovakia. Particular differences in South Africa appear to be the slow rate of urbanisation despite the lifting of Apartheid legislation, and the relatively small informal sector. Relative to these countries, South Africa experienced very slow per capita growth rates in the 1990s, which partly explains the extremely high rate of open unemployment.

1. Low wage work

Generally labour market analysis distinguishes the formal sector and the informal sector, with studies rarely considering them together. This project explicitly recognises the fluid boundaries between low wage formal and informal work. The paper by Imraan Valodia reviews the character of low wage formal and informal work, and then considers transitions between the two. This category of worker comprises the majority of the workforce: approximately 65% of the workers earn less than R 2 500 per month and 50% earn less than R 1 500 per month. They are approximately evenly divided between formal and non-formal sectors. The paper by Miriam Altman shows that low waged formal workers have experienced a fall in real earnings since the mid 1990s. Valodia's paper shows substantial churning between employment states. While some workers experienced a positive upward move into the formal sector with higher earnings, the main shift was from formal to informal and unemployed, and diminished earnings from work. In fact, 53% of low wage workers in the Labour Force Panel changed work status between 2000 and 2004.

This poses a number of critical questions that influence most areas of labour market policy:

- *What is the dynamic between formal and non-formal work? What is the role of the household in linking work opportunities? Is the informal sector a route to formal opportunities? Or is the informal sector a fall-back position for those not accessing or having lost formal jobs? Do people have livelihood strategies that involve simultaneous work status that intertwine?*
- *Is informalisation and the expansion of low wage service work a response to labour market regulation?*
- *An increasing proportion of the workforce work in low wage, vulnerable contexts, which involve multiple livelihood strategies. Company-linked entitlements are increasingly the preserve a small proportion of the labour force. In future, policy will need to recognise that: (1) money wages may become less important than social wage type benefits and (2) a shift to socialised benefits and income, away from private benefits may be required.*

2. Labour market regulation

Labour regulation was framed for the previous reality. The paper by Paul Benjamin argues that the legal scope of employment relationships do not sufficiently accord with the emergent realities of working relationships. Regulatory frameworks will need some review to assess the application of law and implementation to vulnerable ‘non-core’ workers, who are not in full-time permanent positions with limited access to private entitlements. Some regulations and policies do reflect this: for example, the setting of minimum wages and standards and the Basic Conditions of Employment Act. There are others that, while possibly being extended to vulnerable workers, may not be an appropriate instrument for underpinning risks. For example, the Unemployment Insurance Fund will act as a small short term benefit to a low earning domestic worker who loses her job. Moreover, UIF may not effectively reflect that workers are increasingly moving around the economy and need a flexible support mechanism that enables this movement, especially where re-training is to be encouraged: instead it may be penalising employees who want to change workplace, be re-trained or become self-employed.

A review is required to assess the alignment of labour regulation and the application of resources to current realities, where a large portion of the workforce are in vulnerable, low paying, contracts with limited access to workplace entitlements whether medical aid, pensions or services such as training. This would need to have an eye to improving labour mobility as per the ‘social plan’ commitments initially proposed in the Presidential Labour Market Commission of 1996 and the Presidential Jobs Summit of 1998. The development of employment subsidies and other funds to enable mobility should also be investigated.ⁱ This should include an evaluation of the potential linkages between different labour institutions such as those dealing with unemployment and those dealing with skills development.

There is a public debate that calls for ‘de-regulation’, reduced regulatory burden and changes to labour regulation. This sort of discourse puts the clock back to the pre-democratic governing period. The democratic government recognized that there is always regulation that enables and guides appropriate balances between efficiency and equity. The regulatory environment enables the exercise of democratic rights and some minimum standards. The central question is what regulatory environment underpins an appropriate balance between equity and efficiency. The lack of empirical evidence on the *implementation* of labour market regulation is a major gap that constrains the ability to identify where there may be problems in relation to institutions, as opposed to fundamental regulatory design. Changes to regulation are premature: there is no guarantee that regulatory changes would resolve the current problems. It is perhaps rather the case that the institutional framework is not clear or strong enough.

Much is asserted, but little is actually known about the impact of labour regulation. There are a number of levels at which analysis would be required. Improved monitoring and evaluation is needed to review the interaction between the law and regulatory institutions and regulated organizations responsible for enforcement, interpretation and compliance.



