Low Skill Work in South Africa

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A. Background

South Africa faces a difficult conundrum, with a capital-oriented investment path and a very large low skill labour surplus. Herein lies a dilemma: as a middle income economy, SA needs to simultaneously raise value-added in its production and services profile, and expand its low-productivity employment opportunities. The context is one of high unemployment, slow employment growth, high earnings inequalities, low wages for low skill workers relative to the cost of living and a level of human development normally associated with a poor country.

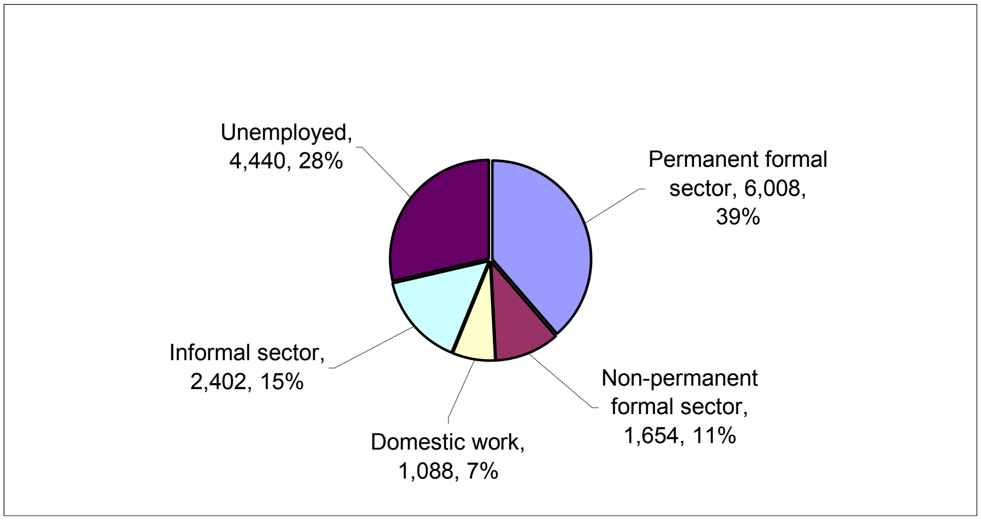
Deepening economic participation is seen to be an important goal in South Africa, where 27% of the labour force is unemployed. Figure 1 presents the distribution of the labour force by employment status. About 15% of the labour force (or 27% of workers) relies on informal work. 17% (27% of workers) are domestic and temporary workers. Almost 40% of the labour force (54% of workers) have permanent contracts in the formal sector. About 65% of working people earn very low incomes – below R 2,500 (€ 296) per month.

The South African government has adopted a target of halving unemployment by 2014. Altman (2006) estimates that employment would need to grow by 40% to meet that target, or by 5 million net new jobs.

This has implications for employment & livelihoods. Although SA is a middle income economy, it has a human development profile that resembles a poor country. Hopefully, there will be a demographic transition over the next generation, where the structural mismatches are reduced: for a middle income country, wealth creation requires maximum absorption of labour into higher skills and productivity sectors.

Unless it is possible to achieve a rapid skills upgrading, most new jobs must be aimed at low-skilled workers. Therefore in this generation, job creation efforts will need to focus on creating very large numbers of low skill jobs in labour intensive activities: this inherently means low earnings.

Figure 1: Distribution of Labour Force ('000s, %), 2005



Source: Stats SA: Sept LFS 2005
Notes:
The informal sector includes subsistence agriculture and unpaid workers.
Unemployed refers to the official (or strict) number.
These figures exclude approximately half a million workers listed as 'unspecified'.

Until the 1980s, low skill labour was absorbed in resource based industries such as mining and agriculture. Manufacturing investment was directed towards capital intensive resource based and defence industry projects. In the 1980s, labour shifted out of mining and agriculture, without a concomitant take up in manufacturing. Instead, services industries have been the major sources of growth and employment – for both high and low skill jobs.

There is evidence to show that the wages of low skill and semi-skill formal sector workers is stagnant or falling and that these jobs are becoming increasingly precarious in character. This is consistent with the path of industrial development, which has increasingly leaned to the outsourcing, the real expansion of services, and of the informal sector.

There is an age-old contest between ensuring the labour market is competitive and needing to ensure some basic minimum standard of living. The SA state has dramatically expanded its system of grants in the 2000s. While there may be room for further expansion, both society and state have an expectation that livelihoods should primarily be sourced from economic participation, not grants, insofar as is possible.

This paper offers some initial thoughts about the emerging character of the 'working poor' in South Africa, and the implications for economic policy. The theme is particularly relevant for economies whose cost structures are not well aligned to promoting meaningful economic participation. The paper is structured as follows: section one sets the unemployment scene, an important backdrop to this discussion. Low paid work is a greater burden, if the labour market is loose: it means large numbers of people depend on fewer low paid earners. Section 2 looks at the shift from resources to services, as it affects labour demand. It shows how SA has leaped from a resource-based to a services economy. SA had an inward oriented industrial path that underpinned a capital intensive path of development. At the same time, the human resource and entrepreneurial base was systematically undermined by the Apartheid system. Employment grew slowly, not sufficiently absorbing the labour force over many years, particularly excluding low skill sections of the labour force. Section 3 outlines the character of the working poor in SA. It reviews who they are, what they earn, labour standards and job security. Section 4 concludes with some policy and research questions. These are fairly open-ended as they are meant to launch a policy research programme to deepen our understanding of the working poor.

B. Unemployment

Reducing unemployment is one of South Africa's greatest socio-economic challenges. SA has one of the highest rates of open unemployment, compared to other stable economies globally, as seen in Table 1 and Table 2.[1] SA's unemployment rate is about 27%.

This problem has been developing for a number of years. It can be attributed to a number of causes such as a rapidly expanding labour force, large jobs losses in mining and agriculture over the 1980s, and slow job creation in other sectors between 1970 to now.

There is a strong racial bias in the experience of unemployment. The strict unemployment rate for Africans is 37% in 2002, as compared to 6% for whites (LFS, September 2002). Critically, the majority of the unemployed are young and recent entrants to the labour market with 75% aged less than 35 years (Labour Force Survey, September 2002).

Table 1: Unemployment rates in SA

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Strict definition	15.7	19.6	20.7	24.4	23.6	25.8	29.5	30.2	27.4	25.6	26.5
Broad definition	29.2	36.2	37.8	40.1	39.7	35.4	41.4	42.2	41.3	40.7	39.2

Source: calculated from electronic data made available by Statistics South Africa: October Household Survey 1995-99 and Labour Force Survey, September 2000 - 2005[2].

1 Although the unemployment rate rose dramatically over this period, the dependency ratio did not. Over the entire period, the ratio of non-working to working remained at approximately 3:1 (that is an average of three non-working people depended on one working person). Of course, the distribution of working people is not equal. Some households have no earners and rely on grants, while others have more than one earner.

2 Official employment was tracked by an annual household survey that took place in October each year during the 1994 – 1999 period. From 2000 it was replaced by the labour force survey, which is conducted twice annually: in March and September.

Table 2: Unemployment rates by region, 2003 (%)

Region	Unemployment (%)
World	6.3
Industrialised economies	6.8
Transition economies	9.4
East Asia	3.1
South East Asia	7.1
South Asia	4.8
Latin America & Caribbean	9.0
Middle East & North Africa	11.9
Sub-Sahara Africa	10.8
South Africa*	**27.4**

Source: extracted from table 2, ILO (2004) and *South Africa's Labour Force Survey (September 2002)
Notes:
1. Different aggregation techniques and methodologies may lead to differences in aggregate figures. These should be used as indicative only.
2. These unemployment rates are the "official" or "strict" measures, which exclude 'discouraged' workers. They include those that are not employed, but are actively searching for work.

A very large proportion of the unemployed do not have the kinds of skills needed in a middle income economy. In fact, 96.6% of the unemployed have a high school education or less (Table 3). This skills mis-match in South Africa is well-known). Three-quarters of the African (or 60% of the total) workforce do not have a high school diploma (matriculation) A further 16% of the African labour force reported having a high school diploma. (Stats SA: Sept LFS 2005).

The quality of that education has been called into question. For example, Reddy (2006) reports on a survey that tests mathematics and science capability of Grade 8 high school students in six African countries. South Africa has the highest income per capita, but the lowest test scores.

Table 3: Strict unemployment, by educational attainment

Educational Attainment	1995	1999	2000	2005
Incomplete Secondary	74.0%	69.1%	70.5%	66.1%
Matric	22.4%	25.9%	24.3%	30.5%
Diploma	2.4%	3.2%	3.8%	2.2%
Degree	0.6%	1.1%	1.0%	0.7%
Unspec	0.5%	0.8%	0.4%	0.4%
Total	100.0%	100.0%	100.0%	100.0%

Source: calculated from Stats SA: OHS 1995,1999; Sept LFS 2000, 2005

C. Employment

C.1. *Employment trends*

Growing unemployment, with a large low skill surplus, is sometimes seen as a feature of the post-democratic era. This has more to do with measurement and politics, than it does with the reality. First, the previous regime took White unemployment as its measure, and was less concerned with the employment situation facing the population at large. Of course, this changed with the onset of the new political regime. Second, the first full population censuses and representative household labour surveys were initiated in the mid 1990s. These factors brought to light the depth of the unemployment problem for low skill workers.

In reality, this problem had been growing for many years. Table 4 shows employment gains and losses between 1970-1995. Over this 25 year period, the economically active population grew by 4.6 million, but employment only expanded by 1.4 million. Most significantly, African employment stagnated.

