

# **Public policy in an unequal society: the case of South Africa presentation to the ILO**

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# The policy dilemma for SA

- middle income country with HDI similar to low income economy.
- large low skill labour surplus:
  - has the highest rate of open unemployment in the world (for peaceful nation) = about 26%
  - 60% of workforce do not have high school diploma (3/4 of africans)
  - 90% of unemployed have high school diploma or less
- legacy of exclusion affects education, health, entrepreneurship, networks, etc
  - Eg 25% of SA children stunted due to malnutrition
- severe labour market misalignments: space, information, skills, networks, etc
- extreme racial bias in economic opportunity and poverty rates continues
- large young population that is particularly affected

# Policy opportunity

- Strong fiscal system, with high tax compliance and improved expenditure capability
- “Fiscal space”
- Substantial sovereignty in policy scope
- Social dialogue possible and happening
- Government has committed to objective of halving unemployment and poverty from 2004 - 2014

*Question = how to generate development path that is more labour absorbing, with best possible access to economic opportunity & social protection?*

## HSRC

### “Evidence-based Employment Scenarios”

- Draws together top decision-makers from government, labour and business
- Independent reference group: no agreement required nor decisions taken

*This group asks:*

- What are the possible scenarios for employment & incomes?
- What are the policy choices and trade-offs?
- What are the financial, bureaucratic and political implications?

# 3 main strands in this project:

Where might jobs be created & how?

What impact would this have on incomes?

- Market based
- Informal economy
- Survivalist activity
- Public service
- Public works & community care

Is the labour market aligned to the required

development path?

- Appropriateness of education to employability in emerging economy
- Labour market functioning (eg information, access)
- Regional migration
- Social protection

What are the political implications and the role for social dialogue?

- Inflation/unemployment trade offs?
- What are the elements of a macro accord
- What is achievable in the C&V context?

## **Some context:**

### **Halving unemployment in SA by 2014**

- Would require net job creation of about:
  - 5 million net new jobs to halve structural unemployment (about 4.2% net annual employment growth)
  - 6.8 million net new jobs to halve total unemployment

***First dialogue area:***  
**to understand trajectory of market  
based employment creation & impact  
on incomes**

# Employment experience: 1970-1995

	Positive or negative growth	Formal employment	Avg growth pa
Employment	+	1,400,00	0.7%
<i>Of which:</i> African		1,800	
Coloured		447,000	
Asian		177,000	
White		760,000	
EAP	+	4,600,000	1.4%
Agriculture	-	1,200,000	
Mining	-	211,000	
Manufacturing	+	430,000	
Construction	-		stagnant
Services	+	2,400,000	1.1 growth

Employment stagnant relative to EAP growth

## % change in employment by sector, 1997 - 2005

	Total 1997-2005	Avg annual growth (%)	Sector employment in 2005 ('000s)
Manufacturing	6.2%	0.8%	1,467
Construction	75.1%	9.4%	618
Finance	86.4%	10.8%	1,238
Trade	58.1%	7.3%	1,848
Community services	21.0%	2.6%	2,033
Total FS employment	26.2%	3.3%	8,812

