UNIVERSITY OF CAPE TOWN

CENTRE FOR
SOCIAL SCIENCE RESEARCH

THE STATE OF THE LABOUR MARKET IN SOUTH AFRICA AFTER THE FIRST DECADE OF DEMOCRACY

Rulof Burger
Ingrid Woolard

CSSR Working Paper No. 133

Centre for Social Science Research
S·A·L·D·R·U

Published by the Centre for Social Science Research
University of Cape Town
2005

Copies of this publication may be obtained from:

The Administrative Officer
Centre for Social Science Research
University of Cape Town
Private Bag
Rondebosch, 7701
Tel: (021) 650 4656
Fax: (021) 650 4657
Email: kforbes@cssr.uct.ac.za

Price in Southern Africa (incl. VAT and postage): R 5.00

or it can be downloaded from our website
http://www.cssr.uct.ac.za/index.html

ISBN 1-77011-066-6

CENTRE FOR
SOCIAL SCIENCE RESEARCH

Southern Africa Labour and Development
Research Unit

THE STATE OF THE LABOUR MARKET IN SOUTH AFRICA AFTER THE FIRST DECADE OF DEMOCRACY

Rulof Burger
Ingrid Woolard

CSSR Working Paper No. 133

October 2005

Rulof Burger is a Lecturer in the Department of Economics at the University of Stellenbosch.

Ingrid Woolard is a SALDRU Research Associate and researcher in the Centre for Social Science Research at the University of Cape Town.

The State of the Labour Market in South Africa after the First Decade of Democracy

Abstract

While the political transition to democratic rule in South Africa was smooth and rapid, the economic transition has been slow and difficult. Nowhere is this more apparent than in the labour market. Job creation has not matched the growing labour supply and the unemployment rate continues to rise. This paper attempts to document and identify the key trends in labour force participation, unemployment and employment so as to better understand the factors that drive the performance of the labour market.

Introduction

The first democratically elected government of South Africa inherited a labour market in 1994 that had been subject to the long-run effects of an inadequate education system, international economic isolation and economic policies that favoured capital over labour. A decade later, acute labour market challenges remain. The inability of the economy to provide enough jobs to keep pace with the growing labour force, let alone reduce the unemployment rate, has proved particularly intractable for the post-apartheid government.

Given that employment is the main bridge between economic growth and higher living standards, job creation is clearly central to South Africa's economic transformation. The government's commitment to this objective was formalised in 1996 with the introduction of the Growth, Employment and Redistribution (GEAR) strategy. Previously rigged along racial lines, the post-apartheid labour market has been recast against a new set of rules that include legislation promulgating affirmative action and redefining labour relations. This paper aims to provide an overview of the current state of the labour market against this transformation backdrop, examining in particular trends in employment and labour market participation on the one hand and the features of South Africa's sizeable unemployment problem on the other hand.

Within the labour market, we evaluate the characteristics of the unemployed, with a view to understanding the high degree of persistence of poverty and inequality in South Africa. An overview of macroeconomic trends and their relevance to the labour market is also provided so that we gain some idea of likely future trends in employment.

Institutional factors in the post-transition labour market

Since 1994, the labour market has been fundamentally reformed through the introduction of a range of laws primarily aimed at protecting workers at the middle and lower end of the skill spectrum and at promoting individuals from historically disadvantaged groups (blacks,[1] women and the disabled) in the workplace. The Basic Conditions of Employment Act of 1997 provides for the improvement of labour market standards, *inter alia* through the setting of minimum wages by the Minister of Labour and bargaining councils, and extending the coverage of labour standards to workers in sectors that were previously unprotected. The Labour Relations Act of 1996 promotes collective bargaining as a means of wage determination, establishing bargaining and statutory councils and strengthening union rights. The Employment Equity Act of 1998 requires employers to reduce 'disproportionate' wage differentials between workers, including the implementation of firm-level employment equity plans that must be drawn up and reported on by all employers other than small firms.

Bargaining councils fulfil the role of wage and employment condition negotiators, serving as industry-specific intermediaries between employees and employers. The recently introduced legislation has extended the coverage of bargaining council agreements to all employers who are defined to be within the sphere of influence of a specific bargaining council (including employers that are not party to these agreements). This applies as long as the bargaining council has the support of a trade union representing the majority of employees in a sector, and an employer's organisation employing the majority of employees in a sector. As a result, minimum wages and employment conditions are standardised throughout industries, regardless of a firm's physical location or size.

In practice, this environment works to the benefit of larger more profitable businesses, which are able to secure labour at the same wage rate paid by

[1] In keeping with government practice, 'black' refers to the race groups African, Coloured and Indian/Asian.

smaller businesses. In the absence of bargaining council agreements, larger firms would probably have to pay higher wages than they do in the current system, while smaller businesses would pay less for their labour (Barker, 1999). Consequently, it has been argued that the extension of bargaining council agreements deter small businesses from starting up (especially those that are more labour intensive), thereby acting as a barrier to entry into product markets and limiting the intensity of competition.

Unions have also become increasingly powerful economic actors since their dramatic rise during the 1980s. At around 34%, the level of unionisation of workers in South Africa is very high by developing country standards where the benchmark is 18 % (Poswell, 2002). Unions are particularly powerful in mining and manufacturing, and relatively weak in the agricultural and service sectors (Fallon and Lucas, 1998). Hofmeyr (2001) finds that there is a substantial wage premium attached to union membership, and that this is rising over time, suggesting that the unionised part of the workforce is able to insulate their wage levels against changing labour market conditions.

There is conflicting evidence with regard to the extent of labour market rigidity. A recent survey by the Economist Intelligence Unit ranked South Africa last out of 60 countries on the basis of labour law flexibility (Sewell and Ngobese, 2003). However, an ILO study (referred to in Jafta, 2003) argues that the labour market is not as rigid as is generally believed. In the same vein, a study conducted by the World Bank rating the flexibility of international labour market systems found the South African labour market to be the 16th most flexible amongst the 133 countries included in the survey. But the mere *perception* of rigidity may itself be damaging to employment growth if investors perceive this to be a constraint.

Trends in Unemployment and Labour Force Participation

The original GEAR objective for employment creation was an average annual growth in employment of 2.9 %, or 270,000 new jobs per year (Government of South Africa, 1996). Job creation was to be attained through achieving higher levels of flexibility and productivity and cutting labour costs, thus encouraging labour-intensive growth. In reality, economic growth has been much slower than was envisioned in the GEAR strategy. In addition, it might be argued that GEAR was in fact harmful to job creation, given that it substituted for a more expansive state spending approach, which might have kick-started growth more effectively than GEAR has done. It is therefore not surprising that employment creation has fallen short of the GEAR target.

When South Africa rejoined the international trading community and started integrating into global capital and product markets again from 1994, policymakers relied heavily on the concept of 'export-led growth' as the way out of a stagnant domestic macroeconomic environment and an attendant long recession ending in 1993. External factors such as the Asian crisis of 1997 and its ripple effects throughout the developing world and – more recently – a global recession affecting particularly developed countries, have limited South Africa's economic growth prospects. In South Africa there is a large supply of low- and unskilled labour, which trade theory predicts would result in specialisation in the production of goods relying heavily on the use of this type of labour. However, wage levels for some workers may be higher than their natural market-clearing levels due to institutional factors as observed above. This means that less skilled labour is relatively less attractive to employers than higher skilled labour.