Table 4 shows the dramatic shift in the distribution of employment over that period. Agricultural employment shrank considerably – by 1.2 million jobs, as did the mining sector by about 200,000 jobs. The shift out of resources was not met by a concomitant industrial expansion. Manufacturing generated only 430,000 new jobs, or about 17,000 jobs annually. There was a leapfrog into services sectors, by far the main source of employment growth. These sectors mainly accommodated "Whites" and "Coloureds", explaining why their unemployment rates remained so low.

Table 4: Employment Shifts by Race & Sector, 1970-1995

	Positive or negative growth	Formal employment (gains/losses)	Formal employment in 1995	Avg growth pa
Employment	+	1,400,00		0.7%
Of which: African		1,800		
Coloured		447,000		
Asian		177,000		
White		760,000		
EAP	+	4,600,000		1.4%
Sectors:				
Agriculture	-	1,200,000		
Mining	-	211,000		
Manufacturing	+	430,000		
Construction	-			stagnant
Services	+	2,400,000		Hi growth

Source: assembled based on Bhorat & Hodge (1999); and the OHS (1995)

The period from 1997 – 2005 was generally a period of positive employment growth, as shown in Table 5. Over that period, approximately 3 million jobs were created. But the strict labour force grew by 5.3 million people.

Broad trends in formal and informal employment in the 1995 – 2005 period are depicted in Figure 2. The private formal non-agricultural sector has been the main source of employment growth since 1997, generating about 2 million jobs (or two-thirds of the total).

The majority of new formal jobs were created in finance, insurance and IT related industries, retail and wholesale, and community and social services. To a lesser extent, manufacturing employment grew, but only by about 0.9% per annum (see Table 5).

The informal sector does appear to have grown quite substantially since the mid 1990s, off a very small base. Between 1997-2005, about 1.1 million jobs were created in the informal sector.[3] The dynamics underpinning the growth of the non-formal economy are poorly understood. It most likely grew during the 1990s as a result of a variety of liberalisations, and reduced policing – where trading by black business was actually illegal in "white" areas previously. We do not know to what extent this form of employment is part of a "virtuous circle" – feeding off growth in the rest of the economy, or alternatively part of a "vicious circle" – acting as survival strategies for the growing pool of unemployed.

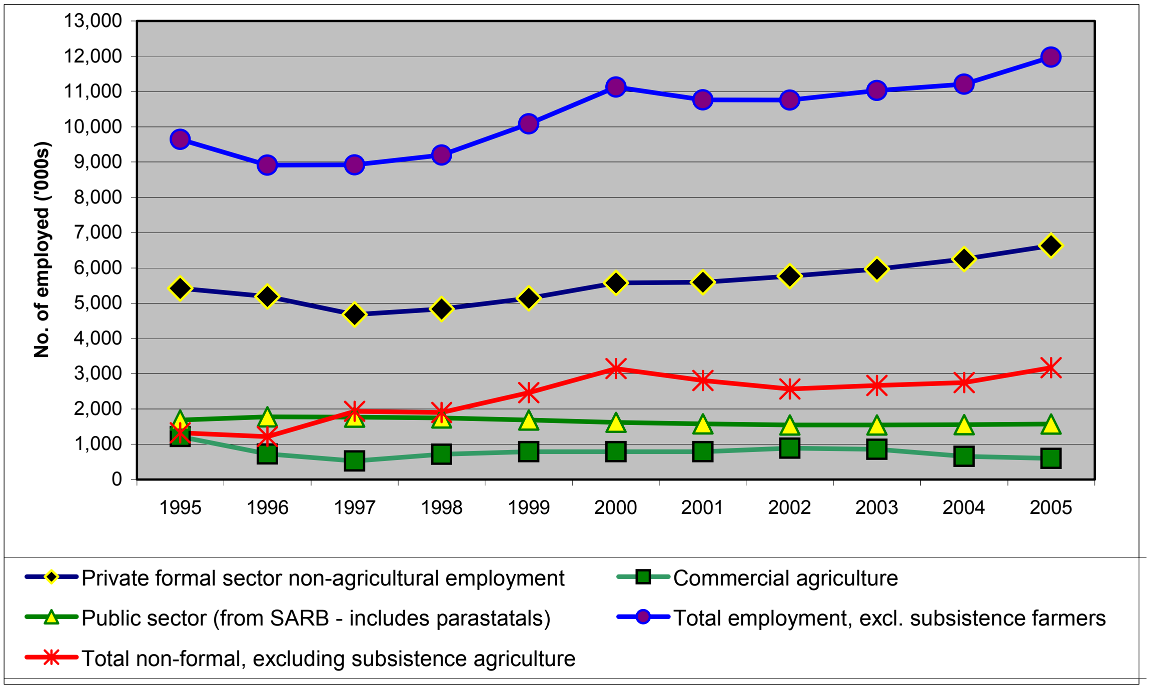
Table 5: % Change in Formal Employment by Sector, 1997 - 2005

	Total 1997-2005	Avg annual growth (%)	Sector employment in 2005 ('000s)
Manufacturing	6.2%	0.9%	1,467
Construction	75.1%	10.7%	618
Finance	86.4%	12.3%	1,238
Trade	58.1%	8.3%	1,848
Community services	21.0%	3.0%	2,033
Total FS employment	14.5%	1.6%	8,812

Source: calculated from StatsSA: OHS 1997 – 1999; Sept LFS 2000 – 2005.

3 This includes the usual definition of informal sector, domestic work, and unpaid labour, but excludes subsistence agriculture.

Figure 2: Employment in Formal & Non-Formal Sectors



Source: calculated from electronic data made available by Statistics South Africa, from the October Household Survey (1997 - 1999) and Labour Force Survey (September 2000 - 2005)
Notes:

1. These figures exclude subsistence agriculture unless specifically indicated
2. These figures are adjusted, as explained in Altman and Woolard (2006).

Most authors currently argue that SA has experienced a development path in the 1990s which was primarily skill absorbing, and low skill shedding.

In particular, research by Bhorat (2005) and Edwards (2001) influenced thinking about skills intensification since the mid-1990s[4]. This work has been used as a critical factor in explaining the expanding low-skill labour surplus. In other words, there is seen to be a critical mismatch between an economy that is becoming more capital and skill biased, and a rapidly expanding low skill labour force. More specifically, Bhorat (2005) found a 4% shift away from the use of unskilled labour, towards semi-skilled and skilled labour, between 1995 – 2002.[5]

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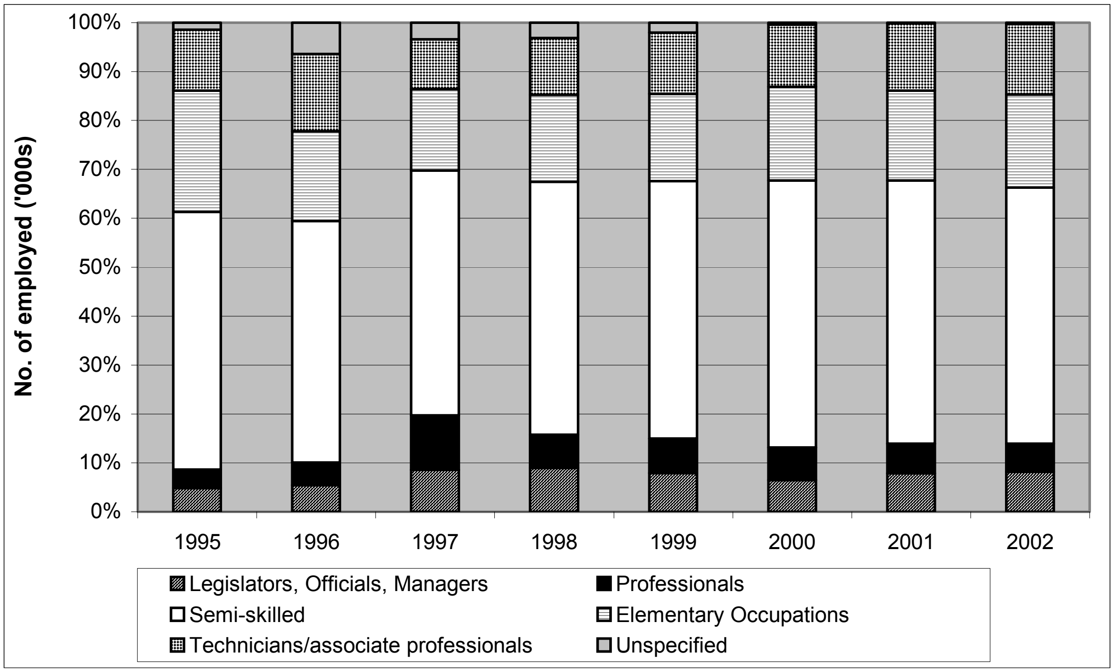
4 Bhorat considered the shifting skills composition cross-economy, across and within sectors. Edwards focused on changes within manufacturing, to assess the impact of international trade on employment.

5 These results need to be read carefully. First, the data is drawn from two different surveys – a household survey and a labour force survey. In SA, we do attempt to compare these figures for lack of alternative options: however, small changes need to treated with caution and not read too closely. Second, agriculture and mining were the main sources of diminished demand for low skill labour, likely explained by continued job losses in those sectors. 'Private households' (or domestic work) were another sector showing a shift from low skilled to semi-skilled labour – which does seem unlikely.