IFS	107.0%	13.4%	954
Domestic	9.6%	1.2%	1,088

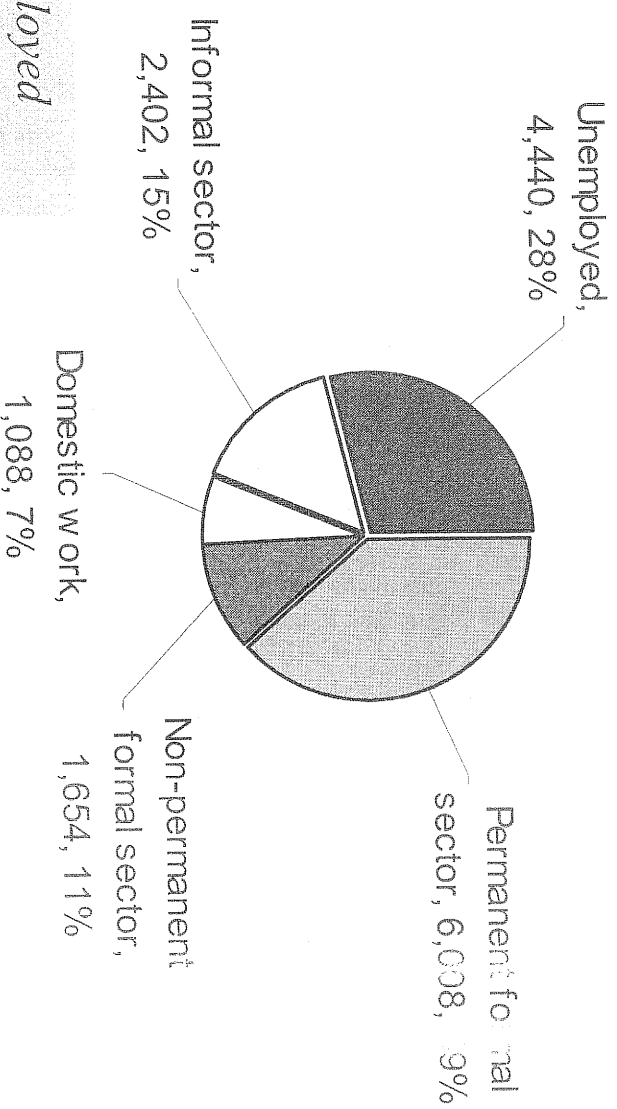
Very slow growth in tradables

Main employment growth in mostly non-traded activity

# Distribution of SA Labour Force

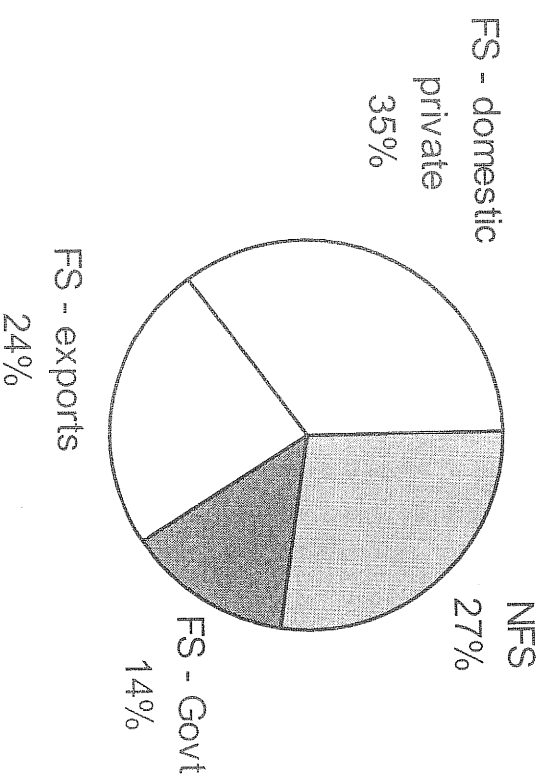
Plus about 3.5 m discouraged

About 33% underemployed



“Unemployment” rose dramatically over 1990s  
But ratio of non-working to working remained @ 3:1