The Data

In the following sections the labour market is analysed empirically. The statistics quoted in this paper predominantly derive from two household surveys: the 1995 October Household Survey (OHS) and the February 2002 Labour Force Survey (LFS) collected by Statistics South Africa (Stats SA). The 1995 OHS was re-weighted using the 1996 Census weights, and the same weights were also applied to the 2002 LFS, so as to increase comparability and consistency.

There are some remaining comparability problems between the surveys which may in actual fact reflect definitional adjustments or methodological differences in the way the data was collected. Measurement of the informal sector in the 1995 OHS is a particularly serious problem for our purposes. Trends in employment between 1995 and 2002 therefore refer to both formal and informal sector employment. The informal sector was probably seriously under-represented in 1995, which implies that improved capturing of this form of employment in 2002 creates the impression of a very large increase in informal sector and hence total employment. Despite the problems, these data sources still present us with our best chance of obtaining an accurate account of what occurred in the South African labour market during the reference period, although we do proceed with due caution.

Defining Unemployment

In line with international practice, two definitions of unemployment are typically used in South Africa. Using the 'expanded' or 'broad' definition of unemployment, anyone who has done less than an hour of work in the preceding week and who would accept a 'suitable job offer' is regarded as being unemployed. Using the 'strict' or 'narrow' definition, a person must, in addition to these requirements, have actively sought work in the preceding four weeks.

Kingdon and Knight (2000) compare the non-searching with the searching unemployed in South Africa and find that the non-searching unemployed live in more remote areas with higher unemployment rates than the searching unemployed, and generally comprise the poorest of the poor. This seems to suggest that the non-searching unemployed are discouraged work seekers rather than voluntarily unemployed individuals who are choosing leisure above employment. The high costs involved in actively searching for employment might force this group to opt for a more passive mode of job search. In light of these findings, the expanded definition will be used when referring to the unemployed and the labour force for the remainder of this paper.

Trends in Labour Market Status

Table I presents a snapshot of the key labour market statistics in October 1995 and February 2002. The table indicates that the working age population grew by about 2.2% per year between 1995 and 2002, while the economically active population increased by about 4.8% per year. This implies a massive increase in labour force participation. Fully three-fifths of the new labour market entrants over this period were women. There are a number of reasons why labour force participation may have been rising – increased opportunities, (especially for African women with the ending of apartheid), increased migration to the urban areas where job opportunities are more plentiful and alternative livelihood strategies more restricted than in rural areas, rising education levels and the increase in the number of households.

The significant increase in female labour market participation deserves additional attention. Table II shows that although the male labour force grew at an average annual rate of 3.5%, the female labour force grew twice as fast. The net effect was a feminisation of the South African labour force. The percentage of working age women who wanted paid employment increased dramatically from 51% in 1995 to 69% in 2002. Although female employment grew rapidly in South Africa between 1995 and 2002, increased participation rates somewhat paradoxically led to higher female unemployment rates, which rose from 39% in 1995 to 46% in 2002.

Table I. Employment status of the working age population

Category	1995	2002	Average annual growth rate
Working age population	23,077,866	26,546,356	2.2%
Employed	9,610,126	11,316,389	2.5%
Based on expanded definition of unemployment			
Labour force	13,827,313	19,166,873	5.2%
Participation rate	60%	72%	
Unemployment rate	30%	41%	
Based on narrow definition of unemployment			
Labour force	11,632,902	16,047,365	5.1%
Participation rate	50%	60%	
Unemployment rate	17%	29%	

Source: Own calculations from 1995 OHS and February 2002 LFS

Growth in female employment has largely been in the informal sector (Casale, 2004). Furthermore it is likely that the apparent increase in female employment over the period of analysis is exaggerated due to the undercounting of women in informal sector activities in 1995. Rising female employment rates mask the fact that women are over-represented in poorly paid domestic work and informal self-employment.

Table II. Employment status of the working age population, by gender

Category	1995	2002	Average annual growth rate
Male			
Working age population	10,990,936	12,565,324	2.1%
Labour force	7,623,484	9,547,369	3.5%
Employed	5,833,009	6,169,254	0.9%
Participation rate	69%	76%	
Unemployment rate	23%	35%	
Female			
Working age population	12,086,930	13,978,911	2.3%
Labour force	6,203,829	9,618,317	7.0%
Employed	3,777,117	5,146,545	4.9%
Participation rate	51%	69%	
Unemployment rate	39%	46%	

Source: Own calculations from 1995 OHS and February 2002 LFS
Note: The 2002 totals for males and females do not add up to the same total as in Table 1 due to some observations for which gender was unspecified.

Table I shows that the expanded unemployment rate increased dramatically from 30% to 41% and the official unemployment rate grew similarly from 17%

to 29%. Employment grew at an average annualised rate of 2.5%, considerably slower than labour force growth (5.2% using the expanded definition). The large increase in the unemployment rate reflected the economy's inability to create enough employment opportunities to absorb the new entrants into the labour market. Nevertheless, within these dynamics, employment growth actually exceeded growth in the working age population over the same period (2.2%). This implies that the rising unemployment rate was largely driven by the fact that a larger percentage of the working age population wanted to work. Figure 1 shows that the share of the working age population who were employed remained largely unchanged between 1995 and 2002, but that there has been a major shift in the status of individuals from being economically inactive to being unemployed.

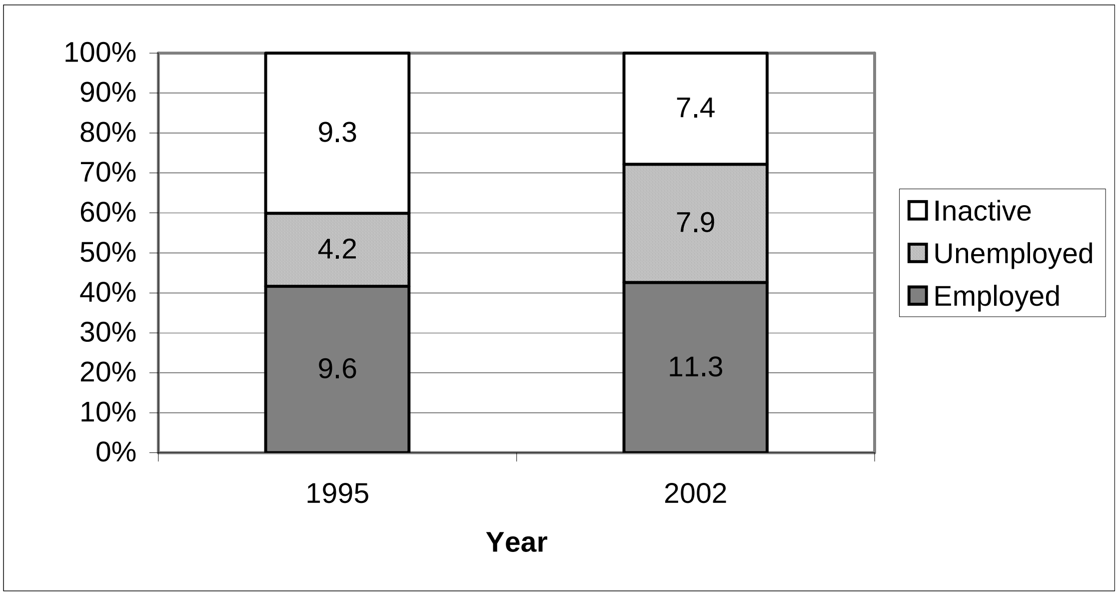


Figure 1. Distribution of the working age population

Table I clearly shows that the post-Apartheid period has not been one of jobless growth, although clearly employment growth has been too slow to absorb the rapidly expanding labour force. According to the data, 1.7 million jobs were created between 1995 and 2002. An under-representation of informal sector activities in the 1995 data is likely to upwardly bias this number, but overall, the number of jobs created has still been substantial. It should be noted that many of these are in the informal sector – where jobs are notoriously poorly paid and insecure (Casale and Posel, 2002), so that the quality of employment might have deteriorated, even if the quantity did not.

