

HSRC RESEARCH OUTPUTS

4727

The employment puzzle

Understanding employment & unemployment in SA presentation to the World Bank

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Unemployment problem

- SA has the highest rate of open unemployment in the world = about 26%
- One of SA's most pressing social, economic & political problems

Employment puzzle

- Middle income economy
- Capital intensive industrial path
 - especially in “tradables”
- Large low skill labour surplus
- Human dev indices resembling poor country
- Mis-alignments in labour market:
 - Information
 - Skills
 - Recruitment practices
 - Spatial set-up (where people live, urban configurations, cost of searching and getting to work, etc)

Q = what development path will lead to greater labour absorption?

SA is a minerals exporter....

Minerals economies have certain commonalities:

- volatile forex earnings and a business cycle linked to commodity prices (and previously overvalued exchange rates (relative to productive base that discourage labour intensive export orientation))
- a cost structure that is inappropriate for mass job creation in labour intensive exports.
- FDI primarily attracted to resource-based investments, mergers & acquisitions and government induced opportunities.
- minerals rents enable Government to by-pass the development of labour absorbing sectors in favour of highly capital intensive energy and chemicals industries
- low 'spread' effects, concentrated economies
- low labour absorption in market-based sector

The minerals economy enabled the continuation of apartheid so that:

SA is a middle income countrywith an HDI that suits a low income economy

Minerals economies can have wealthy pockets without including majority of population

... In the rich, successful minerals economies

people & minerals rents

Background to SA's Employment Problem

Historically, Apartheid economy based on social & economic exclusion

- Indirect – promotion of capital intensive orientation
 - Outward oriented economy viz minerals
 - Inward oriented economy viz value-added sectors
 - Macro-economy: low real interest rates, overvalued currency, high levels of debt (esp in last years), medium-high rates of inflation
 - Large investments in capital intensive projects
 - Initially related to mining
 - Then related to “laager”: arms, synthetic fuels, etc.
- Direct – social exclusion
 - Entrenchment of high rates of inequality
 - Population controls: group areas act, pass laws, removals, etc
 - Labour regulations: job reservation, etc
 - Business regulations: illegal for Africans to own most kinds of businesses
 - System of education & training undermined through racially separate systems which were resourced accordingly
 - All other institutions suffer similar problem – ie racially separate systems of local governance, health, etc

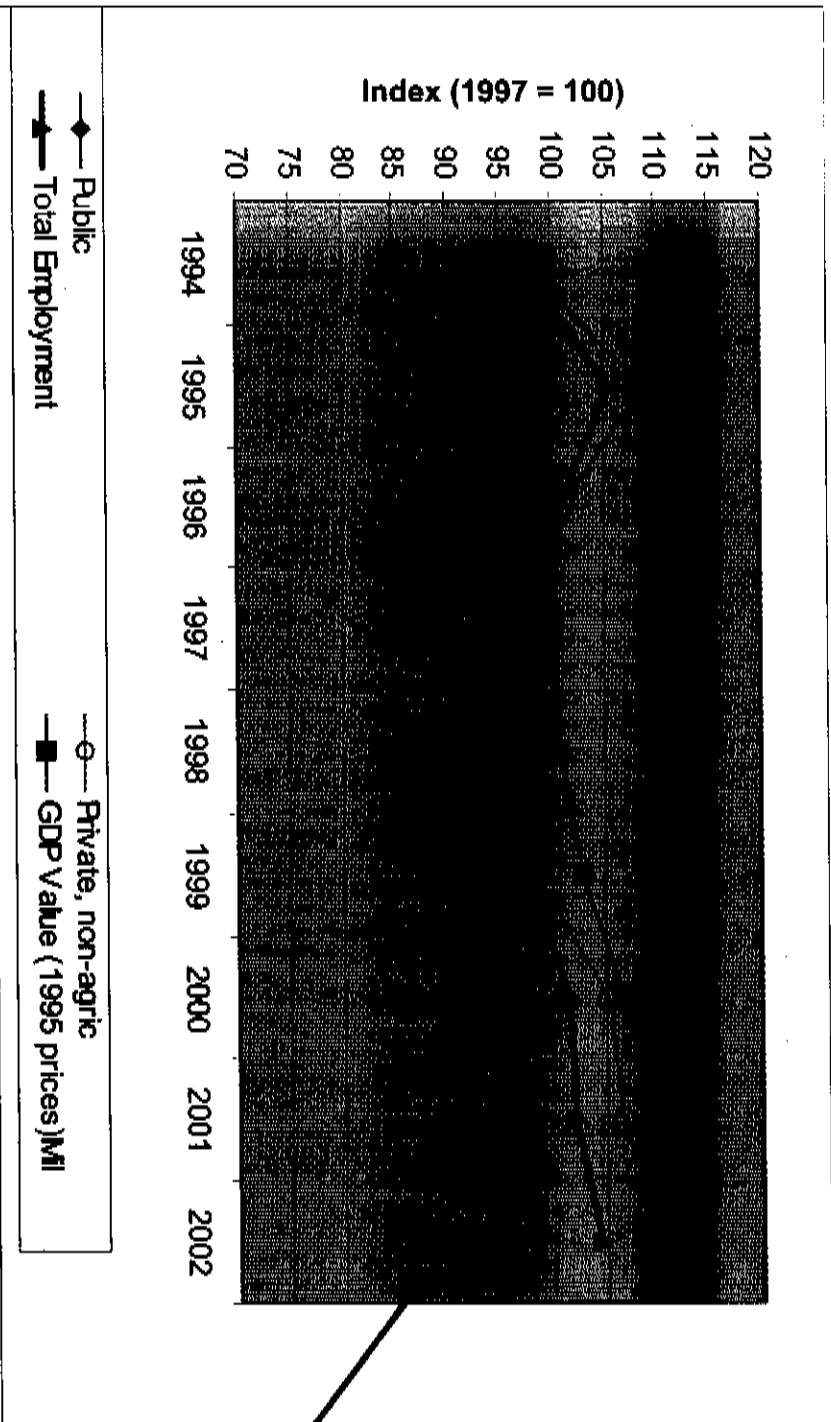
These are relatively common for minerals exporters