3. Wage formation

Wage formation is a highly sensitive issue. It lies at the heart of the bargain between workers and employers. Wages play an important role in the broader economy from both efficiency and equity perspectives. The paper by Miriam Altman reviews the state of knowledge on wage determination in South Africa. Her central findings include:

- For some time, there had been a view that the wages of low and mid skill workers were rising relative to high skill workers. Although this could be seen as a correction after many years of exploitation, it was also perceived to be one constraint on competitiveness and employment growth. This may have been true in the 1980s (albeit growing off a very low base), the trend reversed in the 1990s. Instead, low skill workers experienced a fall in real earnings and high skill workers large increases. There may be a number of explanations. Firstly, externalisation or contracting out would enable industries to re-employ and hire on different terms. Shifting industry structure towards services complements this. This may indicate that the labour market is “flexible” from the perspective of wage setting. On the other hand, rising higher skill wages is explained by cross-economy skills shortages and capital intensification in certain sectors. Significantly, one author finds that high skill workers are significantly “overpaid” as a result of workplace discrimination and limited competition.
- Unions and labour regulation are often seen to constrain ‘flexibility’ in the labour market. The limited evidence available shows that these effects mostly impact isolated sectors. For example, concern is often expressed that bargaining council agreements are extended to un-unionised small firms. A study using 1995 data found that 15% of formal workers were covered by Councils directly, mainly in the public sector, mining and metals. Paul Benjamin finds that extensions could apply to a maximum of 300,000 workers. Moreover, 77% of the applications for exemption made to the Minister of Labour are generally approved. On the other hand, unions seem to have the important impact of narrowing racial wage gaps within firms.
- Minimum wage determinations have also been under the spotlight, particularly the new ones set for agricultural and for domestic workers. A very small number of studies have been done to reflect on the possible impact of these determinations, but these are theoretical. Few empirical studies have been done – Altman found one case study in one region that found that domestic worker employers would pay a higher wage and reduce work hours.
- The concept of ‘discrimination’ needs to be unpacked so that policy is targeted appropriately. A large part of the problem arises out of unequal access to schooling, higher education and networks. Another part results from discrimination within the labour market, found in recruitment practices, occupational crowding, sector crowding, work status, income and worker representation. These can sometimes occur as a result of ‘statistical discrimination’ where certain characteristics are attributed to workers as a result of their race, gender, place of schooling, etc. Few studies isolate the specific causes of earnings differentials.

A set of critical research questions then include:

- *What are the implications for competitiveness and equity? The fact that low skill wages have been stagnant or falling in real terms does not mean that labour costs are competitive. To assess this, more research would be required to compare unit-labour costs in specific sectors with global competitors. However, it does mean that policies to promote competitiveness could not rely on pressing wages lower.ⁱⁱ As already noted, the majority of the workforce earn less than R 2 500 per month.*
- *Alternative strategies to promote competitiveness and equity need to be identified, with the aim of reducing dependence on “money wages” and increasing the social wage or subsidising wage goods. This has the effect of expanding the “consumption basket” (effectively increasing earnings), but without putting pressure on private firms. These are strategies pursued by some countries, such as China in present day, and Canada, northern Europe and the USSR previously.*
- *Discrimination creates “mark-ups” on high skill workers. The last study on this question reviewed data from 1995. Research by the HSRC based on a 1990 survey did find persistent differences in the employment experience of graduates by race. The 1995 study needs to be updated, and continuous monitoring and evaluation is required. Moreover, the effect of persistent discrimination on growth and employment requires review. More research is needed to explain the slow implementation of employment equity, reflecting on company human resources practices. Persistent discrimination needs to be seen not just as a moral issue, but also as a brake on growth. The appropriateness of the legal framework dealing with discrimination would have to be evaluated in the light of any findings.*
- *While more women are being employed, there is still substantial ‘crowding’ into low earning occupations and sectors. Empirical research is needed to understand why women aren’t moving into non-traditional occupations and sectors.*
- *Research is required to update knowledge on bargaining council coverage and the impact of agreements. Sector studies are needed to assess the impact of unionisation and labour regulation.*
- *Empirical analysis of the impact of minimum wage determinations is required.*



4. The role of the public sector

Approximately 18% of the formal employment is contributed by government. Although this is a shrinking share, Government may be playing an important role in the labour market. The paper by Miriam Altman shows how the public sector has moved to a more narrow wage gap (highest/lowest, and by race) than that found in the private sector. Black women earn 38% more in the public sector than in the private sector. The public sector is the main first employer of black graduates. While the DPISA has devoted great energy to improving equity as an employer, relatively little attention has been explicitly devoted to assessing the role of the public sector in the labour market.