Figure 3: Formal Employment by Skill Level



Source: Stats SA: OHS (1997-1999) and Sept LFS (2000 – 2002)

More updated figures show that this is no longer the case. The Labour Force Survey shows that the proportions of workers employed in low, medium and high skill jobs has remained about the same between 1995 – 2002. Figure 3 presents the distribution of labour across five skill categories. There has been a fairly constant ratio of 70% low and semi-skilled to 30% high-skilled and skilled workers. This may represent a reversal of trends found in the early 1990s. Job losses for low and mid-skill workers slowed in mining, agriculture and, to a lesser extent, in some manufacturing industries. There is little doubt that there has been a capital intensification in mining, agriculture and manufacturing over the 1980s and 1990s. However, job creation in services industries has now overtaken those traditional industries, in both high and low skill occupations.

C.2. Explaining employment trends: from resources to services

Resource extraction has been the central driver of South Africa's economic development (Altman 2001). Indeed, as a "minerals economy", South Africa's industrial development has been driven by all the attendant complications associated with a 'resource curse' (Auty 1993, 1994, 1994a, Davis 1995, Ostensson and Uwizeye-Mapendano, 2000). In general, minerals economies tend to grow and to experience structural shifts more slowly than non-minerals exporters. They also tend to have a more capital-intensive structure of production. This is explained by a number of characteristics that are common to these economies. Slow structural shifts have also been explained by underlying economic bias due to minerals economy characteristics.

Successful low income developing countries traverse through a phase of low wage, low productivity manufacturing development that has the impact of mopping up the labour surplus

(Syrquin and Chenery 1989). The pattern of development experienced by labour surplus developing economies follows a familiar path, where under-productive labour moves off the farms, and into labour intensive manufacturing traded sectors. As there is a labour surplus, wages are low, and the sectors can therefore be highly competitive internationally. As the labour market becomes tighter, wages rise, and there is a shift to investment in more capital intensive activities.

Only once there is a tighter labour market do wages begin to rise and the economy moves into the development of more capital and skill intensive industries. The emphasis on labour intensive traded sectors is a necessary step in an economy that is capital and foreign exchange constrained. Ultimately, the more successful newly-industrialised countries are those that simultaneously invested in human capital development and asset distribution, so that the skills base developed alongside these structural shifts.

In contrast, minerals economies such as South Africa tend to leap-frog from the resource base into the development of heavy and chemicals industries, by-passing the development stage of mass labour intensive manufacturing. This is made possible by the large surpluses generated from resource extraction (Auty 1993).

Consequently, the mass creation of jobs in labour intensive traded sectors is less viable in a context of high domestic cost structures: overvalued exchange rates caused by minerals exports earnings render labour intensive agricultural and manufactured exports uncompetitive. Nor is it a requirement of manufacturing development, as it is in developing economies that do not have ready access to capital and foreign exchange. This means that the benefits of the minerals economy do not tend to spread widely and high levels of income inequality and unemployment result, since heavy and chemicals industries are capital intensive. Moreover, domestic demand may not expand as much as in other economies.

Many economies endowed with natural resources, in particular, minerals (for example, most Latin American economies) have followed an inward-oriented import substitution path, while economies that have few natural resources (for example, East Asia) have followed an export-oriented path.

In accordance with the experience of other minerals economies, South Africa bypassed the phase of development where large numbers of workers are absorbed into low cost, low skill labour intensive traded goods sectors (Altman, 2001). Slow growth and high levels of unemployment that characterise the economy today are the consequence of a minerals economy.

The key features of South Africa's economic development trajectory during the Apartheid period include import-substitution industrialisation and a range of policies that discriminated against the majority of the population.

Import-substituting Industrialisation

From the 1920s, South Africa's industrial policy substantially relied on import protection and subsidisation. In the first instance, there was an emphasis on solving the 'poor white problem' and absorbing white workers coming off the farms. In addition, there was also increasing interest by the private sector in import-replacement activities, particularly in relation to inputs for resource-based industries such as mining (Altman, 1997).

With the intensification of Apartheid policies and increasing foreign isolation, industrial policy also turned to substantial subsidisation of heavy industries such as steel (ISCOR), synthetic fuels (SASOL, MOSSGAS), and the defence industry. In accordance with a "minerals economy" trajectory, the main investments were largely directed to capital-intensive resource based projects in basic chemicals and metals.

Due to the small size of the domestic market, characterised by both a small economy and poor distribution of income, import substitution opportunities were largely exhausted by the late 1970s. This fact substantially contributed to poor productivity, high levels of industrial concentration and slow growth throughout the economy.

South Africa was a substantially open economy, even at the height of sanctions, but this applied primarily to its main exports of basic and slightly processed metals and minerals. As was the case in other "minerals economies", the foreign exchange earnings from these exports enabled South Africa to pursue an import substitution industrialisation strategy, even after its efficacy as an instrument of industrial development became questionable and its cost to domestic consumers increasingly onerous.

The Role of Apartheid Policies

Apartheid policies permeated every aspect of the economy, polity and society. Indeed, the apartheid legacy continues to act as a brake on growth and therefore on the alleviation of poverty.

Apartheid laws effectively repressed African entrepreneurship. Legal exclusion from vertical mobility severely limited the expansion of entrepreneurial or artisanal skills among the black population. African entrepreneurship was further stifled by exclusionary legislation, insufficient availability of credit, lack of market access and higher input costs (Nattrass and Nattrass 1988).

African traders experienced discriminatory legislation since the early 1920s. These restrictions intensified from the mid-1950s with the evolution of the 'Separate Development' ideology. Fundamentally, "..Africans resident in the townships and locations..(were)...regarded as 'temporary sojourners' in white South Africa"(Southall 1980).

These controls impacted on the ability of the African population to participate in the economy in a number of ways: the restrictions on black business raised the cost of inputs and hindered their access to markets. Inputs for black businesses had to be bought from the White centres; transport costs raised the price of these goods. Moreover, the majority of township dwellers worked and spent a large part of their day in White areas. Yet, the Group Areas Act stipulated that Africans could operate businesses in black residential areas only (Nattrass and Nattrass 1988).

The lack of access to credit constituted a major barrier to the development of African businesses. Moreover, the lack of freehold rights in urban areas precluded the possibility of using real estate as collateral against loans in a context where there were few alternatives (Southall 1980).

An artisanal class was not developed during the period of industrialisation as Whites were moving out of industry into higher paying jobs. This partly contributed to a concentration of production in large plants with relatively little subcontracting, thereby preventing small firms from developing the skills required to supply the market. Moreover, the supply of skilled staff limited the ability of producers to expand horizontally.

Historically, the Apartheid system entrenched a labour system that was highly segmented by race. This was the result of various labour and population regulations, combined with discriminatory education policy. Wages and occupation and skill groups were clearly associated with specific race groups.

The absence of effective labour market functions such as skills development, spatial and occupational mobility, affordable cost of job search, and circulation of market information for the historically disadvantaged part of the population continues to weigh heavily on the economy.

Slow economic and employment growth, a degradation of SA's human capital base, and systematic exclusion from economic opportunity resulted from this combination of policies. The labour force was left highly segmented by race, in terms of occupation, skill and earnings. The employment that was created was taken up by advantaged groups. This systematic exclusion over generations has dampened local initiative: in a diverse economy, employment is a function of how 'one thing leads to another'. Weak know-how and access limits these multipliers.

The orientation of industrial policy shifted after 1994. The industrial policies of the new Government emphasized global integration and trade. This was a central tenet of economic strategy which sought to source growth and employment on the back of international markets. These policies focused on the rationalization and reduction of tariff barriers, formal recognition in the WTO, forming trade arrangements and protocols with key trade partners – most importantly the US, the EU and African economies, and mobilizing South African exporters. [6]

Theoretically, the shift from import substitution to export oriented industrial policy in a context of a labour surplus should result in a bias toward labour intensive exports. Empirically, most high and middle income countries shifted toward higher skill and capital intensity in their tradables. This was certainly South Africa's experience.

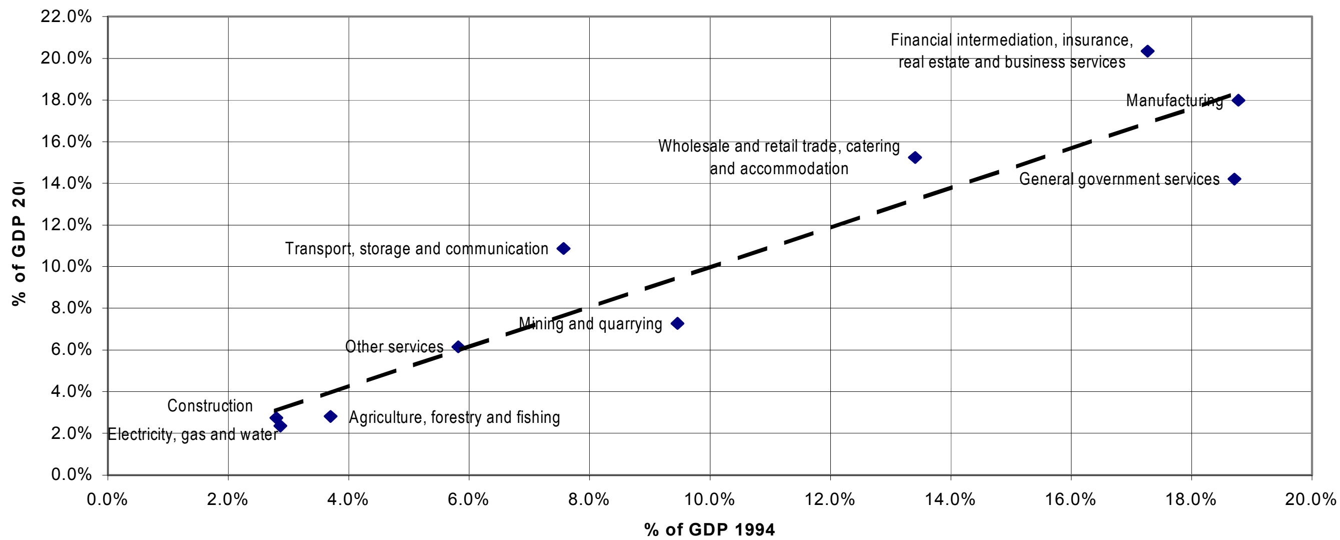
In the lead-up to the new regime, there had been an expectation that effort would be invested in expanding the domestic circulation of goods and services. Instead, the new Government had one eye on the SE Asian successes in export sectors and focuses most energy on facilitating entry to global markets. Although it can be seen that the domestic market has limited growth potential, there is some skepticism about the potential job creation through exports due to their growing capital intensity (van Seventer 2005).