Employment experience: 1970- 1995

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

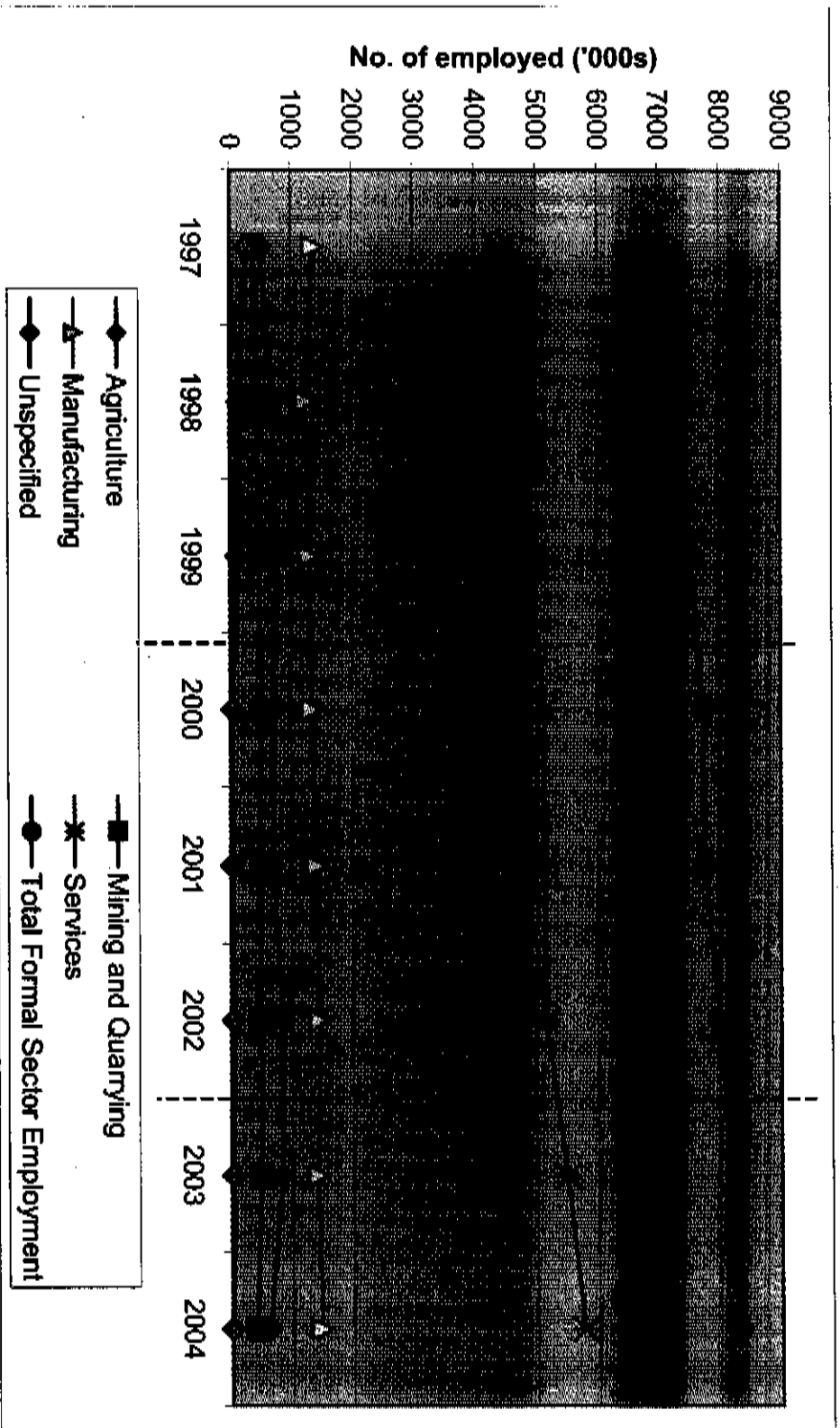
Employment stagnant relative to EAP growth