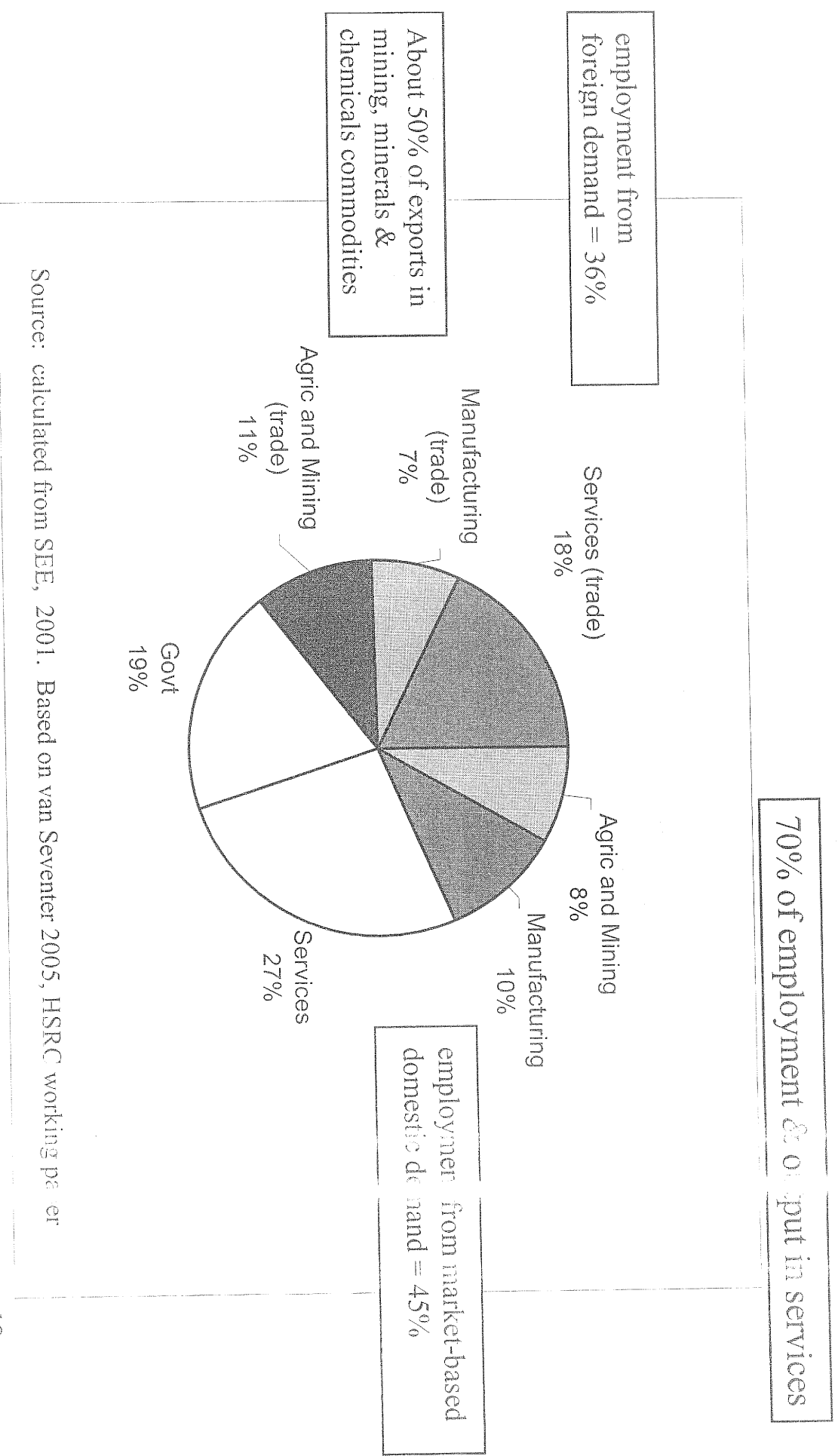
# Sources of employment (direct & indirect)



51% if direct

If direct – then less than 1 million = or about 7%

# Sources of employment



Source: calculated from SEE, 2001. Based on van Seventer 2005, HSRC working paper