Employment in the traditional resource-based industries, namely mining and agriculture, has been shrinking since the 1980s. There has not been sufficient uptake in other sectors, whether formal or non-formal. This has resulted in an observed skills and capital intensification in the SA economy.

The main growth sectors, have been ones that are energy and capital using (Altman 2001a, 2001b, Bhorat and Hodge 1999, Bhorat and Cassim 2004, Edwards 2001, Whiteford and van Seventer 2000). The contribution of manufacturing to GDP did not grow overall (see Figure 4) between 1994 - 2003. In manufacturing, the only sectors that increased their share of MVA were basic iron & steel; basic chemicals; basic non-ferrous metals; and the motor industry. Over that period, approximately 69% of manufacturing investment was directed toward resource based industries versus 20% to in labour intensive sectors (Quantec).

6 In terms the trade regime, the state sought only trade neutrality, and not an export orientation. Some argue that this has not been achieved, as a result of slow infrastructure reform, slow tariff barrier reductions and exchange rate policy (van Seventer….) New labour intensive manufactured exports have been slow to develop partly as a result of a volatile and sometimes overvalued exchange rate. There has long been very close inverted correlation between manufactured exports and the price of commodities (gold in particular) (Golub & Ceglowski 2002).

Figure 4: Sectoral shifts as a % of GDP, 1994 & 2003



But this is only part of the picture. Figure 4 shows that services sectors led GDP growth between 1994 and 2003. The factors contributing to this growth include:

- Income inequality has generated demand for ever more diverse commercial and personal services. Normally, services expand as incomes rise. SA has leapfrogged to the stage where services already account for approximately 65% of output and employment. This is mostly explained by the demands of wealthy westernized consumers and the powerful demands of large corporations.
- This has formed a base from which SA has begun to expand its services exports.
- Domestic outsourcing has generated a statistical growth, but also stimulates real growth as markets are created.
- Global outsourcing of services in non-traditional areas such as construction or business processing.
- Changing regulatory environment, particularly in relation to utilities. For example, there was massive investment in telecommunications with the introduction of cellular telephony.
- 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 (van der Berg et al 2005). This is about 8% of the population. This group will tend to 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. As already noted, the informal sector was treated as illegal, not extra-legal. Over the past decade, municipalities have either turned a blind eye, or have actively installed facilities to support traders.

These industrial shifts help to explain employment growth and a fairly stable ratio of low to high skilled labour in the economy. While the tradables sector (including resources, manufacturing and services) largely became more capital intensive, the more labour intensive non-traded sectors expanded more rapidly. This represents a large transition, over a 20 year period, from resource-based to service industry employment.

D. The Working Poor – how have their lives changed?

D.1. Who are the Working Poor?

There is a jargon currently in South Africa that refers to the 'second economy'. The president introduced this in his 2004 state of the nation address, with the intention of mobilising more Government effort to meet the needs of the poor. The 'second economy' is often treated synonymous with the 'informal sector'. Formal sector workers are seen to be relatively well off.

Using March 2004 Labour Force Survey (LFS) data, Valodia et al (2005) reviewed the status of what we term the 'working poor', as part of a larger HSRC labour market review. Valodia et al (2005) explored whether the traditional boundaries of formal versus informal were useful in understanding low earners in the labour force. For example, from a livelihoods perspective, is business registration the defining characteristic or is access to medical aid or pensions more important? Are the characteristics of informal earners and 'peripheral' formal sector workers similar? Do informal and formal workers move between these sectors?

The 'working poor' refers to anyone who is 'employed' by the definition of the LFS, working in the formal or informal sector, earning less than R 2,500 per month (approximately €382). The intention was not to say that workers earning more than that are the 'working rich'. Rather, this was close to the threshold set by the National Treasury as the minimum level below which workers are exempt from income tax[7]. Having chosen this ceiling, we found that 65% of all working people earned less than this amount. Workers earning less than R 1,000 per month (approximately € 153) were also reviewed: they account for about 39% of working people. Table 6 shows the distribution across the full set of earnings groups.

These can be contextualised in relation to a poverty line: although one has not yet been identified for SA, van der Berg et al (2005) suggests the use of R 2,000 to R 4,000 per person, per annum: about 30% to 50% of the population falls below these thresholds. A permanent worker who earns between R 1,000 - 2,500 per month and supports 4 people, can achieve a per capita annual household income of R 3,000 – R 7,500. However, someone who earns R 1,000 – R 2,500 for only some months in the year will be in a different position. Moreover, the *average* dependency ratio is about 1:3, but many low earners support a larger number of family and community members. Of households with monthly expenditures of between R 800 – R1,119 and R1,200 – R 2,499, respectively 19% and 28% report having "problems meeting food needs sometimes, often, or always" (StatsSA: Sept LFS 2002).

[7] The LFS offers income bands. We chose the band that was closest to the Treasury's threshold of R 32,000 per annum in 2004. The tax threshold was recently raised to R 40,000 - Accordingly, in 2004, 73.4% of workers earned less than R 3,500.

Of those who earn less than R 2,500 per month, 83% are African and 12% are Coloured. This accounts for three-quarters of all African workers and 60% of Coloured workers. Approximately 60% are between the ages of 25 – 44 years and are or have been married.

As noted, it is sometimes assumed that the majority of poor workers are found in the informal sector. In fact, most work in the formal sector. Table 7 presents the distribution of low wage earners by whether they earn less than R 2,500 or R 1,000. It shows that 58.7% of those who earn less than R 2,500 per month work in the formal sector. Approximately 42.4% are found in the informal sector and domestic work. These proportions change when looking only at those who earn less than R 2,500, but perhaps not by as much as might be expected. We see that 26% and 29% are found in the (non-agricultural) formal and informal sectors respectively.

Table 6: Distribution of Wages of the Employed, formal and informal, March 2004

		Frequency	Percent	Valid Percent	Cumulative Percent
Income	None	276543	2.3	2.5	2.5
	R1-200	535212	4.5	4.8	7.3
	R201-500	1304487	10.9	11.7	18.9
	R501-1000	2195499	18.3	19.6	38.5
	R1001-1500	1271590	10.6	11.4	49.9
	R1501-2500	1661159	13.9	14.8	64.7
	R2501-3500	974044	8.1	8.7	73.4
	R3501-4500	653423	5.5	5.8	79.3
	R4501-6000	747599	6.2	6.7	86.0
	R6001-8000	567995	4.7	5.1	91.0
	R8001-11000	438614	3.7	3.9	95.0
	R11001-16000	291266	2.4	2.6	97.6
	R16001-30000	204089	1.7	1.8	99.4
	R30000+	69795	0.6	0.6	100.0
	Total	11191315	93.4	100.0	
Missing	Don't know	257788	2.2		
	Refuse	520514	4.3		
	Unspecified	14878	.1		
	Total	793181	6.6		
Total		11984496	100.0		

Source: Valodia, et al. 2005, calculated from Stats SA: March LFS 2004.

Table 7: Type of low waged employment (%)

Sector	≤ R 1,000	≤ R 2,500
Formal	25.9	47.2
Comm agric	16.5	11.5
Subsist agric	8.5	5.2
Informal	28.9	22.0
Domestic	19.9	13.6
Unspecified	0.3	0.4
Not eco active	0.1	0.1
Total	100.0	100.0

Source: Valodia, et al., calculated from StatsSA: March LFS 2004

Table 8 shows the proportion of low wage earners in their respective sectors. A considerable portion of all formal workers (44%) earn less than R 2,500. Low earners account for nearly the entire agricultural, informal sector and domestic workforce.

Table 7 and Table 8 put together tell us that certain sectors tend to be particularly low earning. But low earning is not specifically a feature of informality. Table 9 shows the proportion of low earners in the main economic sectors. Those earning below R 2,500 are quite evenly spread across the economy, but are most prevalent in construction, retail, agriculture and domestic work.

A miniscule proportion of low earners are found in the public sector despite accounting for about 13% of total employment (Table 10). This is partly due to its composition, relying on a large number of professionals in the bureaucracy, health and education sectors. However, the public sector has played a particular role in underpinning equity in the labour market, as a matter of explicit Government policy. The main result is that low-skill workers earn relatively more in the public sector (Woolard 2002). The vast majority of low earners are therefore found in the private sector.