GDP & Employment Growth – 1994 - 2002



Formal non-agric employment growing alongside GDP growth since late 1990s
Public sector has exerted a drag on growth since 1997

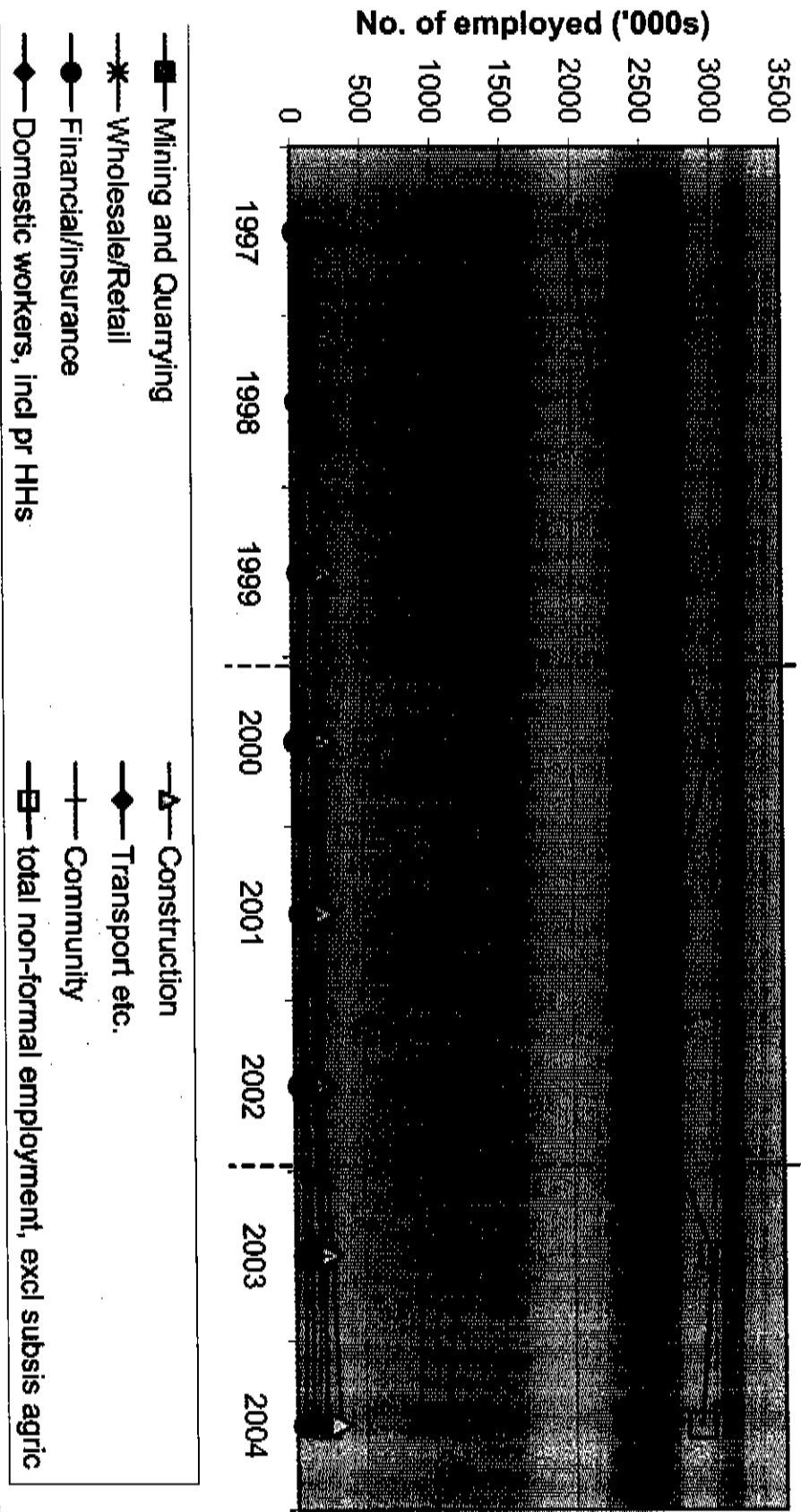
Formal employment trends



Source: OHS & LFS

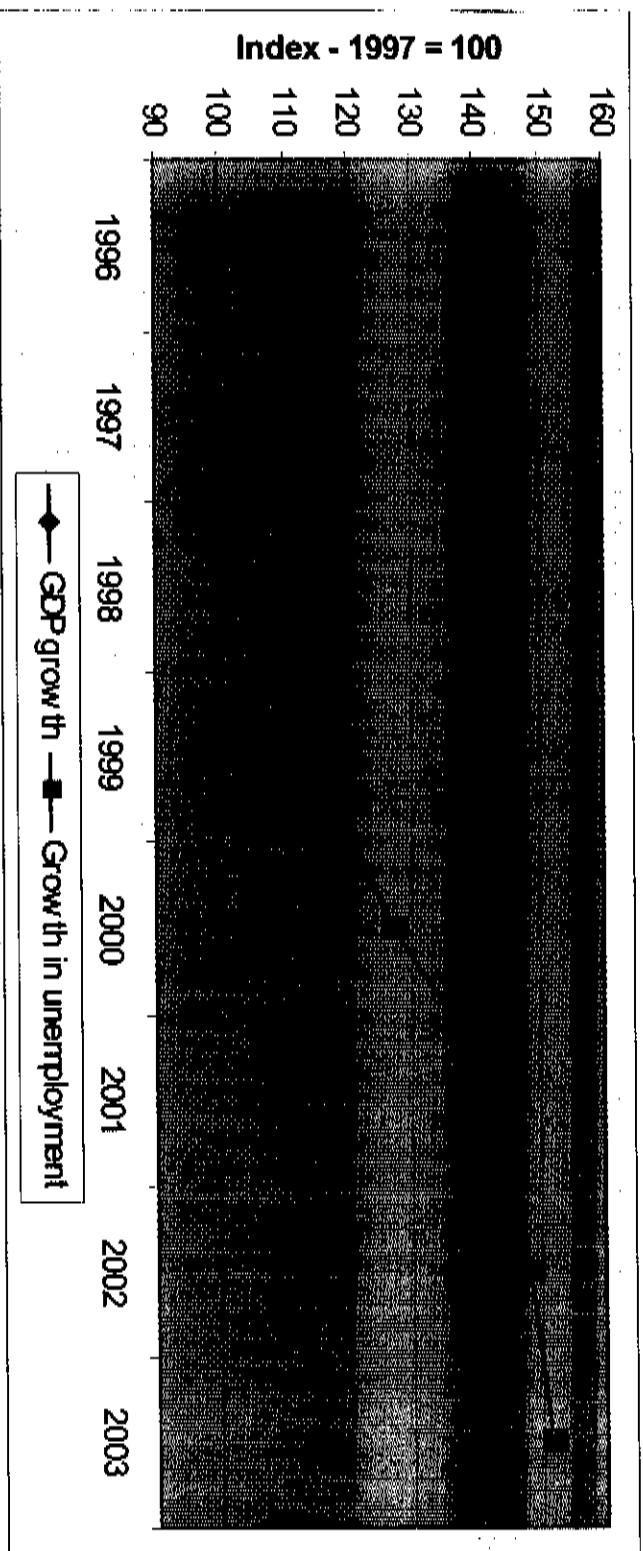
Growing by about 2% per annum since mid-1990s, mostly in services