Direct & indirect

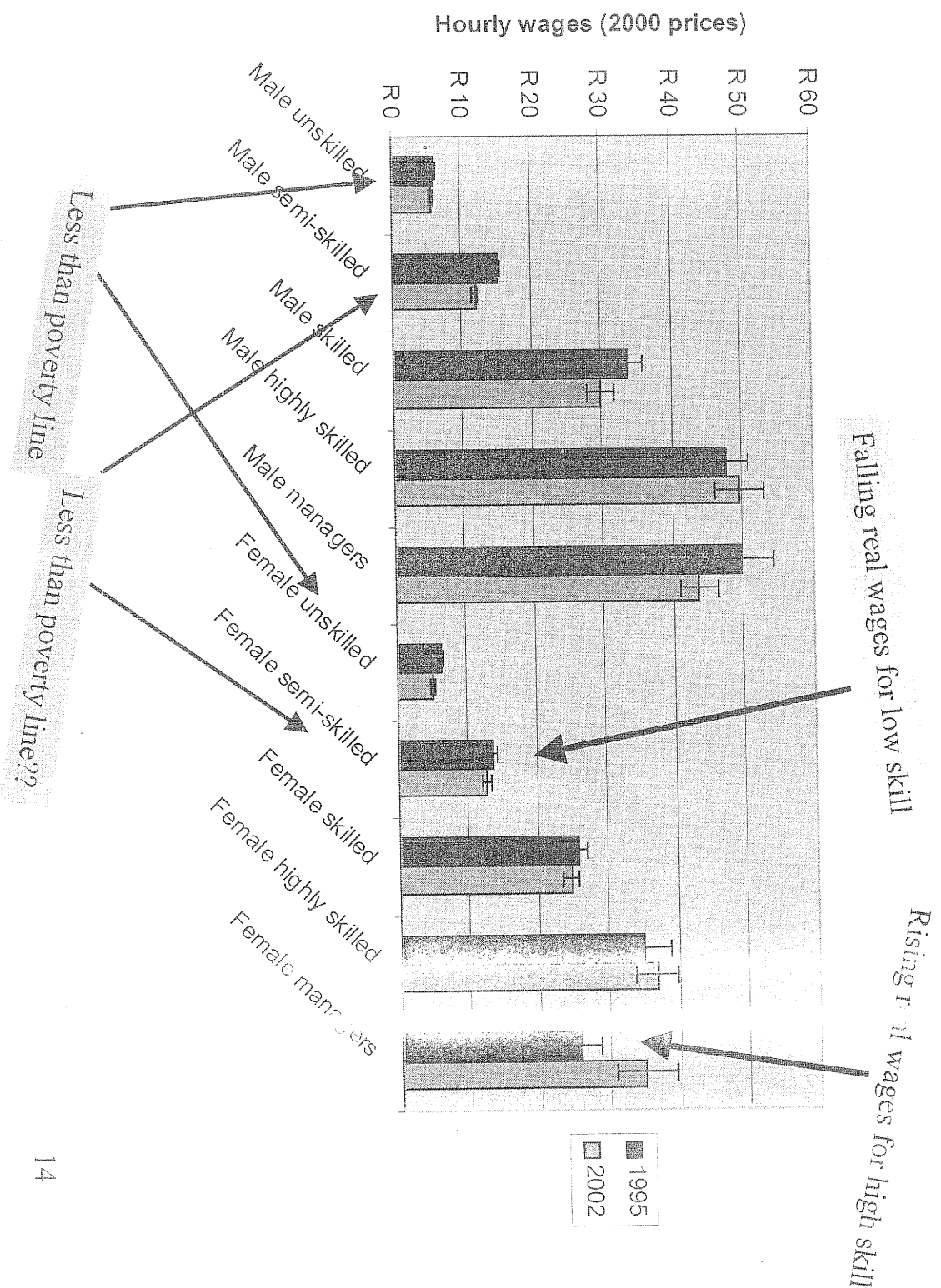
# Wages

- “Wage convergence” has been common explanation of rising low skill unemployment
  - based on experience of rising black wages between 1972 - 1985 & stagnant white wages (although massive inequalities persisting)
- In 1990s find:
  - “Wage divergence”
    - Rising high skill wages
      - evidence of high skill ‘mark-ups’ due to shortages & discrimination
  - Falling or stagnant low and semi skill wages
    - Growth in low productivity services
    - Contracting out

## Consistent with current employment creation path:

- high skills constraints & mark ups may be one explanation for slow FS employment growth
- falling low skill wages consistent with precarious low level services jobs