It should also be noted that the differences in racial employment levels still largely reflect differing educational attainment, both in terms of the quantity and the quality of schooling received. On average, African workers had 8.2 years of schooling in 2002, while White workers had 12.1. One of the most enduring legacies of apartheid is its impact on the quality of education offered in various parts of the schooling system. Many African learners continue to receive poor quality primary and secondary schooling, a factor which Case and Yogo (1999) find adversely affects their educational attainment, probability of employment and rate of return to investment in education.

Unemployment, Inequality and Poverty

Two of the biggest social and economic issues which have troubled South Africa are persistent poverty and extreme income inequality. The nature and extent of poverty and inequality falls outside the scope of this paper, but this section will briefly show that large-scale poverty and the very skewed distribution of income both have strong roots in the labour market.

Table III. Unemployment rate and average wage for the poor and non-poor groups (1995)

Decile	Participation rate	Unemployment rate	Average net monthly wage
1st	36%	75%	320
2nd	40%	66%	408
3rd	43%	57%	494
4th	45%	50%	630
5th	48%	46%	789
6th	52%	39%	976
7th	54%	31%	1,214
8th	59%	22%	1,644
9th	66%	10%	2,397
10th	72%	5%	4,359

Source: Own calculations from 1995 OHS and Income and Expenditure Survey (IES)

It is evident from Table III[2] that labour market outcomes are important in determining a household's position on the income distribution. Firstly, the poor (lower deciles) have a much smaller chance of finding work and hence a smaller probability of having access to wage income. Secondly, even when they are able to find paid employment, their wages will be considerably less than that of the non-poor. Access to well-paying employment opportunities would therefore appear to be vital in determining whether a household is poor or not. There is also a strong correlation between income inequality (reflected by the large difference in monthly wages between the 9th and 10th deciles) and labour

[2] This table is based on the 1995 Income and Expenditure Survey as this survey is widely regarded as the best source of accurate data on household income.

market outcomes. This is suggestive of an important role for the labour market as a driver of inequality in South Africa.

Characteristics of the Unemployed

In order to better understand what determines labour market outcomes, a closer look at the characteristics of unemployed individuals is instructive.

A higher unemployment rate was noted for women than for men in 2002 at 46% and 35% respectively. Despite the fact that fewer women participate in the labour market than men, they comprise more than half of the unemployed (57%). While the gender gap in unemployment remains substantial, it narrowed between 1995 and 2002. Most of the jobs created in the informal sector since 1995 were taken up by women (Casale, 2004), while there was a substantial take-up of women in the internal trade and rapidly growing financial services sectors. At the same time, many men lost their jobs as a result of public sector restructuring (Bhorat, 2003a) and declining employment in the male dominated primary sectors.

Table IV. Unemployment and labour force participation rates, by race

	1995	**2002**
Participation rate		
African	57%	72%
Coloured	69%	77%
Indian	61%	67%
White	68%	74%
Unemployment rate		
African	37%	48%
Coloured	23%	32%
Indian	13%	25%
White	6%	10%

Source: Own calculations from 1995 OHS and February 2002 LFS

Note: The 2002 totals for males and females do not add up to the same total as in Table I due to some observations for which gender was unspecified.

Table IV demonstrates that unemployment has a strong racial dimension. In 1995, the unemployment rate for Africans was 37%, whereas the unemployment rate for Whites was much lower at 6%. Unemployment rates for Coloureds and Indians fell in between these two extremes. All four groups experienced large increases in their unemployment rates between 1995 and 2002, but since Africans comprise the largest part of the total population and have the highest unemployment rate, the bulk of the 'newly' unemployed (86%) were African.

Table V. Unemployment rate, by province

Province	1995	2002
Western Cape	20%	25%
Eastern Cape	42%	40%
Northern Cape	29%	41%
Free State	27%	41%
Kwazulu-Natal	34%	47%
Northwest	33%	46%
Gauteng	24%	36%
Mpumalanga	34%	42%
Limpopo	42%	55%
National	30%	41%

Source: Own calculations from 1995 OHS and February 2002 LFS

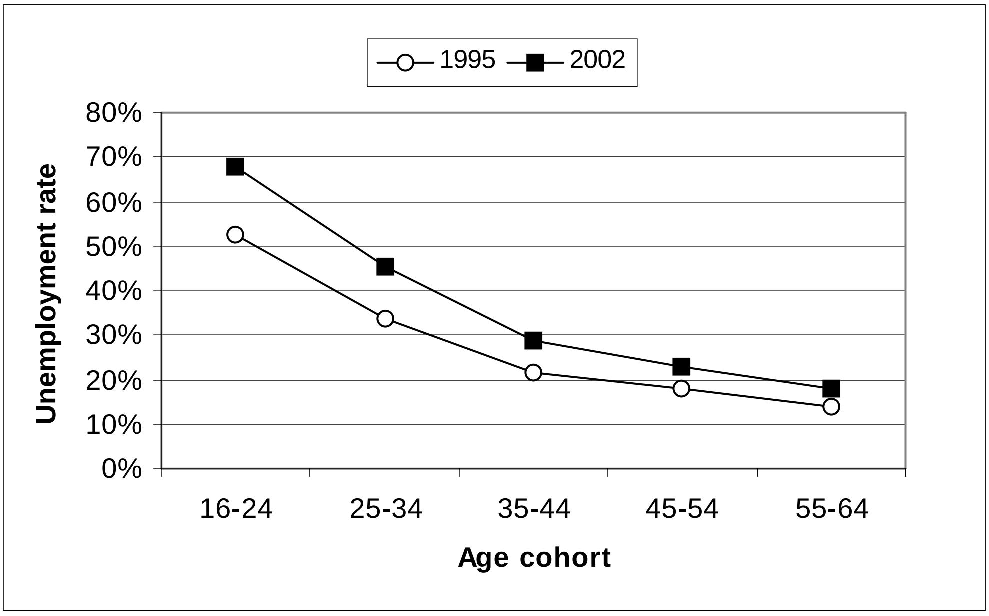
The two provinces with the lowest unemployment rates, the Western Cape and Gauteng, are the two provinces that have the highest urbanisation rates. Despite having unemployment levels that are low relative to other provinces, unemployment rates in both of these provinces increased between 1995 and 2002. The Eastern Cape, Kwazulu-Natal and Limpopo had the highest unemployment rates in South Africa in 1995. All three provinces include areas previously classified as homelands.

Table VI. Unemployment rate, by area of residence

Area Type	1995	2002
Urban	26%	37%
Rural	38%	48%

Source: Own calculations from 1995 OHS and February 2002 LFS

Unemployment may also be disaggregated by location. In contrast to the developing country norm, South African workers are mostly urbanised: less than 40% of the labour force reside in rural areas (Fallon and Lucas, 1998). South Africa's agriculture sector is small in comparison with other developing countries – in 2003, agriculture accounted for only 4% of the economy (South African Reserve Bank, 2004). Furthermore, subsistence agriculture plays a much less important role in South Africa than is the norm in other developing countries, where unemployment is typically lower in rural than urban areas (Fallon and Lucas, 1998). In line with what one might expect given, the differential in levels of economic activity, Table VI indicates that the unemployment rate is much higher in rural than urban areas, although unemployment rates increased in both types of area between 1995 and 2002. The gap between urban and rural unemployment rates narrowed marginally over this period.