A number of critical questions include:

- *What role should the public sector play as an employer of last resort, especially in a context of high unemployment?*
- *Will slow growth in public sector employment impact on returns to education for black graduates, especially in a context of persistent inequities in labour market experiences of black graduates?*
- *Does the public sector offer wage leadership to, and does it have any impact on, reducing pay disparities in other sectors?*

5. Education and training

Differences in quality and access to education continue to pose an early obstacle to labour market participation for the majority of black South Africans. Although African secondary school enrolments rose dramatically over the 1990sⁱⁱⁱ, the quality of learning differs dramatically, as evidenced by weak TIMSS scores.^{iv} Access to higher education also improved dramatically, but without comparable improvements in earnings or labour market status. The paper by Percy Moleke outlines some of the reasons for continued differences in labour market outcomes caused by unequal access in the education and training system.

There is already considerable information available on the education system itself. However, understanding the link from education to labour market status is not well understood. Some of the research gaps included:

- *Improving education – industry communication to enhance the quality and appropriateness of tertiary education and reduce the extent of skills mis-matches. This includes the exploration of financial incentives (such as bursaries, core institutional finance) in guiding appropriate behaviour of education institutions and learners.*
- *Improving networks for black learners, through work placements*
- *Identifying the appropriate role of public versus private institutions in meeting labour market needs*
- *Exploring policy options related to improving the quality and availability of maths & science teachers in previously disadvantaged schools.^v*

Considerable research has been done for training agencies and accreditation authorities to identify sector skills gaps. However, there has been very little monitoring and evaluation performed. To our knowledge, no studies have been done in South Africa to monitor and evaluate the impact of training on productivity and earnings. The few available international studies are very controversial, in that some show that vocational and other training has had little impact on productivity. This may mean that great care will be needed in devising appropriate methodologies for policy impact analysis.

Finally, some analysis is required to assess whether the current skills development system is effectively aligned to a context of growing labour vulnerability – with more workers in smaller firms and looser contracts.



6. School-to-work transitions

School-to-work transitions refer to activities ranging from full-time schooling activities to post-school activities (including FET, HET) to employment or labour market programmes and community participation. Intermediation refers to all services and activities that enable the matching between learners/workers and employers.

The activities leading up to and including first entry into the labour market can have an important impact on future earnings status.

The changing nature of work has a dramatic effect on the type of labour market intermediation needed. For example, labour brokers historically played an important role in recruiting workers for the mines. This was a highly centralised system. Now with externalised work, smaller firms, and the emergence of services sectors labour brokers still recruit but can also act as “employers” to flexible placements. With the diversity of workplaces, the emergence of new and smaller firms and changing industrial structure, labour market entrants require ever more information about what skills are needed, where to study, and how/where to find a job. The Department of Labour provides services to work-seekers, but so does the private sector. A demobilised youth results in a situation where young people do not as easily link into the required information: instead they hook into different channels of information that are more individualised.

Despite the critical importance of this policy area, we found very little empirical information on the experience and efficacy of private and public services and support in South Africa. In addition to the paper produced for this project by Renette du Toit, the HSRC held an international round-table in May 2005 on the subject to explore the experience of other developing countries including Malta, Thailand, Brazil, Botswana and India. The ILO also participated, along with South African stakeholders and Government departments. The following were found to be critical research gaps:

- **Theory building:** *there is a need for basic theory-building in this area, as terms are used loosely without clear definition. This will constrain policy development and evaluation. Consideration needs to be addressed to: the meaning of work; career adaptability versus career maturity; and the indigenisation of career theory.*
- **Policy issues:** *The gap between theory and practice needs to be narrowed. A review of current policy against the need, especially in light of the great racial differences in access to information and opportunity is needed, in light of relevant ‘best-practice’.*
- **Service delivery:** *An audit and impact analysis is needed of available services, access to information, networks and opportunity. Ongoing monitoring and evaluation is needed to assess why career guidance and related services are not meeting the need.*