# Wage Trends by Skill Level Formal Sector (2000 prices)

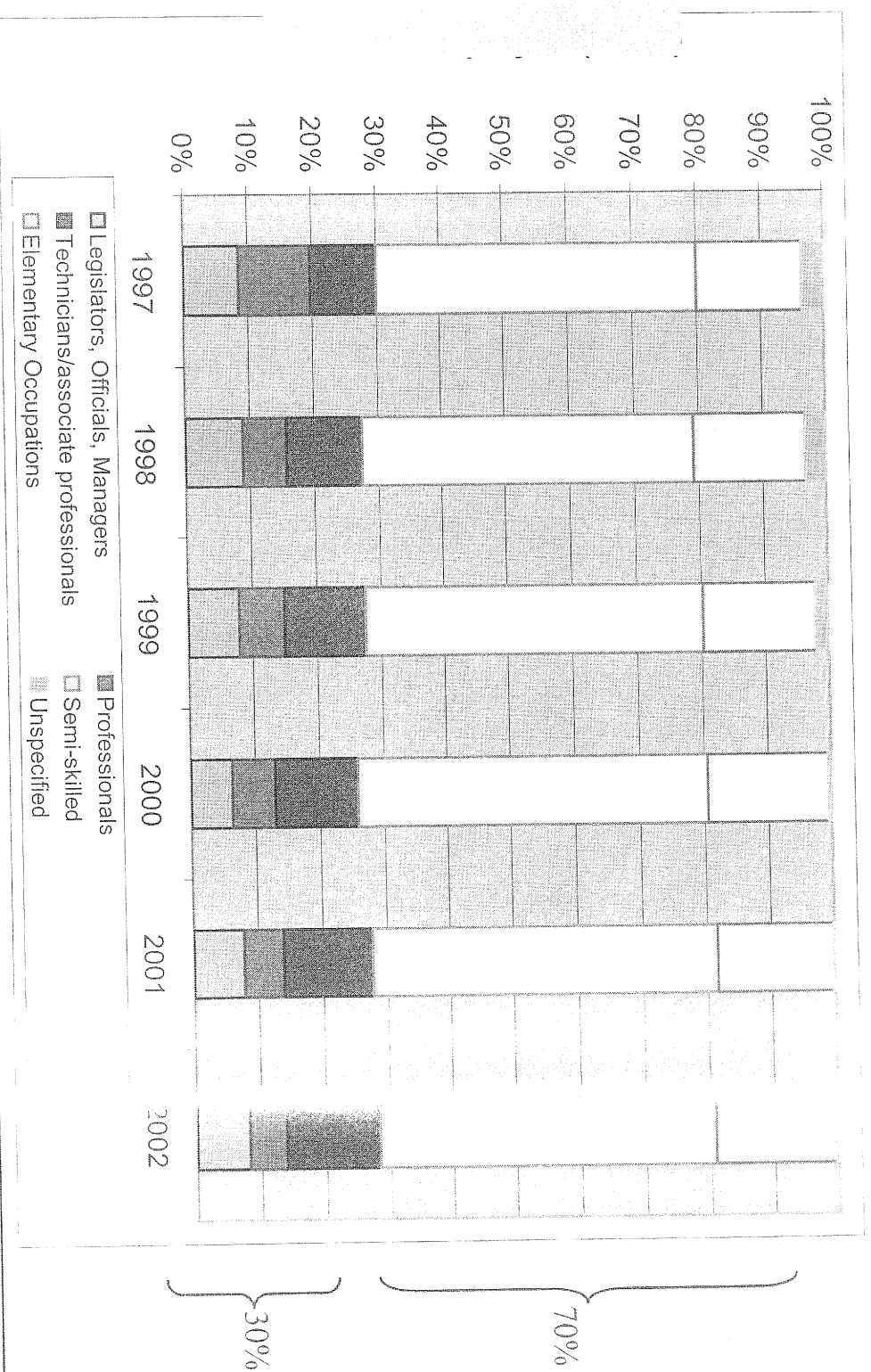


# Elements of wage gap

- Racial wage gap:
  - eg. skilled African men earn 43% less than their white counterparts (2003)
  - Coloured semi-skilled workers earn 40% more than their African counterparts (2003).
  - In 1994, discrimination accounted for 29% of wage differential
    - White worker would have earned 28% less if no discrimination
    - Black worker would have earned 15% more if no discrimination
- Informal – formal:
  - Informal sector workers earn 1/5 to 1/2 less than those with the same educational attainment in the formal sector
  - For eg. a high school graduate earned R 2000 in the IFS, and R 4000 in the FS on average (2002).
- Urban – rural:
  - Low rural earnings tied into sector profile
  - Agric workers earn about 1/4 of average formal urban african men's earnings.