Informal sector



1997-2004: 15% in total 1990s

Growth in GDP & Unemployment

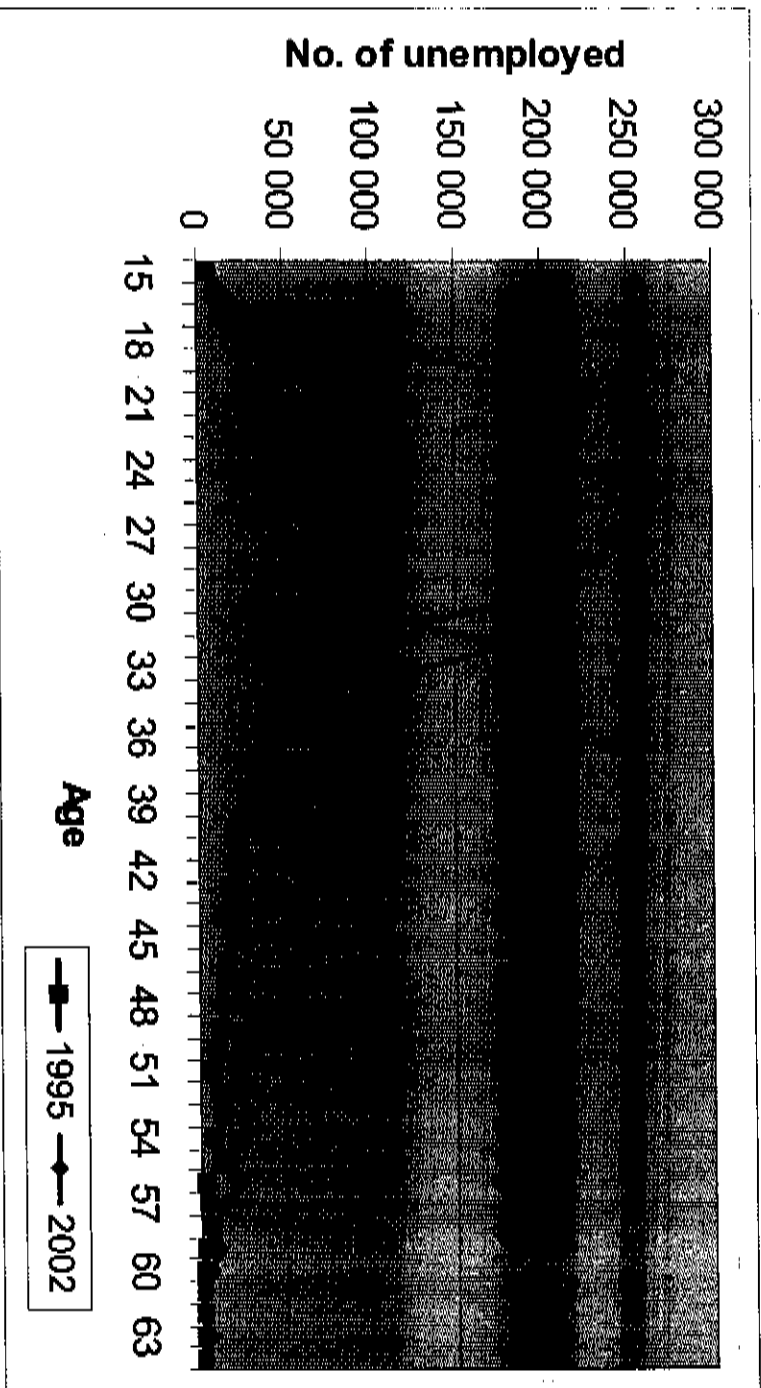


Source: SARB and Stats SA: OHS and Sept LFS

Explained by...

Debate about...

Unemployment by Age



Source: Stats SA, OHS 1996; Sept LFS 2002
 Note: this chart uses strict definition of labour force and unemployed

• Large increase in unemployed youth, with rises the same
 • Large jobs queue for youth – most do not find job until age 30
 • About 70% of unemployed are below age 30
 • 10% of unemployed are 60+ years old

Explanations

Characterising the approach to addressing employment in SA, 1996 - 2002

- macroeconomic stabilisation (inflation targeting, etc)
- reduce crowding out in capital markets by shrinking debt
- attract FDI, needed due to low savings rates
- global integration of secondary industry with liberalisation & trade arrangements
- labour intensive exports to be main contributor to employment absorption
 - expected attraction of FDI in *labour intensive* industries
 - trade to generate employment-inducing demand
- very little attention to domestic economy
 - stated emphasis on construction sector due to backlogs

Social imperatives

- Integration of systems of government and social delivery (health, education, local govt) with mixed success
- Large social spending with low efficiency in expenditure
- Introduction of social grants system extended to broad population (now covers about 1/4 of population)
- Introduction of new skills development policy, with mixed success
- Easing of municipal policing of informal sector, some municipal support
- Growing urbanisation, although not as rapid as would have been expected

Result

- Macroeconomy stabilised in relation to inflation, interest rates, debt
- Volatile exchange rates (and some would say overvalued – with current account deficit and high unemployment)
- Unemployment very high & rising over most of this period
- Fiscal prudence was concern as many believed undermined local capacity, capability in construction, etc. (“RDP to GEAR”)
- Substantial increase in manufactured exports, but increasingly capital intensive
- Integration of social systems and social delivery slower than expected (except for grants)
- Land reform weak

Current efforts

- Govt looking for new approach to accelerating growth
- Recognition that “shared growth” important
- Fiscal expansion – as result of success in reducing debt (fiscal prudence & effective revenue services)
- Much more emphasis on enhancing infrastructure industries
- Much greater emphasis on domestic economy
- President pressuring for solutions for “second economy”