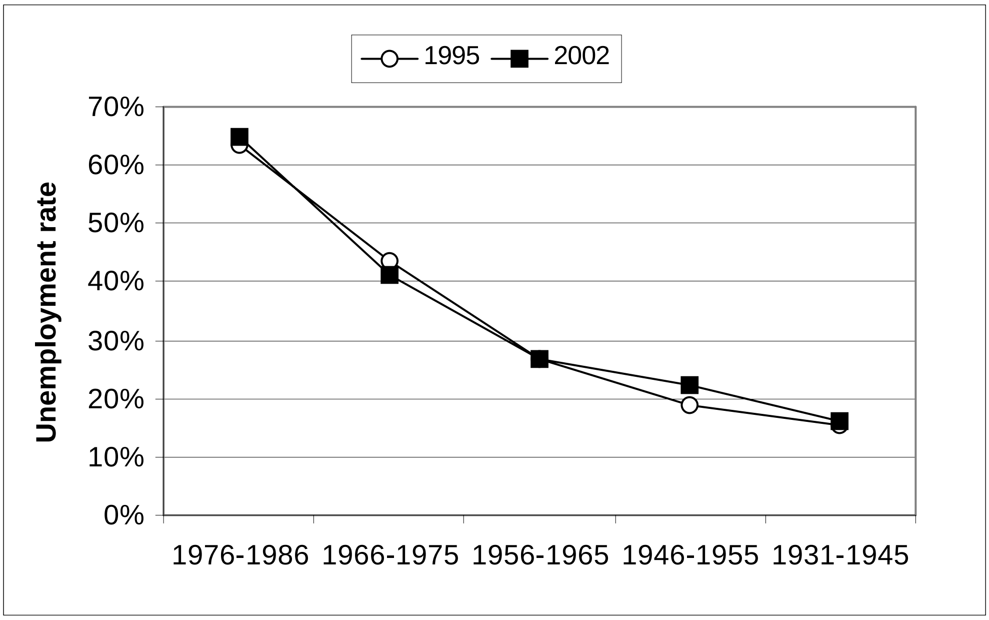


Source: Own calculations from 1995 OHS and February 2002 LFS

Figure 2. Unemployment rate, by age group

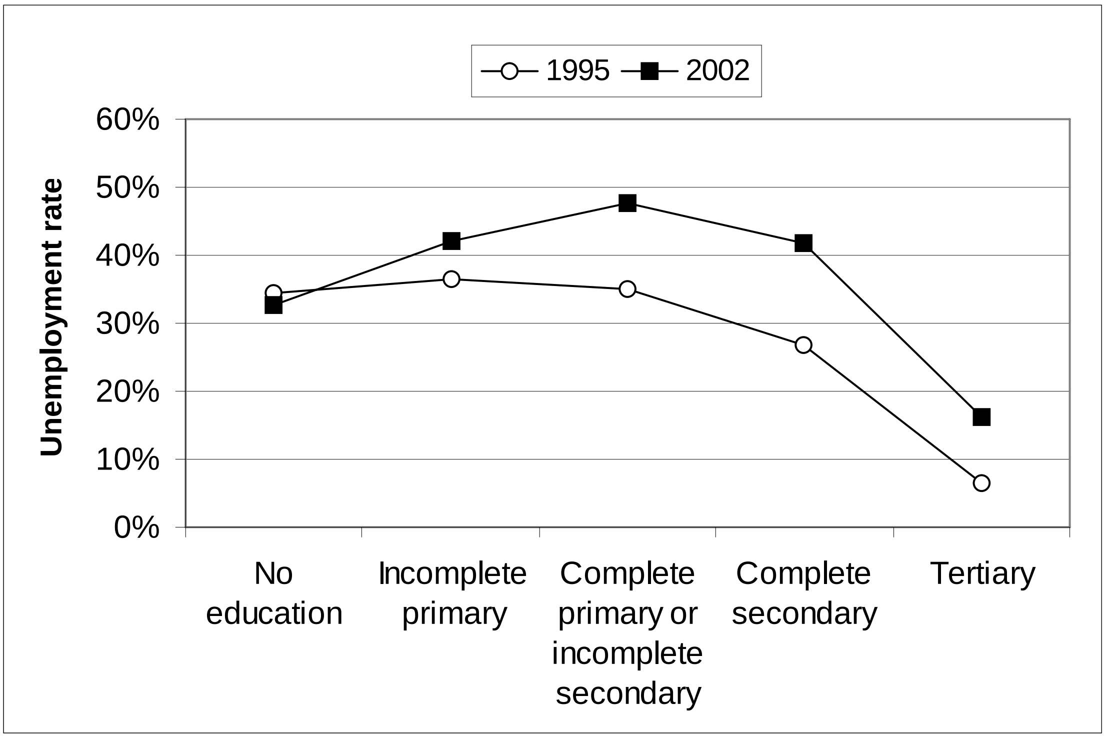
Unemployment among the young is a particular problem in South Africa. Unemployment falls as one looks at older age groups. But, if the unemployment rates for 1995 and 2002 are compared by birth cohort rather than age group, there is a surprising stability over time. The increase in unemployment would therefore appear to be the result of older individuals (those born between 1931 and 1945) who had low unemployment levels exiting the labour market in smaller numbers, whereas there was a very high unemployment rate among larger numbers of new entrants to the labour market (those born between 1976 and 1986). The inability of the economy to create jobs at the same rate at which the labour force is growing is hampering the employment prospects for the younger new entrants.

Figure 4 reports on the unemployment rates for individuals with different levels of educational attainment. The increased unemployment rate is reflected by the upward shift in the line representing the unemployment-education relationship between 1995 and 2002. It is clear that having completed secondary or some form of tertiary education substantially reduces the probability of being unemployed. However, an emerging graduate unemployment problem is evidence that the labour demand response to skill-biased economic growth is highly specific in terms of the characteristics of skilled workers. The majority of unemployed graduates are in the education, training and development field. Given that these graduates are highly educated (albeit in fields where demand is inadequate), they could clearly benefit from training programmes which would equip them with specific skills that could be used in other areas.



Source: Own calculations from 1995 OHS and February 2002 LFS

Figure 3. Unemployment rate, by birth cohort



Source: Own calculations from 1995 OHS and February 2002 LFS

Figure 4. Unemployment rate, by educational attainment

Lee and Woolard (2002) propose that it is useful to categorise the unemployed into three broad categories. The classification is based on educational attainment, work experience, age, gender and whether an individual lives in a rural or urban area. The first group consists of young unemployed individuals, most of whom have a secondary or post-secondary education. This group is predominantly female and African and is most likely to reside in the urban areas of Kwazulu-Natal, Gauteng or the Eastern Cape. The second group comprises older (defined here as aged 35 and above) unemployed individuals who have no or incomplete primary education. They generally have no prior employment experience, and are mainly African females who live in the urban areas of Kwazulu-Natal, Gauteng, the Eastern Cape or the Northern Province. The third and last group consists of older individuals who have incomplete secondary education, some labour market experience and are predominantly African males, living in the urban areas of Kwazulu-Natal, Gauteng or the Western Cape.

These groupings have far-reaching implications for policymakers trying to find the best way in which to help the unemployed. It is unlikely that there exists a single policy that will be equally beneficial to all of the three above-mentioned groups. The first group, the young unemployed, is the most employable and comprises 76% of the total unemployed. Members of this group are likely to benefit from demand-side policies that stimulate higher economic and hence employment growth as well as supply-side measures which provide specific vocational training.