# Consistent with Skills distribution

*Skills distribution in formal sector*



**Constant proportion of high & low skill since mid 1990s.  
Explained by expansion of low paid service jobs**

*To what extent is pie smaller as result of skills co. strain?*

# Low earners

- 65% of all workers earn less than R 2,500 per month (€382)
- 39% of all workers earn less than R 1,000 pm (€143)
- To contextualise:
  - No official poverty line, but some say can be set at between R 2000 – 4000 pp/pa. R 1000 is definitely below poverty line.
  - Optimal case: R 2500 pm, full year, 4 family members = R7500 pp/pa
  - Realistic case: R2500 pm, 6 mo, 6 family members = R2,500 pp/pa
  - Of HHs with monthly expenditure of R 800 – 1,19 and R 1,200 – 2,499: 18% and 28% say have “problems meeting food needs sometimes, often or always

# Low earners, cont'

- Approx 59% are found in the *formal* sector
  - Expect to see them in certain services, informal sector, domestic work, etc
  - But also 65% - 69% of craft & related, plant & machine operators
- 75% are in private sector employment (+18% in self empl)
  - Esp. agriculture, mining, manufacturing, construction, retail & domestic work, transport
- 80% are not unionised
- 63% have “permanent” jobs
- 90% have not had any training that would help them at work
- more than 50% of workers changed work status (formal, informal and unemployment) between 2001-4.
  - Only 28% of those starting in the FS (in 2001) were still there (in 2004).

# Changing character of work

- Shift in relations from:
  - Feudal work relations in agriculture
  - Large mines – migrant labour, collective organisation
  - Large factories, with collective organisation
- To urban organisation:
  - Living in closer proximity?
  - Professional organisation & bargaining
  - Majority of workers in individualised low-earning precarious work
    - This is the probable future of large scale job creation

**How to achieve path that enables  
much more employment & real  
wage growth?**

## Resource based or services economy??

- Despite some shifts, SA trade & investment profile still reflects minerals economy
  - Resource curse elements: volatile exchange rate, history of overvalued exchange rate, investment targeted at capital intensive industry
    - work against ability to expand labour intensive tradables
    - high rates of inequality & weak economic participation
  - Majority of export value derived from minerals and metals commodities
  - Approx 70% of new investment directed to minerals & mining related sectors; 20% to labour intensive investments.
  - *(Although majority of employment through trade sourced from services sectors!)*
- Domestic industry profile reflects services economy.
  - Approx 65% - 70% of output and employment in services
  - High sophistication for high income consumers; low quality for poor consumers – *reflects high income inequality*
  - Mainly inward oriented, with attendant problems of high tariffs, subsidies and weak competitiveness. This in itself hinders structural movement to labour intensive industry

# Productivity conundrum

- Traded sectors offer best private sector hope for raising real wages in long term
- Non-traded sectors offer easiest route to job creation
- ‘all things being equal’, middle income & high income countries tend to increasingly compete on basis of productivity – esp w/ entry of China
- Generally, competitiveness in labour absorbing traded sectors will be undermined if real wages rise faster than productivity
- Traded sectors have most scope for productivity improvements
- If productivity can be raised, real wages could sensibly follow
- But if productivity is raised, employment created per unit of output falls
- Then need very high output growth to offset this effect
- This is central explanation for ‘de-industrialisation’