7. HIV/AIDS in the labour market

It is well known that HIV has spread in South Africa, although there is some dispute about prevalence. Analysis of the labour market trends rarely includes the HIV/AIDS pandemic, partly as a result of limited information, but also because it is too early to isolate its impact. Most studies focus at the firm level where its effects are easier to discern. The effect on the labour market as a whole will become evident over time. Jocelyn Vass prepared a paper that reviews the available information, and draws conclusions for potential impact on the labour market, particularly in relation to more vulnerable workers.

She identifies critical research gaps to include:

- *Empirical information is required in respect of HIV/AIDS prevalence in the labour market. Current sources of information focus on household survey (the Mandela Foundation – HSRC survey), ante-natal clinic data, or firm level data. Surveys are required, including that which tests for the virus, that are specifically designed to assess prevalence in sectors and in the labour market more broadly. This would enable a tracking of potential and current impact of HIV/AIDS on the size and structure of the labour force and of working people.*
- *Policy research is needed to identify appropriate sector-wide interventions to enable workers in smaller and more vulnerable workplaces to access HIV/AIDS education, counselling, ARVs, etc.*
- *Firm-level and sector wide evaluations are needed to assess the efficacy of interventions.*
- *The impact of HIV/AIDS on skills and the replacement of skills in critical sectors requires review.*
- *Research is required to deepen the understanding of the potential impact of HIV/AIDS on potential growth and employment strategies. Moreover, an assessment is needed of whether anticipated impact of HIV/AIDS negatively influences employer and investor behaviour.*



8. Active labour market policies

A comprehensive investigation is required to review possible policy approaches to “Active Labour Market Policy”. Policies have been implemented since 1996 to improve labour market facilitation. In a context of extremely high open unemployment, this set of policies needs to be more forceful. There is a wide range of policies tested internationally, with mixed results. Examples include:

- *Incentives or subsidies for employers;*
- *Incentives or subsidies to individuals;*
- *Direct employment/job-creation schemes;*
- *Work-sharing/reducing labour supply;*
- *Vocational training-based schemes;*
- *Job-search training and counselling; and*
- *Improving labour market information.*

Research is required to determine an appropriate set of active labour market policies, to support new labour market entrants, long term unemployed, and those in-between work. More could also be done to prevent job losses, particularly through ‘early warning systems’ and productivity schemes. There is considerable global debate in relation to whether policies should be designed and implemented nationally or locally, and the appropriate role for Government, labour and/or employers.

9. Labour statistics

The statistics on employment and remuneration need strengthening so that they can be reliably used for time-series analysis. This is particularly the case for services sectors, and partly explains why most analysis focuses on manufacturing. It is difficult to reliably determine wage-employment-productivity relationships within South Africa's growth path for the 1990s. This is partly the result of weak and sometimes confusing time series data on remuneration and employment. The HSRC has produced two papers in this regard that are being reviewed by the Statistics Council. Further research may be determined from that assessment.

Moreover, a major constraint to analytical work regarding wages, mobility and education to work is that no occupational classification beyond the two-digit level of ISCO is available. More detailed occupational classification, possibly through sub-samples of the OHS.



Endnotes

- ⁱ During the workshop, Gus Edgren provided an example, namely Singapore's national provident fund.
- ⁱⁱ Although a Rand devaluation would have the effect of reducing the real wage faced by foreign firms.
- ⁱⁱⁱ Enrolment of Africans in secondary school rose by 329% between 1975 and 2000.
- ^{iv} TIMSS is a multi-country test administered to school age children to compare their capabilities in maths and science. South Africa generally fares very poorly relative to other sub-Saharan countries. The test scores are particularly weighed down by the historically disadvantaged schools.
- ^v Prof Eddie Webster put forward the idea of free bursaries to African matriculants to study math/science and then committed to teaching for 4 years in the public school system. This then offers a complement of improving maths & science teaching, whilst also encouraging more African tertiary students to pursue math and science related careers.