Table 8: Low waged earners as a % of total workers, by sector (%)

Sector	≤ R 1,000	≤ R 2,500
Formal	14.6	44.4
Comm agric	78.5	91.4
Subsist agric	95.6	98.0
Informal	69.6	88.7
Domestic	87.0	99.1

Source: Valodia, et al., calculated from StatsSA: March LFS 2004

Table 9: Low waged employment by economic sector, formal and informal, 2004 (%)

	≤ R 1000	≤ R 2500
Agriculture	82.9	92.6
Mining	3.8	55.3
Manufacturing	22.5	55.6
Electricity, gas, water	6.5	23.0
Construction	39.0	75.1
Wholesale/retail	43.8	71.7
Transport	14.2	42.6
Financial	11.2	38.7
Community service	12.6	29.3
Private households	86.9	98.2
Ext org/ foreign	9.7	48.4

Source: Valodia, et al., calculated from StatsSA: March LFS 2004

Table 10: % of low earners found in the public, private and non-profit sectors

	%
Central govt	0.5
Prov govt	2.7
Loc govt	1.6
Govt enterprise	0.9
Non-profit org	0.8
Coop/ self help	0.8
Priv business	74.8
Self-employed	17.9
Total	100.0

Source: Valodia, et al., calculated from StatsSA: March LFS 2004

It is not surprising that the vast majority of agricultural, domestic and elementary occupations are dominated by very low earners. But Table 11 shows that the majority of machine operators and craft related occupations also earn less than R 2,500 per month. Manufacturing workers would normally be seen as an elite in the working class: while they do earn relatively more than their service sector counterparts, the majority are nevertheless earning very little. It is surprising that low earners are found in almost equal proportion in service & shop work, craft & related occupations, plant and machine operation and domestic work.

Table 11: Distribution of Low Earners by Occupation, formal & informal, 2004 (%)

Occupation	% of earners ≤ R 2500	≤ R 2500 as a % of all workers in that occupational category
Management	1.6	13.4
Professionals	0.4	5.7
Technical	3.4	20.8
Clerks	5.9	35.0
Service and shop workers	12.5	64.8
Skilled agriculture /fishery	4.4	87.7
Craft & related occupations	13.1	65.2
Plant & machine operators	11.5	69.4
Elementary Occupations	33.7	89.6
Domestic workers	13.6	98.2
	100.0	

Source: calculated from Valodia, et al., calculated from StatsSA: March LFS 2004
Notes: elementary workers refer to occupations such as office cleaning, serving tea, etc.

D.2. Earnings of Low Waged Workers

It is well known that the SA economy is characterised by extreme unemployment amongst low-skill workers, and a shortage of skilled workers and professionals. In such a context, one would expect to find a widening gap in earnings between high- and low-skill workers. This would involve falling real wages amongst low-skill workers and rising earning for higher-skill labour. If this were not found, some explanation would need to be identified.

Research based on data to the mid-1990s often shows the opposite trend: rising wages for low-skill African workers and relatively stagnant wages for higher-skill workers (see Lewis 2001, Fallon 1992, Hofmeyr 1999). Wage increases for low-skill black workers were generally understood to be a correction, after years of exploitation. Some authors, such as Fallon (1992), expressed concern that these increases, however humane, would have a negative impact on competitiveness and employment.

Considerable effort has been applied in the SA labour market literature to explain this phenomenon, generally focusing on wage premiums associated with rising unionisation. It has alternatively been explained as the result of growing capital intensity and job losses amongst low wage workers.

There was some narrowing of the wage gap for workers with the same occupation. Yet, the racial gap in average earnings did not change very much, explained by a continued crowding of African workers in low paying jobs. For example, approximately 50% of African women workers are found in domestic work or ‘elementary’ occupations.

Absolute earnings for African workers are still quite low relative to living costs. As already noted, 28.5% of workers earned less than R1,000 per month in 2004, and 64.7% earned less than R2,500 per month. Great inequality persists. McGrath (1990) found that wage differentials by race continued to be significant, even after standardising for relevant earnings-related characteristics. These are consistent with studies by Fallon (1992), Hofmeyr (1990) and Moll (1998). Table 12 shows that skilled African male workers earned half of their White counterparts in 2002.

The trend in relative wages reversed from the mid 1990s. A review of earnings for 5 skill categories found that relative wages had widened (Woolard & Woolard, 2005).[8] Figure 5 shows falling real wages of low skill workers, and stagnant semi-skilled, skilled and high skilled (female) workers. This particularly affected African workers.

Woolard and Woolard (2005) found a substantial wage gap between small and large firms, of between 10% and 40%, depending on skill level. The fall in wages of African low-skill workers was found mainly in small private sector firms, probably the result of the growing services economy and contracting out.

The wage gap between white and black workers widened in some cases for high skilled, skilled, and semi-skilled workers. Table 12 presents a summary of findings, comparing African workers' wages to those of white male workers with the same skill level. In SA, there are few white workers at the lower skill level. It is worth noting that the wage gap between African, Coloured and Asian workers is still very wide. For example, Coloured semi-skilled male workers earned 40% more than their African counterparts in 2003 (Woolard & Woolard 2005). Highly skilled African female workers earned 15% less than their Coloured counterparts. This could be explained by a number of factors such as occupational crowding of black workers into lower paying sectors and occupations.

The different quality of work in the formal and informal sectors is made evident below. Informal sector workers earn between 1/5 to almost ½ of their counterparts in the formal sector. Mean monthly incomes in 2002 are presented in Table 13. Figure 6 shows us relative earnings in the formal and informal sectors for those with the same educational attainment. Formal sector workers generally earn more than informal ones. The gap becomes more pronounced, the more education a person has. Therefore the returns to education, for the household and society, are much lower in the informal sector.

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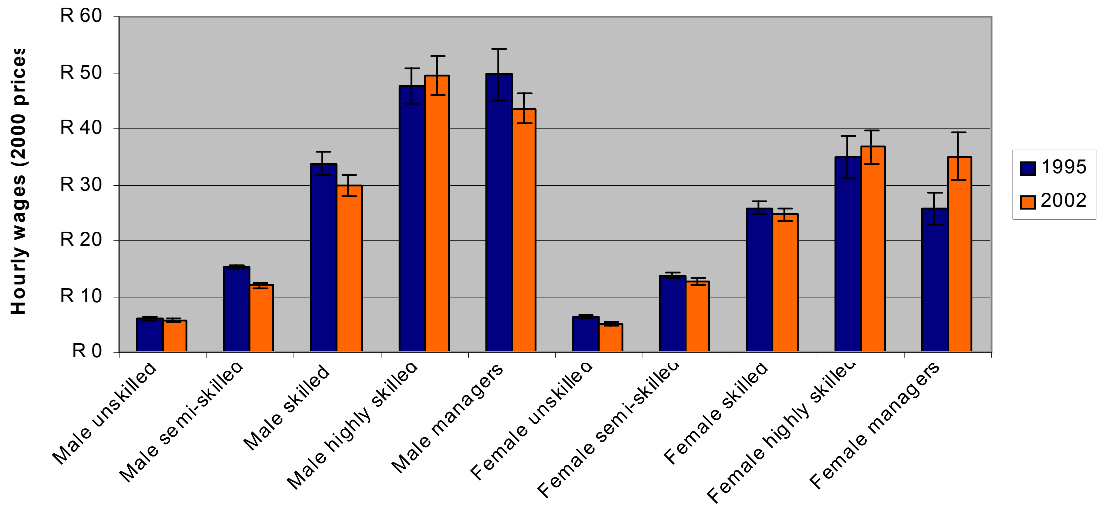
8 There is so much noise in the data, with very wide confidence intervals for higher skill categories, that it is actually difficult to discern a trend. Here we focus on comparing 1995 - 2002. The paper presents all years.

Figure 5: Wage trends by skill level, Formal sector (2000 prices)



Source: Stats SA: OHS (1995) and Sept LFS (2002)

Table 12: African workers' wages as a % of white male workers at same skill level, 1995 & 2003

	African males		African females	
	1995	2003	1995	2003
Managers (with tertiary qualifications	.59	.75	.73	.96
Managers (without tertiary qualifications)	.37	.48	.51	.88
Highly skilled	.59	.63	.82	.88
Skilled	.58	.57	.82	.84
Low skilled	.38	.35	.51	.36
Unskilled	.57	.29		

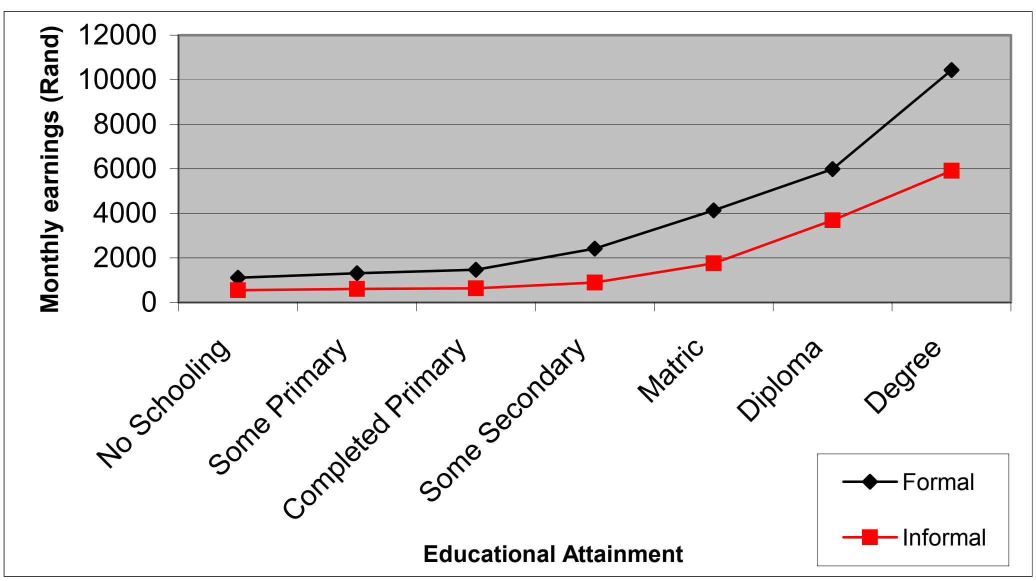
Source: Altman (2004) adapted from Woolard & Woolard (2005).