# Manuf as % of employment falling everywhere

Region	1960	1970	1980	1990	1998
Sub-Saharan Africa	4.4	4.8	6.2	5.5	5.5
Latin America	15.4	16.3	16.5	16.8	14.2
Southern Cone and Brazil	17.4	17.2	16.2	<b>16.6</b>	<b>11.8</b>
West Asia and North Africa	7.9	10.7	12.9	15.1	15.3
South Asia	8.7	9.2	10.7	13.0	13.9
East Asia (w/o China and Japan)	10.0	10.4	11.8	16.6	14.9
NICs	10.5	12.9	18.5	<b>21.0</b>	<b>16.1</b>
China	10.9	11.5	10.3	13.5	12.3
Third World	10.2	10.8	11.5	13.6	12.5
First World	26.5	<b>26.8</b>	<b>26.1</b>	<b>20.1</b>	<b>17.3</b>

Source: Palma, 2006

*Not special to SA*

# Manufacturing: possible job creation potential

- Absolute upper limit on manufacturing growth = 3% pa. = 570,000 jobs or 11% of jobs target
- Global experience shows that 1% to 2% pa would be more realistic in a *very positive* scenario.

# Manufacturing: special qualities?

- Manufacturing ascribed with certain special qualities that are growth promoting:
  - Technology & learning
  - Rising terms of trade
  - Spread effects
  - Pay higher wages
- Evidence that while manuf may not lead employment growth, a diminishing manuf sector can be a sign of broader economic malaise .....
  - With few exceptions, seems to be important in most country's growth stories

*Are there other sectors with these same qualities?*

# Other sectors?

- If manufacturing likely to generate max 150,000 – 570,000 jobs.....
  - Where else might jobs be sourced in 'dynamic' growth promoting activities?
- Higher paid services incl finance, business services, transport, etc.
  - Also tourism
- There are also activities typically not thought of as traded, such as health or personal services
- Could they grow by 6% pa on a consistent basis, thereby creating 1.5 mn jobs???
- To what extent dependent on growth of other sectors?
- To what extent independent growth dynamic that can lead other sectors?
- To what extent do these sectors have same employment properties as manufacturing? (eg high skill/low emp growth)?
- *.....our research shows that manufacturing is more dependent on services (to buy its output) than the other way around*

# Link back into poverty reduction

- We modelled 4 possible scenarios
  - ....and linked them to wage distributions
    - ....the most “successful” scenario only achieves maintenance of real wage distribution

## Distribution of employment in 4 basic scenarios

Sectors	2004	2014			
	Current	Scenario 1: same as for 2000-5	Scenario 2: same as for 2000-5 + public empl	Scenario 3: big domestic orientation	Scenario 4: more employment from traded sectors
Mining & agriculture	9.2%	6.8%	6.1%	6.5%	6.1%
Manufacturing	12.8%	11.6%	10.5%	10.5%	12.5%
'Dynamic services'	17.1%	19.7%	17.9%	15.5%	21.6%
Follower services & construction	20.6%	23.8%	21.6%	20.5%	20.4%
Public sector	14.6%	11.9%	11.3%	14.4%	14.4%
IFS & EPWP	25.7%	26.4%	32.6%	30.7%	24.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
% SERVICES/FS	70.3%	75.1%	75.3%	77.5%	75.2%
% MANUF/FS	17.3%	15.7%	15.6%	17.2%	16.7%

# Implications for remuneration

Remuneration per month	2004 (1)	2014			
		Scenario 1: same as for 2000-5	Scenario 2: same as for 2000-5 + public empl	Scenario 3: domestic orientation (2)	Scenario 4: dynamic products in trade orientation (2)
<R1000	47.2%	48.0%	52.3%	50.0%	46.5%
R1000 – R2500	17.9%	17.9%	16.3%	17.2%	17.5%
>R2500	34.9%	34.1%	31.5%	32.3%	36.2%
Number employed	11.7 m	15.0 m	16.6 m	16.6 m	16.6 m
Strict unemployment rate (rounded)	26.0%	21.0%	13.0%	13.0%	13.0%