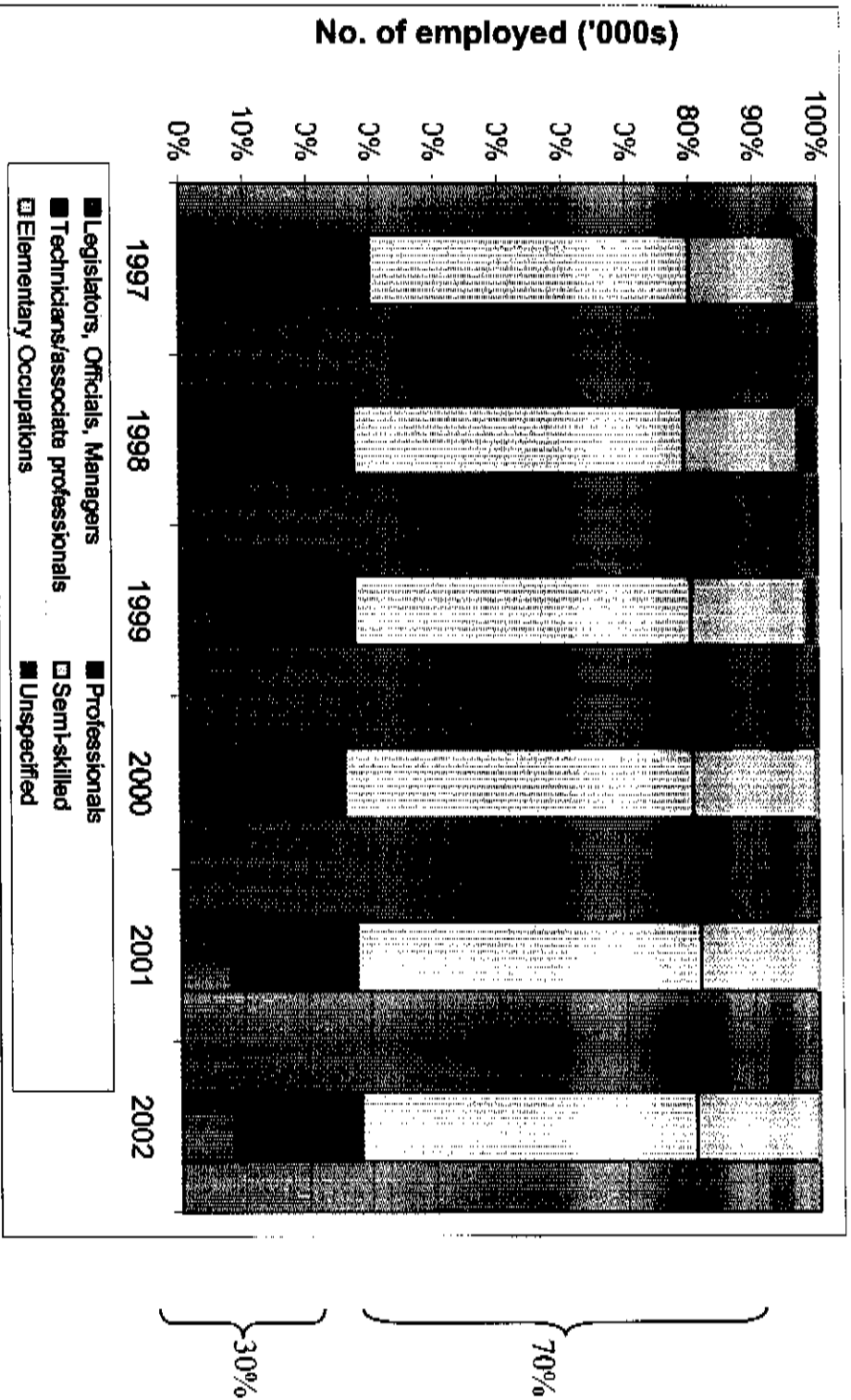
Supply side questions
what structural misalignments?

Skills bias

- *Theoretically*: expect shift from ISI to EOI in context of labour surplus would lead to bias toward labour intensive exports
- *Empirically*: most middle & high income economies shifted toward higher skill & capital intensity in *tradables*.
 - True for SA also - due to LM segmentation
 - There had also been higher skills bias created as result of large scale job losses in mining & agriculture in the 1980s.

...but cross-economy picture differs

Skills distribution in formal sector



Continued increase of high & low skill since mid 1990s
 on of high paid service jobs