Table 13: Mean monthly incomes

	2002		1999		2002	
	Rand		As % of formal urban African male earnings		As % of formal urban African male earnings	
	Men	Women	Men	Women	Men	Women
White workers						
Formal (urban)	9328	6150	341%	217%	318%	210%
African workers						
Formal (urban)	2931	3092	100%	94%	100%	105%
Informal (urban)	1055	655	46%	38%	36%	22%
Informal (non-urban)	723	436	32%	24%	25%	15%
Domestic (urban)	524	544	41%	24%	18%	19%
Domestic (non-urban)	410	399	16%	18%	14%	14%
Agricultural (formal)	698	497	46%	27%	24%	17%
Agricultural (informal)	480	424	18%	14%	16%	14%

Source: Altman 2004, calculated from Stats SA: Sept LFS 2002.

Figure 6: Earnings in the formal & informal sector, by level of education (2002)



Source: Altman 2004, calculated from Stats SA, Sept LFS 2002

D.3. *Labour Standards and Regulation: How does it affect low skill labour?*

Where the economy seeks to generate a disproportionately large number of low skill jobs, labour regulation and organization becomes even more contentious than usual. The labour regulation regime since 1996 was introduced to settle the industrial relations environment, underpin the democratic right to organize, and ensure basic minimum standards for vulnerable workers. Through a process of negotiation and dialogue, it was accepted that the Apartheid labour standards and norms needed to be overhauled to reflect the expectations in the emerging democratic dispensation.

There are a number of essential pieces of legislation governing this environment, namely the Labour Relations Act that regulates organized bargaining, the Basic Conditions of Employment Act that underpins minimum standards for all employees. The state also sets minimum wages for vulnerable groups. The sector minimum wage determinations already covered contract cleaning, wholesale & retail, private security and clothing workers, but was then extended to domestic and agricultural workers in 2002 (Benjamin 2006). Very little is known about the actual impact of this legislation on low skill workers (see Altman 2006).

There is much debate about the impact of this legislation: does this legislation slow down the rate of low skill job creation? Do the benefits of minimum standards outweigh any possible dampening of labour demand? There is little empirical evidence to prove the case either way.

D.3.1 Contracts & Benefits

Stagnant or falling real wages might indicate that employment contracts are weak. Evidence of growing casualisation has emerged in sector and case studies (see Valodia 2006). The concept of a contract is weak in the informal sector, so Table 14 shows type of contract for all formal sector workers. It does appear that the prevalence of permanent contracts fell between 1999 and 2000, but this may be explained by the introduction of a completely new survey instrument, as well as new contract categories and a large 'unspecified' category. At least 20% of the formal workforce has temporary or casual contracts.

Table 15 shows the type of employment contract held by low earners in the formal and informal sector. Surprisingly, the figures are not that different. Two-thirds of all formal and informal earners have permanent contracts or jobs. Casual jobs are not prevalent, but 30% of all low earners have temporary and fixed term contracts.

Table 14: Type of employment contract, formal sector, 1996 - 2005

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Permanent/Full-Time	90.7%	92.4%	91.3%	89.0%	76.0%	77.5%	77.5%	78.0%	75.7%	73.2%
Contract	0.0%	0.0%	0.0%	0.0%	3.8%	3.5%	4.2%	3.7%	4.8%	5.6%
Temporary/Part-Time	8.4%	4.3%	4.8%	6.0%	7.6%	7.0%	6.9%	6.8%	7.7%	8.5%
Casual	0.0%	2.2%	2.8%	3.9%	4.8%	4.5%	4.0%	4.2%	4.4%	5.9%
Seasonal	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Don't know	0.0%	0.0%	0.0%	0.0%	0.5%	0.4%	0.3%	0.1%	0.3%	0.1%
Unspecified	0.9%	1.1%	1.1%	1.1%	7.2%	7.0%	7.1%	7.0%	6.9%	6.7%
Total Formal Sector	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: calculated from Stats SA: OHS (1996 – 1999) and Sept LFS (2000 – 2005).

Table 15: Type of employment contract for low earners, formal & informal, 2004 (%)

Type of contract	≤ R 1,000	≤ R 2,500
Permanent	50.7	63.3
Fixed term contract	3.6	4.5
Temporary	28.6	20.0
Casual	14.4	10.4
Seasonal	2.8	1.8
Total	100.0	100.0

Source: Valodia, et al., calculated from StatsSA: March LFS 2004

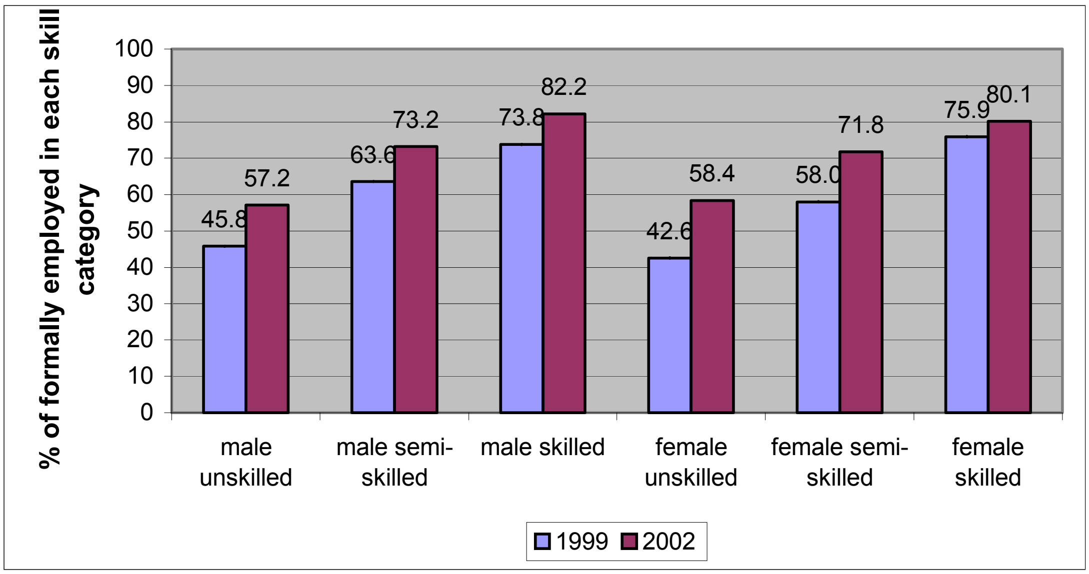
Figure 7 and Figure 8 offer further representations of formal sector work conditions – essentially giving a sense of the strength of contracts and the extent to which workers are covered by private benefits. We look at measures related to contracts, but also review other questions with the possibility that some workers are not sure whether or not they are covered by certain provisions. The figures are presented by skill category. We show information for unskilled, semi-skilled and skilled. The coverage by contracts and pensions for managers and highly skilled workers are similar to those for skilled workers. So, a comparison between skilled, semi- and unskilled is offered.

Although this is a short period of time over which to measure change, it appears that an increasing proportion of workers are covered by contracts at work – with 58% of workers having written contracts in 1999 as compared to 70% in 2002. The growth was particularly marked for the lower skill categories. This change directly coincides with amendments to the Basic Conditions of Employment Act in 1998, that required employers to have written contracts with employees[9]. However, looking at pension plan coverage offers a different picture. Comparing

9 More specifically, in November 1998, the BCEA was amended to require an employer to give an employee who was in employment the written particulars of employment required by Section 29 to be enforced within six months of the date on which the Act comes into effect, This was promulgated in terms of the Basic Conditions of Employment Act, No. 75 of 1997, under Government Notice No. R 1438 of 1998 in Government Gazette No. 19453 of 13 November 1998.

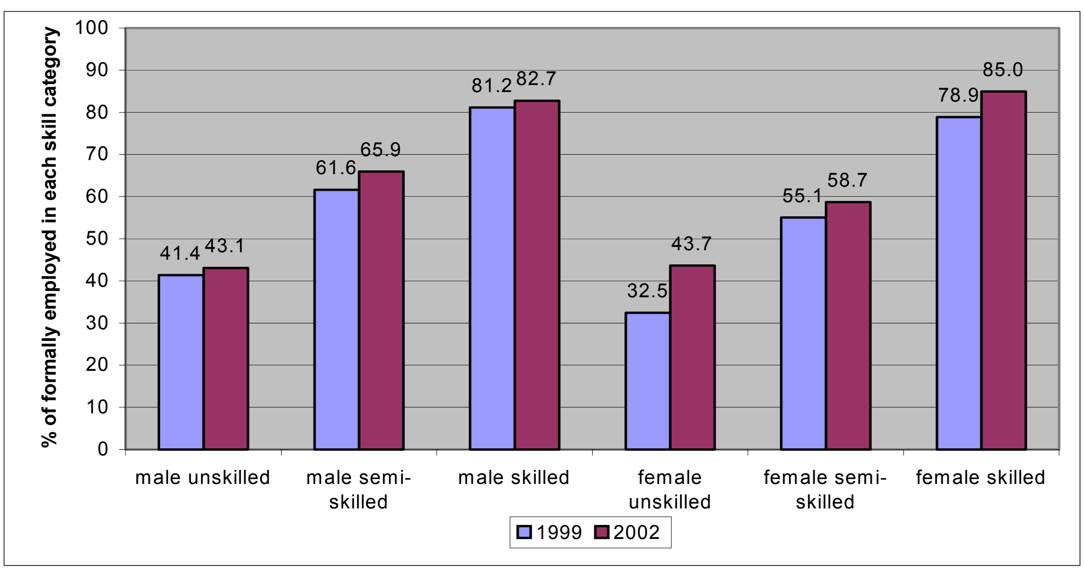
Figure 7 and Figure 8, we see that the expansion in contracts for unskilled and semi-skilled workers does not necessarily translate into benefits – possibly indicating that while more workers have contracts (or are aware that they have contracts), they are not necessarily of a very binding or long-term nature. The number of workers covered by private pension plans – a benefit they may be more aware of – hardly changed from its coverage of between 55% to 60% of the formal workforce, over the period from 1999 – 2002. Since ½ the labour force works in the formal sector, this means that about 32% of the labour force have written contracts and about 29% have private pension plans.