The second group correlates loosely to the group often referred to as the 'unemployable'. Given current economic conditions, the private labour market has become a non-feasible option as a form of income, so that the policy issue becomes one of poverty alleviation through state intervention. The role of the Expanded Public Works Programmes (see McCord 2005) is especially important here.

The third group can still consider the labour market as a feasible source of income, but together with faster employment growth they will require some form of skills upgrading if they are to be absorbed into the labour market (Lee and Woolard, 2002). They are therefore likely to benefit from skills development programmes.

Trends in Employment and Wages

Since the 1970s the South African economy has witnessed a shift away from the primary sectors towards the services sector. At the same time the economy experienced accelerated capital intensification, driven by the increased use of microelectronics and information technology (Bhorat, 2003b). Additionally, economic growth has been unimpressive in South Africa since the 1980s, and although the post-apartheid economy has grown at a respectable rate (2.7% per annum between 1995 and 2002) this growth has not been fast enough to provide employment for the rapidly increasing labour force.

The aforementioned structural shift in employment can be best illustrated by viewing the employment statistics, disaggregated by industry between 1995 and 2002, as in Table VII. The three sectors in which the largest number of jobs were created were internal trade; finance, real estate and business services; and agriculture, fishing and forestry. According to the data, more than a million jobs were created in these sectors alone. The large number of jobs created in finance, real estate and business services is particularly impressive, since the sector comprises a relatively small part of total employment. Table VII also refers to data on growth in value added as a proportion of total production, taken from the National Accounts data for the same time period (South African Reserve Bank, 2004). The growth in total production is slightly higher than employment growth, but there are large discrepancies between the rates for the agriculture and internal trade sectors. It is likely that the improved capturing of informal sector activities, such as subsistence agriculture and street vending, in the 2002 LFS, exaggerates employment growth in these sectors.

The community, social and personal services, transport and communication, manufacturing, and construction sectors also added to employment growth, although their contributions were more modest. Table VII shows disaggregated employment figures for the transport and communications sector, which consists of transport as well as post and telecommunications. Strong growth in transportation has been countered by a contraction in employment in post and telecommunications. The same pattern can be observed in the community, social and personal services sector (which is mainly government), where total employment growth was poor despite a large increase in domestic services. This resulted from a contraction in the rest of the sector following extensive public sector restructuring as part of a ‘right-sizing’ exercise conducted by the new government, aimed at reducing inefficiency and the burden of the government wage bill. Elementary workers and machine operators (i.e. less skilled workers) suffered the greatest losses in the form of public sector job cuts: 100,000 positions in these two occupations were shed between 1995 and 1999 (Bhorat, 2003a).

Table VII highlights the shift towards a more sophisticated service-based economy with a declining role for the primary sector. The industries that have benefited most from this structural shift in employment are those where semi-skilled and particularly skilled workers comprise a larger part of the labour force.

Table VII. Sectoral composition of employment

Sector	1995	Share	2002	Share	% change in employment	% change in total production
Agriculture, Fishing and Forestry	1,184,712	12.4%	1,477,255	13.2%	25%	9%
Mining and Quarrying	593,000	6.2%	481,343	4.3%	-19%	-7%
Manufacturing	1,420,956	14.9%	1,596,496	14.3%	12%	24%
Utilities	84,041	0.9%	84,550	0.8%	1%	26%
Construction	433,492	4.5%	527,678	4.7%	22%	21%
Internal Trade	1,650,017	17.3%	2,191,347	19.6%	33%	22%
Transport and Communication	469,200	4.9%	550,918	4.9%	17%	77%
Transport	329,194	3.4%	434,613	3.9%	32%	
Post and Telecommunication	140,006	1.5%	116,305	1.0%	-17%	
Finance, Real Estate and Business Services	582,897	6.1%	1,023,373	9.2%	76%	49%
Community, Social and Personal Services	2,952,269	30.9%	3,117,365	27.9%	6%	6%
Domestic Services	800,887	8.4%	1,132,666	10.2%	41%	
Community Services (excl. Domestic Services)	2,151,382	22.5%	1,984,699	17.8%	-8%	
Other Producers	186,601	2.0%	107,493	1.0%	-42%	14%
Total	9,557,185	100.0%	11,157,818	100.0%	17%	25%

Source: Bhorat (2004) and SARB (South African Reserve Bank) (2004)

Table VIII shows the skill composition of the labour forces for the different sectors. The rapid growth of finance, real estate and business services has already been mentioned, and it can be observed that the share of skilled workers in this sector is higher than in any other. In contrast, the shrinking mining and slow-growing agricultural sectors both employ a smaller percentage of skilled labourers than the total economy. The changing structure of the economy reflected in shifts of resources between sectors has therefore translated into an increased demand for skilled labour, at the cost of unskilled workers.

Table VIII. Occupational composition of employment, by sector

Sector	Year	Skilled	Semi-skilled	Unskilled
Agriculture, Fishing and Forestry	1995	0.6%	22.3%	77.1%
	2000	1.5%	56.6%	41.9%
Mining and Quarrying	1995	3.6%	77.0%	19.4%
	2000	4.2%	88.9%	6.9%
Manufacturing	1995	6.1%	74.1%	19.8%
	2000	10.3%	74.9%	14.8%
Utilities	1995	5.7%	79.4%	15.0%
	2000	9.3%	82.2%	8.5%
Construction	1995	6.2%	74.4%	19.3%
	2000	5.6%	74.6%	19.8%
Internal Trade	1995	13.6%	66.5%	19.8%
	2000	9.6%	60.5%	29.9%
Transport and Communication	1995	14.8%	73.4%	11.8%
	2000	22.1%	67.4%	10.5%
Finance, Real Estate and Business Services	1995	16.7%	76.9%	6.4%
	2000	25.0%	67.0%	8.0%
Community, Social and Personal Services	1995	9.9%	53.1%	37.0%
	2000	12.3%	50.3%	37.4%
Other Producers	1995	7.1%	36.6%	56.3%
	2000	51.5%	38.3%	10.2%
Total	1995	8.9%	59.1%	32.0%
	2000	11.0%	62.2%	26.9%

Source: Own calculations from 1995 OHS and February 2002 LFS

As a result of modernisation, there has also been a within-sector change in production techniques towards more technology-intensive methods, benefiting skilled workers at the cost of unskilled labour. The two primary sectors, agriculture and mining – traditionally associated with supplying employment to a large proportion of the unskilled workforce – both experienced large declines in employment shares. Over the last decade many mining enterprises have been struggling to remain economically viable (Bhorat, 2004), and the decline in the share of total production accounted for by mining has evidently come at the cost of unskilled labourers, who businesses often consider to be the most expendable in times of financial distress.

In contrast, between 1995 and 2002 the share of skilled workers in the manufacturing and financial sectors almost doubled. The manufacturing sector, historically nurtured by a fairly protective trade policy, has come under ongoing pressure to be internationally competitive in the face of increased competition brought about by trade liberalisation. In an attempt to become more efficient, firms in this sector have made retrenchments that have impacted disproportionately on the less skilled employment categories. It should be borne in mind that integrating into world product markets always entails some short-term costs for the economy, while the benefits of liberalisation take longer to be realised. The (relative) contraction of production in the manufacturing sector should therefore be viewed as a once-off adjustment process rather than being reflective of a long-term trend.