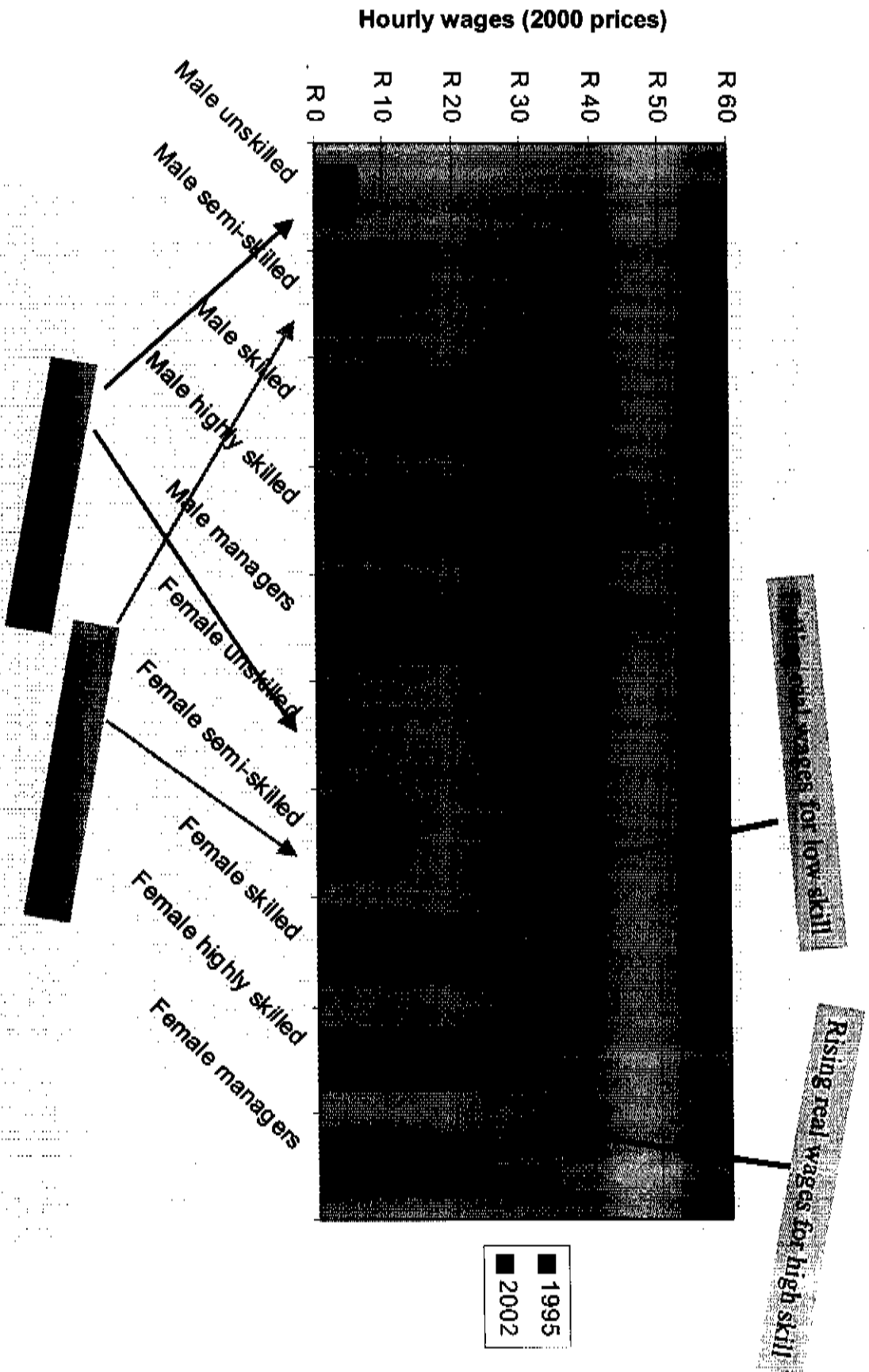
Wages

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

Consistent with current employment creation path:

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

Wage Trends by Skill Level Formal Sector (2000 prices)



Organised sectors & LMR concern about 'labour aristocracy'

- SA has high rate of unionisation, but very sector specific:
 - Public sector
 - Mining
 - Some manufacturing (eg auto)
- Coverage:
 - 60% of bargaining council members in *public sector*
 - 40% of BC members in private sector (about 900,000 workers?)
 - Extension of rights to non-bargaining council members could apply to max 300,000 people.
- Concerns are raised regularly w.r.t *implementation of labour market regulation*, esp.
 - mis-use of new labour market institutions, esp by lawyers & professionals
 - “over-implementation” by employers

Racial discrimination is still one explanation for 'mark-ups'

- LM discrimination is only really identified once productivity characteristics (eg experience, education, etc) are isolated
 - Most studies do not do this. They mostly offer general overview of wage trends by race, gender, sector and rural/urban to show how earnings differentials may be changing over time. Much of these differentials are caused by pre-LM discrimination. Findings are still pretty stark, showing:
 - Rising racial wage gaps
 - Earnings of Whites often multiples of Africans (eg White male urban managers without tertiary qualifications earn more than 3 times that of African counterpart in 2003).
 - Some authors do this: eg Moll, Hinks, Treiman et al.
 - They generally find a narrowing wage gap
 - Discrimination accounted for 29% of the income differential between Whites and Africans in 1994 (Hinks et al). More than 60% of that is explained by 'white overpayment': if markets had been competitive, Whites would have been paid 67% and 28% less in 1980 and 1994 respectively. African workers would have earned 25.6% and 14.9% more respectively.
 - This points to:
 - Extent that discrimination may be hindering ability to reach growth & employment targets:
 - Overlap of higher skilled
 - Drawing from small pool based on race rather than capability
 - problem of statistical discrimination: requires stronger empirical evidence to monitor & evaluate central contributors and interventions to shift this behaviour in recruitment, etc.

Low earners

65% of all workers earn less than R 2,500 per month (US\$450):

- Approx 59% are found in the formal sector
- 80% are not unionised
- 63% have "permanent" jobs
- 90% have not had any training that would help them at work
- more than 50% of workers changed work status (formal, informal and unemployment) between 2001-4.
 - Only 21% of those starting in the FS (in 2001) were still there (in 2004).

Changing character of work

- Shift in relations from:
 - Feudal work relations in agriculture
 - Large mines – migrant labour, collective organisation
 - Large factories, with collective organisation
- To urban organisation:
 - Living in closer proximity?
 - Professional organisation & bargaining
 - Majority of workers in individualised precarious work

Demand side

Resource based or services economy??