- none of these solve 'working poor' problem
- but traded sectors offer more potential
- without public sector growth, scenario 3 would have had 70% earning less than R 2,500

# If achieved full employment, what impact on poverty?

HH income decile	Avg wage/mo?	Dep. ratio in 2000	Dep. ratio @ half UE	Dep. ratio @ 1/4 UE	Income from wages per person, pm - 2000	Income from wages per person @ 1/2 UE	Income from wages per person pm @1/4 UE	Y. DW. if 1/2	by how much did income rise if 1/4 UE?
Decile 1	500	8.7	5.7	5.1	R 58	R 87	R 98	51.2%	69.0%
Decile 2	500	7.0	5.1	4.6	R 71	R 98	R 109	38.2%	52.9%
Decile 3	750	6.1	4.7	4.2	R 124	R 160	R 177	29.1%	42.5%
Decile 4	1000	4.9	4.0	3.6	R 203	R 252	R 280	24.5%	38.0%
Decile 5	1250	4.0	3.3	3.0	R 310	R 374	R 417	20.8%	34.4%
Decile 6	1500	3.0	2.6	2.3	R 501	R 585	R 659	16.6%	31.5%
Decile 7	2000	2.3	2.0	1.8	R 863	R 985	R 1,106	14.1%	28.1%
Decile 8	2500	1.6	1.5	1.3	R 1,525	R 1,676	R 1,878	9.9%	23.2%
<b>Total</b>		<b>2.7</b>	<b>2.4</b>	<b>2.2</b>					
Average strict UE		26%	13%	6%					
Avg broad UE		36%	18%	12%					

Note: Average earning from employment is just a guess.

R 500 - R 1000 is about an EPWP job or less (R25 - R 50/day if full time work); Informal sector earnings can range from R 500 to R 1000

65 % of workforce earn less than R 2,500 pm

Source: IES 2000

# **Concluding remarks: some policy research questions**

## **Initial scenarios process offers some insights...**

- Diverse economy like SA: is hard to shift *employer* structure, even over 10 or 20 years?
- Difficulty in expanding sectors that enable real wage growth, esp manufacturing
- Even with rapid market-based employment creation, a large portion of unemployed will never work
- Implications for earnings and contribution of employment growth for poverty reduction
- Essential role of state in:
  - As employer
  - In targeting public budgets appropriately for UEs and working poor.....balance in ALMP and social insurance/social security

# Policy research questions

- What policy implications that services are becoming most significant employment generator globally? Is rising wage inequality inevitable?
- Our research.....
  - .....tries to locate new policy levers
  - .....and tries to make linkages explicit to better understand how employment can be stimulated (for eg what are links between more and less traded activities? What stimulates less traded goods & services....such as urbanisation, growth of middle class or gov spending)
- Impact of mark-ups in industry and in high skill labour? These are harder to address than in manufacturing.

## *For example: Drivers of demand for services?*

- **Income inequality** has encouraged leap into so called services economy – both producer & consumer.
  - This has formed a base from which SA has begun to expand its services exports, growing by about 6% pa.
- **Domestic outsourcing** of services generates market
- **Global outsourcing** of services
- Changing **regulatory environment**, particularly in relation to utilities & in relation to reducing mark-ups and transaction costs (e.g. finance).
- **Urbanisation and a growing middle class** has generated expanded demand for personal, community and social services.
  - Almost 4 million people shifted up to the working, lower middle and upper middle classes between 1994 – 2004. (8% of the population). They buy more domestic care, personal services such as hairdressing, purchase private health and education, and access credit services.
- **The growth in retail and wholesale and in imports** has had a stimulatory impact on the finance sector.
- **Loosening regulations** in respect of the informal sector.

## Policy research questions – social policy

- Social policy & social protection viz low skill workers
  - Does the role of the state in developing countries need to be redefined to explicitly recognise the need for social support to enable construction of livelihoods?
  - Are work-based entitlements, training, etc. undermined in relation to emerging sources of employment? Growing need for socialisation of benefits, training, etc to reduce risk for low earners
- Social wage to reduce pressure on private wages?