The changing structure of labour demand has had an uneven impact across races. Table IX reports the skills composition of employment for the different races. Africans and Coloureds are over-represented in the unskilled labour category, whereas very small proportions of these race groups are employed as skilled labourers. Nevertheless, for both groups, the share of unskilled workers has decreased between 1995 and 2002. Net employment growth for these groups occurred exclusively at the semi-skilled and skilled levels, whereas the number of employed unskilled African and Coloured workers declined over the period. Whites and Indians, on the other hand, have a small share of unskilled workers, but are over-represented among skilled workers. While these groups represent less than a quarter of the total population, more than half of the skilled workers in the economy are either White or Indian, and this share increased from 1995 to 2002 from 55% to 66%.

Strangely, despite the implementation of affirmative action policies, the share of skilled workers who are African decreased from 37% to 28% over this period. One reason for this result may be found in trends in demand for the types of occupation filled by African workers. Public sector restructuring appears to have hit African teachers, nurses and other skilled workers in public sector occupations particularly hard (Bhorat 2003b). Another reason may be the variation in the type or quality of tertiary qualification obtained by workers. If skills inflation is taking place, employers may be becoming more selective about the characteristics of tertiary education qualifications held by candidate employees. Those who attended historically black universities may be at an increasing disadvantage vis-à-vis graduates who have attended other universities, for example.

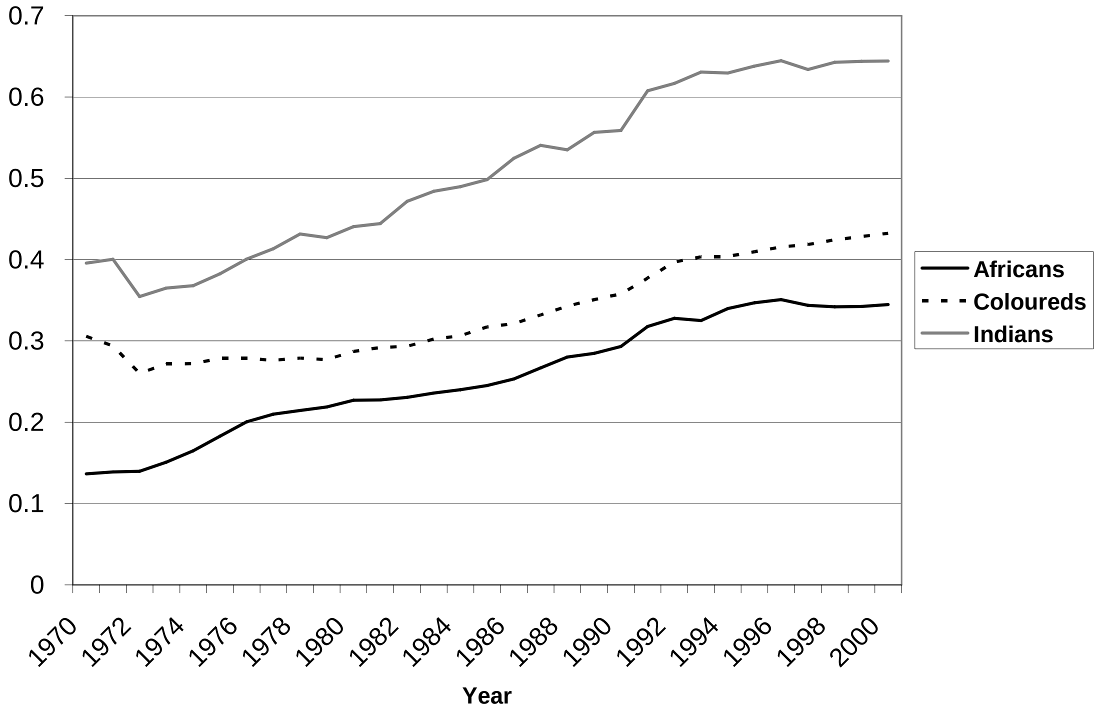
Table IX. Skill composition of employment, by race

Race	Year	Skilled	Semi-skilled	Unskilled
African	1995	5%	54%	41%
	2002	5%	61%	34%
Coloured	1995	4%	56%	40%
	2002	6%	60%	34%
Indian	1995	17%	75%	7%
	2002	27%	67%	6%
White	1995	23%	74%	3%
	2002	33%	65%	2%
Total	1995	9%	59%	32%
	2002	11%	62%	27%

Source: Own calculations from 1995 OHS and February 2002 LFS

The long-term shift in the economy towards service sectors, coupled with capital-intensification in the production process has therefore benefited Whites and Indians, who generally have higher education levels, while having a detrimental effect on the employment opportunities for unskilled Africans and Coloureds.

Figure 5 shows the long-term trend in real wages for the different race groups, with African, Coloured and Indian wages expressed as a proportion of White wages. Although the average wage level for White workers has historically been much higher than those of the other race groups, the gap has been closing since the 1970s.



Source: Calculated from Van der Berg & Louw (2003)

Figure 5. Real wage levels by race, as a proportion of White wages

The variable quality of wage measurement in the household surveys makes a direct between-survey comparison of 1995 and 2002 inappropriate. A more prudent approach is to compare within survey wage-ratios. Table X shows the average wage for unskilled and semi-skilled workers as a proportion of the average wage for skilled workers. Wages are much lower for the less skilled occupational categories. This gap has been widening over time.

Table X. Average wage (as a share of average skilled wages), by occupation

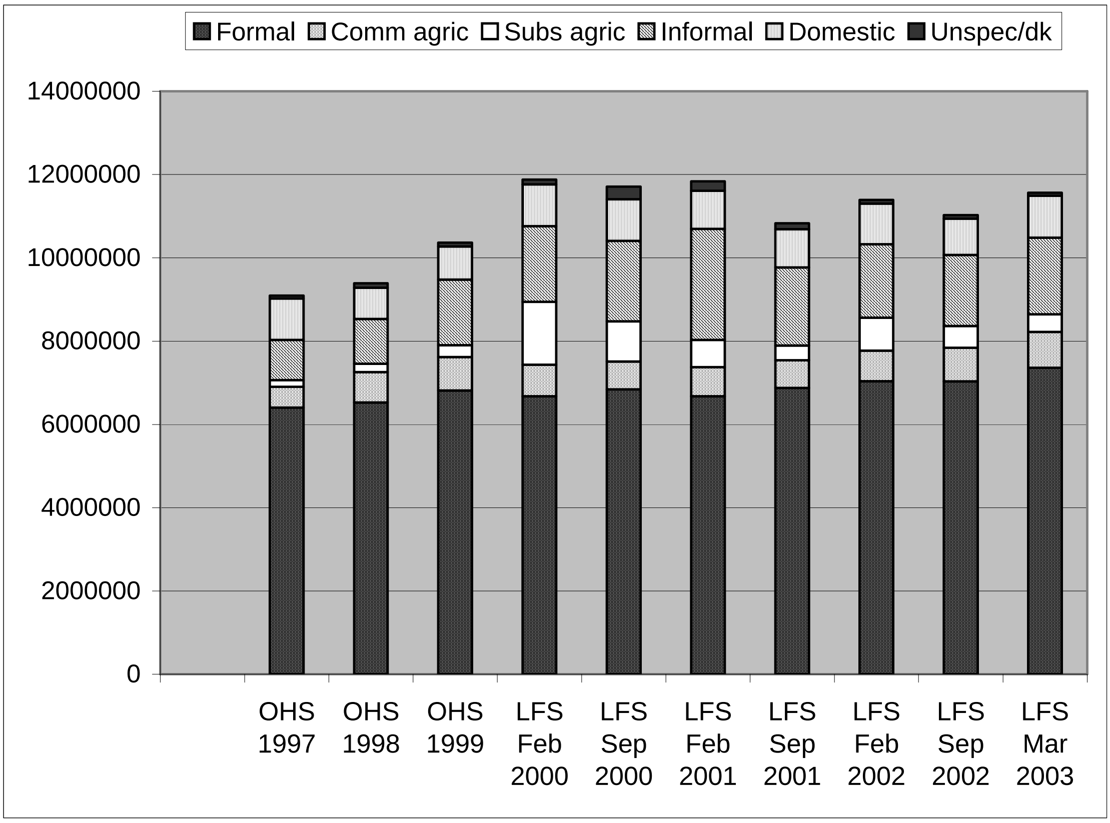
Occupation	**1995**	**2002**
Semi-skilled	39%	30%
Unskilled	14%	9%