Figure 7: Formal Sector Workers with Written Contract by Skill Category (%)



Source: Altman 2004, calculated from Stats SA, OHS 1999, LFS Sept 2000 – 2002

Figure 8: Formal Sector Workers with Pension Plan by Skill Category (%)



Source: Altman 2004, calculated from Stats SA, OHS 1999, LFS Sept 2000 - 2002

D.3.2 Unions & Low Skill Labour

Unions can have a number of impacts on wages, potentially increasing or decreasing inequality. The empirical question is to determine which predominates. Unions create a divide in the labour market between the insiders (employed/core workers) and the outsiders (unemployed/non-unionised peripheral workers), with their interest largely vested in the insiders. However, they can also offer leadership in basic conditions of employment, such as those related to the strength of contracts, that have an impact on a wider group of workers.

Unions affect wages in a number of ways:

- Wage dispersion within unionised firms tends to be reduced, particularly narrowing the wage gap between blue and white collar workers.
- Unions may increase inequality by increasing wages of unionised workers versus those of non-unionised workers. This can also happen if there is contracting out and regulation avoidance.
- Wage dispersion between firms in a given product market may be reduced, particularly amongst low skilled workers.
- Unionised firms may offer 'wage leadership' to non-unionised firms.

Although overall wage growth was relatively stagnant in the 1980s, a number of authors find that the trade union movement was successful in substantially raising wages in select industries, particularly in mining and manufacturing (Fallon & Pereira de Silva 1994, Fallon & Lucas 1998). Over the 1980s, the mining and manufacturing sector workers particularly became increasingly radicalised and organised, as part of the mass democratic movement. Agriculture remained relatively feudal and isolated from these changes.

The public sector unions became more prominent in the late 1990s. Approximately 1.2 million people work in the public sector: Table 16 shows a 56% rate of unionization in 'community services': the majority of these are public sector workers. As noted, public sector pay equity policy, alongside strengthening union organization, has had the effect of raising low skill workers' wages and narrowing earnings differentials relative to the private sector. In a loose labour market, it does not appear that the public sector offers wage leadership to the private sector.

Empirical evidence shows that unionised segments of workers and those covered by industrial councils are reported to earn higher incomes compared to their non-unionised counterparts, particularly amongst African workers (Schultz and Mwabu 1997, Rospabé 2001, Moll 1993a). According to Schultz and Mwabu (1998) union members earned around 60% more than their non-union counterparts. When controlling for industry and occupation, Butcher and Rouse (2001), using the 1995 OHS, found a much lower premium of about 20% for African workers and 10% for white workers. This is an important distinction, as unions predominate in certain sectors, as seen in Table 16, namely mining, the public sector and specific sections of manufacturing. Workers covered by bargaining councils were also found to earn a premium.

The extension of industrial council agreements to non-parties was also found to have an impact on wages, albeit not as much as might be anticipated. Butcher & Rouse (2001) reported a wage premium of 6-10% for African non-union workers covered by industrial councils. The reasoning is that, above and beyond industrial council agreements, some unions continue on to negotiate further increases at a plant level. As a result the wage premium extended to the non-union workers covered by the industrial councils was lower than that of unionised workers also covered by the industrial councils.

The key concern with institutional interventions is generally in relation to their impact on raising lower skill wages to the point that a disincentive to employment has been created. However, wages for unskilled, low- and mid-skill workers stagnated or fell from at least 1997 onwards (Woolard and Woolard 2005). Unions might not cause large cross-economy effects for a number of reasons. Firstly, their coverage is not wide enough within the private sector. At the time of Butcher & Rouse's study, only 10 - 16% of workers were covered by Industrial Council agreements. Secondly, the majority of firms applying for exemptions from bargaining council agreements are granted such exemptions.[10] This was as true in the mid-1990s (Standing, Sender and Weeks 1996) as it is today. In 2004, the Department of Labour reported that SMMEs accounted for 59% of the 7,373 exemption applications received: 77% of all applications were approved. Thirdly, by 2003, only 40% of bargaining council members worked in the private sector. Benjamin (2005) argues that the extension of bargaining council agreements could only potentially apply to about 300,000 workers, primarily in the metal and motor sectors.

Table 16: Unionisation, 2002

Main industry	Number that is unionised ('000s)	Total in workforce	% of workforce that is unionised
Agriculture, hunting, forestry and fishing	60	884	6.8%
Mining and quarrying	378	494	76.5%
Manufacturing	481	1 425	33.8%
Electricity, gas and water supply	42	80	52.5%
Construction	53	410	12.9%
Wholesale and retail trade	246	1 281	19.2%
Transport, storage and communication	154	462	33.3%
Financial intermediation, insurance, real estate & business services	198	884	22.4%
Community, social and personal services	1 114	1 888	59.0%
Private households with employed persons	12	1 040	1.2%
Total	**2 750**	**8 899**	**30.9%**

Source: Altman (2004), calculated from Stats SA, LFS Sept 2002.
Notes: Table excludes employers, self-employed and those working without pay.

10 A collective bargaining agreement may not be extended to non-parties unless the Minister is satisfied that the non-parties fall within the Bargaining Council's registered scope. At the same time, provision must be made in the collective agreement for an independent body to hear and decide any appeal brought against the issuing of an exemption.

Table 17: Unionisation of Low Earners, 2004 (%)

Income category	% of workers who are unionised @ each income level	income category as % of all low wage unionised earners	income category as % of low wage group
None	0.0%	0.0%	0.2%
R 1-200	3.1%	0.8%	4.9%
R201-500	4.2%	3.8%	17.0%
R501-1000	8.8%	15.3%	32.7%
R1001-1500	20.5%	21.2%	19.6%
R1501-R2500	43.6%	58.9%	25.6%
Total	18.9%	100.0%	100.0%

Source: calculated from Valodia, et al., calculated from StatsSA: March LFS 2004

It is worth noting that the wage premiums may have the effect of reducing the apartheid legacy wage gap. Azam & Rospabé (2005) use the 1999 OHS to show that the gap between white and black workers is less amongst unionised than amongst non-unionised workers. They conclude that this has the effect of reducing 'statistical discrimination'. This refers to the view that employers pay less because they have lower expectations of black workers.

Only a small proportion of low earning formal workers are unionised (Valodia et al. 2005). In 2004, about 19% of all low earners were unionized. This was quite a large drop: in 2000, 27.5% were union members. A much smaller proportion of workers (6.8%) earning less than R1,000 per month were unionised.

D.4. Labour Market Churning

The drop in unionization and in average real wages may be partly explained by labour market churning.

Although more people seem to be covered by contracts, the attachment to the workplace is tenuous. Valodia et al (2005) use the panel data in the Labour Force Survey to track job status over time[11]. They show that 53.7% of workers changed their job status at least once over the period from September 2001 to March 2004. Of all workers that started in the formal sector in

[11] Valodia et al (2005) managed to match 5,587 individuals over the period from September 2001 to March 2004, from a total sample of 20,000 households. Imraan Valodia has explained the following: "The LFS is run twice a year, in March and in September. The sampling design allows for 80% of the sampling in each wave to remain in the sample".

"The panel is constructed along in the following manner: we used the unique household number to identify the households that remained in the panel. We then extracted the workers in that household. We applied two filters to determine whether we had the correct workers in the household - the worker's sex and age. To remain in the sample the worker had to be the same sex and within 3 years of the age reported in the previous LFS (on the grounds that age may not be reported accurately).

Unfortunately the attrition rate on the panel is very high. We were getting less than half the number of workers that we should. This does raise questions about the reliability of the findings".

September 2001, only 28% were still there by March 2004. Of those starting in the informal sector, only 15.8% remained, mostly shifting to unemployment.

There is other evidence of precarious work. Cichello, Fields and Leibbrandt (2003) revealed similar findings in their comparison of the 1993 and 1998 KwaZulu-Natal Incomes Dynamics Survey (KIDS) panel data in KwaZulu-Natal. They found that there was a general shift away from formal toward informal work. Those that managed to stay in skilled formal sector jobs experienced rising incomes. However, those that started in the formal sector in 1993 experienced a 2.6% fall in earnings.

The shift in earnings was in part influenced by movement between employment states, whether formal, informal or unemployed. Indeed Cichello et al. (2002) found that the initial employment status and the transition between employment status had a far greater impact on earnings changes than did other demographic characteristics such as gender, education, or geographic location. Of course, initial status is impacted greatly by demographic characteristics.