Source: Own calculations from 1995 OHS and February 2002

The Informal Sector and SMMEs

The problems in measuring the size of the informal sector were alluded to above. It is notoriously difficult to define what exactly the informal sector should encompass. Coverage of the informal sector was particularly inadequate for the 1995 OHS (Bhorat, 2004), so that a comparison between 1995 and 2002 would not be very reliable. There is reason to believe, however, that Statistics SA has been improving its ability to accurately capture those employed in the informal sector by asking more probing questions and improving fieldworker training (Devey, Skinner and Valodia, 2002). A comparison of informal sector employment, as captured across October Household and Labour Force Surveys from 1997 to 2003, is presented in Figure 6. A sizable part of the employment growth which occurred between 1997 and 2003 was in the informal sector or subsistence agriculture. The percentage of workers employed in the informal sector (including domestic services and subsistence agriculture) has increased from 23% to 28%. Workers in the informal sector are predominantly unskilled and semi-skilled, and Africans comprise around 85% of its labour force (*ibid*.).

Despite the relatively large share of workers who are employed in this sector, it is still much smaller than in many other developing countries where it fulfils the role of employer of last resort. The very high unemployment rate in South Africa indicates that the informal sector is not absorbing much surplus labour. There are a number of possible explanations for our small informal sector. Firstly, a history in which informal activities amongst Africans have been strongly repressed, has led to the underdevelopment of entrepreneurial skills and social networks which are necessary for a flourishing informal economy (Kingdon and Knight, 2000). Secondly, entry into the informal sector appears to be impeded by a lack of infrastructure in African townships and inadequate access to credit markets. Lastly, the informal sector is an unpleasant employment option: its members are paid considerably less than in formal sector employment (Devey, Skinner and Valodia, 2002), and are often the victims of violence and insecurity (Kingdon and Knight, 2000).



Source: Devey, Skinner & Valodia (2004)

Figure 6. Trends in employment, by economic sector

It was suggested above that the increased labour force participation rate partly reflects an attempt by poor households to cope with increasing unemployment and decreasing wages for unskilled employment. It was also shown that this increase in participation has mainly translated into higher unemployment, and that the informal sector does not appear to be adequately fulfilling the role of employer of the last resort. This has led some to question how the unemployed are managing to cope. One strategy is the formation of multigenerational households. Social old-age pensions can act as an important insurance mechanism for unemployment amongst the young (an increasingly common phenomenon), so that these household members stay in households for longer before breaking away to start their own families (Keller, 2004). Urban migration of the rural unemployed, in search of securing remittance income, is another way in which rural households attempt to cope with rising unemployment. However, Van der Berg, Leibbrandt, Burger and Mlatsheni (2004) show that this strategy is not likely to be very successful, since rural labour market participants will generally not be close to the front of the job queue in urban labour markets. Most of those who have the productive characteristics to be easily absorbed into the urban job market are already employed rurally. Urban migration is therefore often a reflection of desperation, rather than offering a feasible coping strategy for the rural unemployed.

The effect of Trade Liberalisation

The impact of opening up the economy to increased international competition has been mentioned above. Although trade reform has had the effect of lowering employment in firms whose domestically produced goods have been replaced with cheaper, internationally produced imports, employment has been created in export-producing firms. The net effect on total employment is likely to have been small (Edwards, 2001). There is evidence to suggest that trade liberalisation has contributed to the skill biased technological growth (Edwards, 2002), which would have encouraged the within-industry shift towards more skilled labourers.

The Expected Impact of HIV/AIDS

HIV/AIDS is having a large impact on many aspects of South Africans' lives, and the labour market is no exception. The obvious demographic impact is that the epidemic will reduce the size of the labour force and hence the productive capacity of the South African economy. It is expected that the first effect will be alleviated by absorption of the currently unemployed (Bureau for Economic Research [BER], 2001). The pandemic also presents costs to businesses in the form of: the requirement to increase employee benefits, increased absenteeism and higher worker turnover. The forecasted effect of the pandemic will be to decrease the unemployment rate and to increase wages (*ibid*.). This outcome is contested by Arndt and Lewis (2000) whose forecast has South African unemployment continuing on its upward trend. A cautious conclusion would be that HIV/AIDS will have a large impact on South Africa's labour force, but that we are uncertain whether its repressive effect on employment or on the size of the labour force will dominate in determining the net effect on the unemployment rate.

Conclusion

This paper looked at the nature of and changes in the South African labour market since 1994. Although problems with the data limit the confidence with which we can make assertions about labour market movements, there are a few long-term trends that appear to stand out. The changing structure of the South African economy, coupled with capital intensification in the production process has led to the increased demand for more skilled workers at the cost of unskilled labourers. This has led to increasing unemployment, especially among African labour market participants. This evidence appears to suggest an important role for skills training as a means of addressing the problems of unemployment, inequality and poverty.

The unemployed are predominantly African and Coloured and more than half of the unemployed are under the age of 35. Women and rural workers are also over-represented amongst the unemployed. Educational attainment appears to be an important factor in determining labour market outcomes.

Contrary to the oft-asserted claim that the post-apartheid period has been one of jobless growth, employment growth since 1994 has been positive. Although there is reason to doubt whether the actual number of jobs created was as high as 1.7 million – the number which is obtained by comparing the 1995 and 2002 survey data – employment growth is still likely to have been substantial. However, many of the employment opportunities created were in the informal sector, where working conditions are far below that in the formal sector.

References

Arndt, C. and Lewis, J.D. (2000) The Macro Implications of HIV/AIDS in South Africa: a preliminary assessment, *South African Journal of Economics*, 68(5): 856-887.

Barker, F.S. (1999) On South African Labour Policies, *South African Journal of Economics*, 67(1): 1-33.

Bhorat, H. (2003a) *The Post-Apartheid Challenge: labour demand trends in the South African labour market, 1995-1999.* DPRU Working Paper No 03/82. Cape Town: Development Policy Research Unit, University of Cape Town.

Bhorat, H. (2003b) *Labour Market Challenges in the Post-Apartheid South Africa.* Mimeo. Cape Town: Development Policy Research Unit, University of Cape Town.

Bhorat, H. (2004) Labour Market Challenges in the Post-Apartheid South Africa, *South African Journal of Economics*, 72(5) pp. 954-977.

Bureau for Economic Research (2001) *The Macro-economic Impact of HIV/AIDS in South Africa*. Economic Research Note No. 10. Stellenbosch: University of Stellenbosch.

Casale, D. (2004) *What has the Feminisation of the Labour Market 'Bought' Women in South Africa? Trends in Labour Force Participation, Employment and Earnings, 1995-2001.* DPRU Working Paper 04/84. Cape Town: Development Policy Research Unit, University of Cape Town.