There is evidence to show that wage increases for low-skill workers in the formal sector turned in the mid 1990s. Drawing from cross-sectional KIDS data, Cichello et al. (2003) show that the top 25% of formal wage earners experienced an average increase of 36% between 1993 and 1998, as compared to 11% for the bottom 25%. This is consistent with the LFS data showing rising wages for higher earners and falling or stagnant wages for low and semi-skilled workers.

E. Some policy research questions

E.1. Labour demand: where will low skill jobs come from?

South Africa is essentially a minerals economy. Its trade profile is dominated by basic resource linked products, particularly metals and minerals. Its domestic employment growth is sourced from services. Despite some restructuring, some resource curse elements remain: a volatile and sometimes overvalued exchange rate, investment targeted at resource based capital intensive industry, and high rates of inequality.

The domestic industry is dominated by services, accounting for about 65% of output and employment. The public sector, infrastructure & utilities and commercial services are almost equally represented. While still small, services account for about 15% of total exports, growing by about 6% per annum.

The expansion of services explains why the economy has managed to generate low skill employment.

But there is a dilemma. To generate wealth, a middle income economy needs to raise its productivity and value-added. Integration into global markets is an important contributor to this objective. As SA has a large low skill labour surplus living in a middle income context, its competitive advantage will be linked to technology and capital intensive goods and services tradables. But the macroeconomic environment has been conducive to the expansion of domestically oriented services such as construction, retail, finance and community and personal services. It has also encouraged imports, mainly of consumer goods. In the short run, this was beneficial to employment growth in largely non-traded sectors (Ngandu 2006). In the meantime, (the capital intensive) manufacturing capability has grown less than optimally: it will therefore not contribute the kind of year-on-year growth required.

Any strategy to promote labour intensive tradables would need to resolve the approach to the competitiveness of the labour force, both in terms of cost and skill. From a welfare perspective, it has been shown that there is no room to reduce real wages, all things being equal. The vast majority of workers already earn low wages relative to the cost of living. One policy option would lower the cost of living and expanding the social wage to reduce the pressure on private wages for firms and households. Alternatively, devaluing the currency has often been used to reduce the real price of labour, but could have other destabilizing effects. Another option could entail a continued reliance on non-tradables for employment growth.

The informal sector grew dramatically in the 1990s, to about 27% of working people by 2000. How big could informal work become? Does it grow alongside or inversely with the formal sector? Is there any reason to believe that it might contribute a much larger proportion of employment than it does now? Would that be desirable? Countries with very large informal sectors are generally either at a low level of development or have a large shadow economy operating to avoid regulation (eg Brazil).

E.2. *Urbanisation & Industrial relations*

The labour regime introduced from 1996 did successfully reduce strike action. The number of person days lost due to strike action rose from 0.1 million in 1979, to 4.2 million in 1992. By 1996, person days lost fell to 1.7 million, and less than 1 million in 2000. In 2000, disputes were declared in 17.4% of all wage negotiations, and only 1.6% of all disputes resulted in strike action[12]. The settling of the labour environment may be the combined result of the introduction of a new political regime, and new negotiated labour laws. But equally, it may be explained by increasing vulnerability, with firm restructuring, expanded outsourcing, the expansion of precarious service jobs and rising unemployment and slow job creation.

Urbanisation and the expansion of the middle class may be important contributors to the expansion of low skill employment in retail, social, personal & community services, and in catering & tourism. This has had an important impact on the quality of work and industrial relations. There has been a transition away from highly unionized, very large factories in industrial areas[13,] and large mines and farms in rural and peri-urban areas. The emerging low skill opportunities are found within the metropolitan areas. These new opportunities are dispersed and involve more personal relationships: such as security guards, hairdressers, domestic workers, shoe shiners, retail, etc. The opportunities tend to be fragmented, very poorly paid, and without benefits.

The unionized workforce is now mainly found in the public service, mines and small sections of manufacturing such as autos and metals.

There are some open questions regarding the labour regulation and industrial relations environment suited to this new working environment. The current approach involves setting minimum standards for vulnerable workers. The usual debates ensue: are the minimums a disincentive to employ, or do they ensure minimum livelihoods?

A possibly more interesting question relates to how the industrial relations environment might be threatened in this context. For example, a large security guard strike lasted for months in 2006.

12 Strike action is tracked by a private company Andrew Levy Employment Publications.

13 For example, until the early 1990s, 50% of all clothing sector employment was found in firms with more than 500 workers. Some factories employed thousands of workers under one roof. These factories no longer exist.

The security industry has grown to about 288,600 workers. About 25% of that workforce is unionized. Average pay is about R 1040 per month, for long hours and generally no benefits (Munshi 2006). During the strike action, there were allegations of train commuters being assaulted. A large demonstration in Cape Town to Parliament resulted in death and destruction: people were wounded or died and 100 cars were smashed by marching security workers. It may be said that the security industry is atypical in that it emerges from the police force and is dominated by male workers. On the other hand, this strike may be an indication of things to come for very low paid individualized precarious workers. How difficult would it be to whip up anger amongst a frustrated, fragmented, very low paid working class, seeking a post-Apartheid dividend? Will the urban areas become a new domain of union organization and militancy?

E.3. *Do high skill premiums dampen the demand for low skill labour?*

It is well known that SA has a skills shortage. To what extent does this high skills shortage constrain the demand for low skill labour?

In SA, there is evidence of mark-ups for skilled and high skilled labour. Some part of this problem has been attributed to continued labour market discrimination[14]. Hinks et al. (2000) found that wage discrimination accounted for 29% of the income differential between whites and Africans in 1994. They attribute this differential more to the overpayment of whites, than to the underpayment of Africans.[15] Hinks (1999) takes this further, considering changes in discrimination between 1980 and 1997. He finds that more than 60% of the wage advantage experience by whites is due to 'white overpayment'. He further argues that a typical white worker would have earned 67% less if they had been paid on a competitive basis in 1980, and 28% less in 1994. In contrast, African workers would have earned 25.6% and 14.9% more respectively. This gives a sense of how discrimination may be hindering growth.

This mark-up could be reduced by increasing competition. For example, professional differences in earnings would fall as controversial immigration and employment equity policies are implemented.

E.4. *Human capital development*

Human capital development is essential to South Africa's growth path, particularly in the context of high structural unemployment and poverty. Historically, South Africa's social security and post-school industrial training system was relatively private sector driven (Standing et al 1996). Work-linked benefits may become less relevant in an economy that is increasingly dominated by precarious low wage services jobs.

Since 1996, there have been a number of important policy shifts aimed at 'socialising' this income and services. For example, the system of social grants has recently been expanded: Government grants directed to African households doubled between 1993 – 2004, an increase of about R 22 billion overall. The Department of Labour established a National Skills Fund that can pays for training unemployed workers.

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14 Studies by Moll (1995) and Treiman et al. (1996) found that discrimination diminished as an explanation of income differentials between 1980 and the early 1990s. For example, Moll (1995) found that discrimination accounted for 44% of the wage differential in 1993, as compared to 75% in 1980.

15 Moll's estimates are higher as he uses monthly income, while Hinks et al. use hourly wage rates.

What is the appropriate social security system in a context of a large labour surplus, low paid precarious work, in a middle income economy? Where is the balance between work incentive and guarantees of a minimum livelihood?

Ninety per cent of all those earning less than R 2,500 per month have never had any training in skills that could be used for work (Valodia et al. 2005). But for those that did, almost half had training with a duration of six months or longer.

Table 18: Educational attainment of working poor

	≤ R 1000	≤ R 2500
	%	%
No education	13.3	9.7
Pre matriculation	71.5	68.0
Matriculation	13.0	18.7
Tertiary	2.2	3.5
Total	100.0	100.0

Source: Modified from Valodia et al (2005), ccalculated from Stats: Sept LFS 2004.

Notes: "Matriculation" refers to the last year of high school (Grade 12 or 'Standard 10'). A matriculant is someone who successfully passes a national matric exam. However, respondents to the LFS do sometimes report having matric, when they attended the matric year, but failed the test.

Differential access to private versus public social services is clearly represented in the distribution of anti-retrovirals (ARVs) for HIV infected people. Government has adopted a policy to distribute ARVs. However, only 200,000 of the eligible one million receive ARVs. The private health sector is primarily accessed through medical insurance schemes, and only 15% of all South Africans and 7% of Africans are members of such schemes. But HIV mainly touches the African population, with an infection rate of 13.3%, as compared to less than 2% for other race groups. While the average infection rate is 13%, prevalence amongst young labour market entrants is quite extraordinary, particularly amongst women. Approximately 33% of all women between the ages 25-29 have contracted HIV. One quarter of those aged 30-34 have are HIV positive (Shisana et al. 2005).

Healthcare accounts for approximately 9% of GDP: but approximately 60% of this expenditure goes to the 15% on medical insurance (Marais 2006). Health care reform is a complex question, not being broached here. But it is clear that access to ARVs and HIV-related services will be essential in managing the impact of the disease on individuals, household poverty and the labour market.

Workplace linked entitlements are still the most successful way of reaching people with quality services: but large parts of the workforce are no longer tied into lengthy employment relationships. Social security and insurance must be designed with two points in mind: first, it should reach workers who do not normally have access to workplace benefits. Second, it should help facilitate workplace transitions rather than hinder it. Benjamin (2006:52) argues that employment insurance should "allow persons to draw on accumulated rights at times of transition or insecurity…" While he specifically refers to unemployment insurance, such points equally refer to medical, pension and access to training. The National Treasury is considering retirement fund reform, proposing a contributory National Savings Fund that would be accessible to those that are not permanently or formally employed (Benjamin 2006)[16].

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16 These types of provisions are also being considered in other developing countries such as India under the Common Minimum Programme.

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