Casale, D. and Posel, D. (2002) The Continued Feminisation of the Labour Force in South Africa: an analysis of recent data and trends, *South African Journal of Economics* 70(1): 156-184.

Case, A. and Yogo, M. (1999) *Does School Quality Matter? Returns to Education and the Characteristics of Schools in South Africa.* NBER Working Paper 7399. Cambridge, M.A.: National Bureau of Economic Research.

Devey, R., Skinner, C. and Valodia, I. (2002) *The Informal Economy in South Africa: Who, Where, What and How Much*? Paper presented at the DPRU/FES Conference on Labour Markets and Poverty in South Africa, Johannesburg, 22-24 October 2002.

Devey, R., Skinner, C. and Valodia, I. (2004) *Definitions, Data and the Informal Economy in South Africa: A Critical Analysis*. Paper presented at the GEM-IWG Conference on Engendering Macroeconomics and International Economics, Salt Lake City, 22-24 June 2004.

Edwards, L. (2001) Globalisation and the Skills Bias of Occupational Employment in South Africa, *South African Journal of Economics*, 69 (1): 40-71.

Edwards, L. (2002) *A Firm Level Analysis of Trade, Technology and Employment in South Africa.* Paper presented at the Trade and Industrial Policy Strategies Conference, Muldersdrift, 22-24 October 2002.

Fallon, P. and Lucas, R. (1998) *South African Labour Markets: Adjustments and Inequalities.* Discussion Paper 12, Informal Discussion Papers on Aspects of the Economy of South Africa. Washington, D.C.: World Bank.

Government of South Africa (1996) Growth, Employment and Redistribution: a macroeconomic strategy. Pretoria: Government Printer.

Hofmeyr, J.F. (2001) *Segmentation in the South African Labour Market in 1999.* Paper presented at DPRU/FES Conference on Labour Markets and Poverty in South Africa, Johannesburg, 15-16 November.

Jafta, R. (2003) *Labour Relations in South Africa: a literature review*. Mimeo. Stellenbosch: Stellenbosch University.

Keller, S. (2004) *Household Formation, Poverty and Unemployment – The Case of Rural Households in South Africa*. Stellenbosch Economic Working Paper 1/2004. Stellenbosch: Stellenbosch University.

Kingdon, G. and Knight, J. (2000) *Are Searching and Non-searching Unemployment Distinct States when Unemployment is High? The Case of South Africa*. CSAE Working Paper 2000-2. Oxford: Centre for the Study of African Economies, Oxford University.

Lee, D. and Woolard, I. (2002) A Typology of the Unemployed: a policy of orientated approach. Paper presented at the DPRU/FES Conference on Labour Markets and Poverty in South Africa, Johannesburg, 22-24 October 2002.

McCord, A. (2005). A critical evaluation of training within the South African National Public Works Programme. *Journal for Vocational Education and Training*, forthcoming.

Poswell, L. (2002) *The Post-Apartheid South African Labour Market: a status report.* Cape Town: Development Policy Research Unit, University of Cape Town.

Sewell, M. and Ngobese, Z. (2003) Study Ranks SA Worst for Labour Law Flexibility, *Business Report*, 3 September. [Online]. Available at http://www.comparexafrica.co.za/news_result.asp?news_id=318.

South African Reserve Bank (SARB) (2004) *Quarterly Bulletin March 2004.* Pretoria: South African Reserve Bank.

Van der Berg, S., Leibbrandt, M., Burger, R. and Mlatsheni, C. (2004) *Internal Migration between two South African Provinces: evidence from census and survey data*. Paper delivered at the Conference of the Centre for the Study of African Economies, Oxford University, Oxford, 18 May 2002.

Van der Berg, S. and Louw, M. (2004) Changing Patterns of South African Income Distribution: towards time series estimates of distribution and poverty. *The South African Journal of Economics*. 72(3): 411-640.

The Centre for Social Science Research
Working Paper Series

RECENT TITLES

Seekings, J. 2005. *The Colour of Desert: Race, Class and Distributive Justice in Post-Apartheid South Africa*. CSSR Working Paper no. 126.

Meintjes, H. Bray, R. 2005. *'But where are our moral heroes?': An analysis of South African press reporting on children affected by HIV/AIDS*. CSSR Working Paper no. 127. (A Joint Working Paper of the Children's Institute and the Centre for Social Science Research).

Mattes, R. and Shin, D. 2005. *The democratic impact of cultural values in Africa and Asia: The cases of South Korea and South Africa*. CSSR Working Paper no. 128.

Klasen, S. Woolard, I. 2005. *Surviving unemployment without state support: Unemployment and household formation in South Africa*. CSSR Working Paper no. 129.

Collins, D. 2005. *Financial instruments of the poor: Initial findings from the Financial Diaries study*. CSSR Working Paper no. 130.

Cichello, P. 2005. *Hindrances to Self-employment Activity: Evidence from the 2000 Khayelitsha/Mitchell's Plain Survey*. CSSR Working Paper no. 131.

Wittenberg, W. 2005. *Testing for a common latent variable in a linear regression: Or how to "fix" a bad variable by adding multiple proxies for it*. CSSR Working Paper no. 132.

The Centre for Social Science Research

The CSSR is an umbrella organisation comprising five units:

The **AIDS and Society Research Unit** (ASRU) supports innovative research into the social dimensions of AIDS in South Africa. Special emphasis is placed on exploring the interface between qualitative and quantitative research. By forging creative links between academic research and outreach activities, we hope to improve our understanding of the relationship between AIDS and society and to make a difference to those living with AIDS. Focus areas include: AIDS-stigma, sexual relationships in the age of AIDS, the social and economic factors influencing disclosure (of HIV-status to others), the interface between traditional medicine and biomedicine, and the impact of providing antiretroviral treatment on individuals and households.

The **Data First Resource Unit** ('Data First') provides training and resources for research. Its main functions are: 1) to provide access to digital data resources and specialised published material; 2) to facilitate the collection, exchange and use of data sets on a collaborative basis; 3) to provide basic and advanced training in data analysis; 4) the ongoing development of a web site to disseminate data and research output.

The **Democracy in Africa Research Unit** (DARU) supports students and scholars who conduct systematic research in the following three areas: 1) public opinion and political culture in Africa and its role in democratisation and consolidation; 2) elections and voting in Africa; and 3) the impact of the HIV/AIDS pandemic on democratisation in Southern Africa. DARU has developed close working relationships with projects such as the Afrobarometer (a cross national survey of public opinion in fifteen African countries), the Comparative National Elections Project, and the Health Economics and AIDS Research Unit at the University of Natal.

The **Social Surveys Unit** (SSU) promotes critical analysis of the methodology, ethics and results of South African social science research. Our core activities include the overlapping Cape Area Study and Cape Area Panel Study. The Cape Area Study comprises a series of surveys of social, economic and political aspects of life in Cape Town. The Cape Area Panel Study is an ongoing study of 4800 young adults in Cape Town as they move from school into the worlds of work, unemployment, adulthood and parenthood.

The **Southern Africa Labour and Development Research Unit** (SALDRU) was established in 1975 as part of the School of Economics and joined the CSSR in 2002. In line with its historical contribution, SALDRU's researchers continue to conduct research detailing changing patterns of well-being in South Africa and assessing the impact of government policy on the poor. Current research work falls into the following research themes: post-apartheid poverty; employment and migration dynamics; family support structures in an era of rapid social change; the financial strategies of the poor; public works and public infrastructure programmes; common property resources and the poor.