- SA trade profile reflects minerals economy
 - Resource curse elements: volatile exchange rate, history of overvalued exchange rate, investment targeted at capital intensive industry
 - work against ability to expand labour intensive tradables
 - high rates of inequality & weak economic participation
 - Majority of export value derived from minerals and metals commodities
 - *(Although majority of employment from trade in services!)*
- Domestic industry profile reflects services economy.
 - Majority of output and employment in services
 - High sophistication for high income consumers; low quality for poor consumers – *reflects high income inequality*
 - Mainly inward oriented, with attendant problems of high mark ups and weak competitiveness. This in itself hinders structural movement to labour intensive industry

Slow Growth in Production

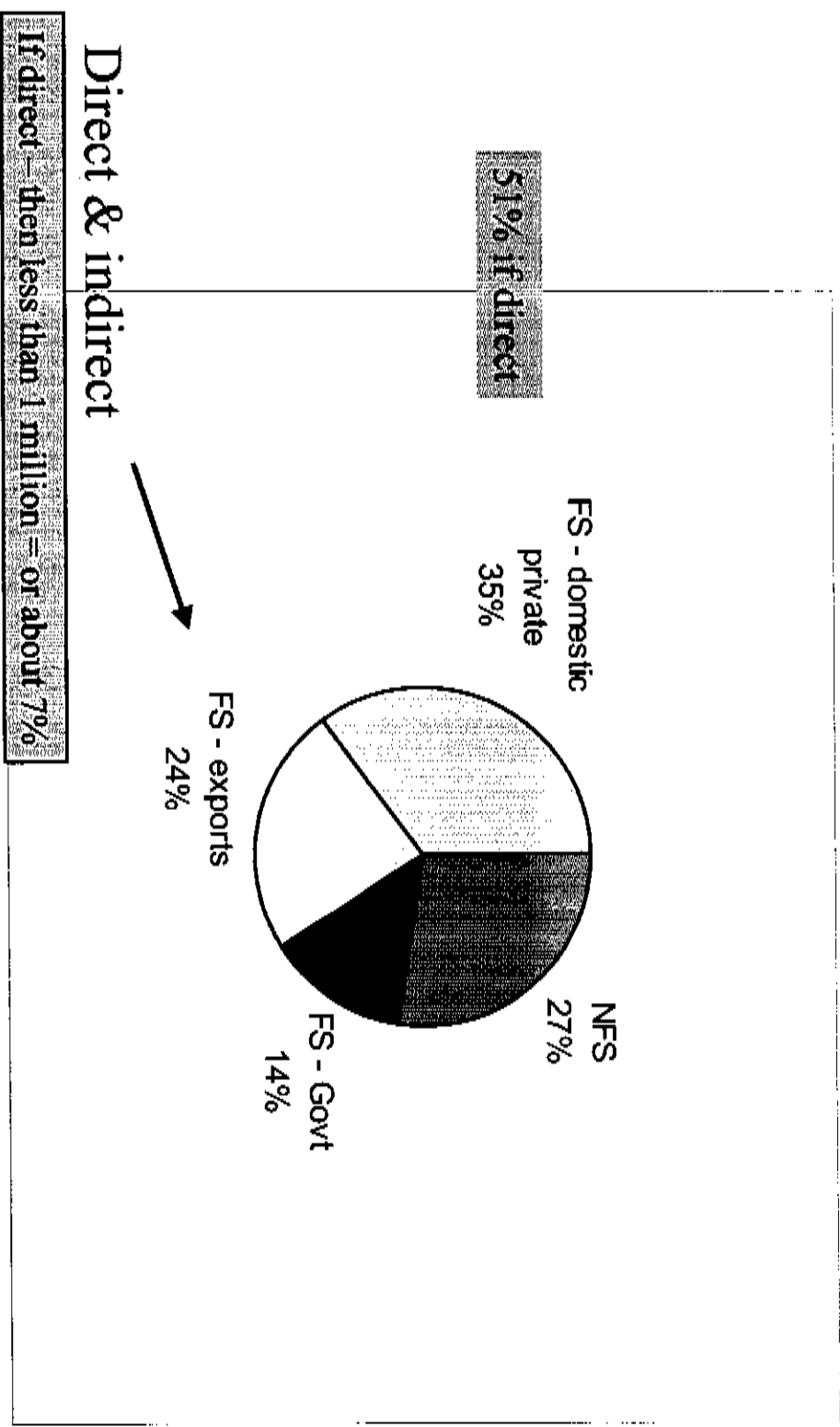
Annual Production Growth Rates in Selected Economies, 1990-2001

Country	Annual Growth of GDP	Annual Growth Agriculture	Annual Growth Manufacturing	Annual Growth Services
South Africa	2.2	1.2	1.6	2.8
Brazil	2.7	3.4	1.6	2.8
Mexico	3.0	1.6	4.0	3.0
Malaysia	6.2	0.3	8.8	6.4
Poland	4.3	1.1	8.3	4.4
Slovakia	2.3	2.5	4.3	7.7
Turkey	3.1	1.1	3.8	3.4

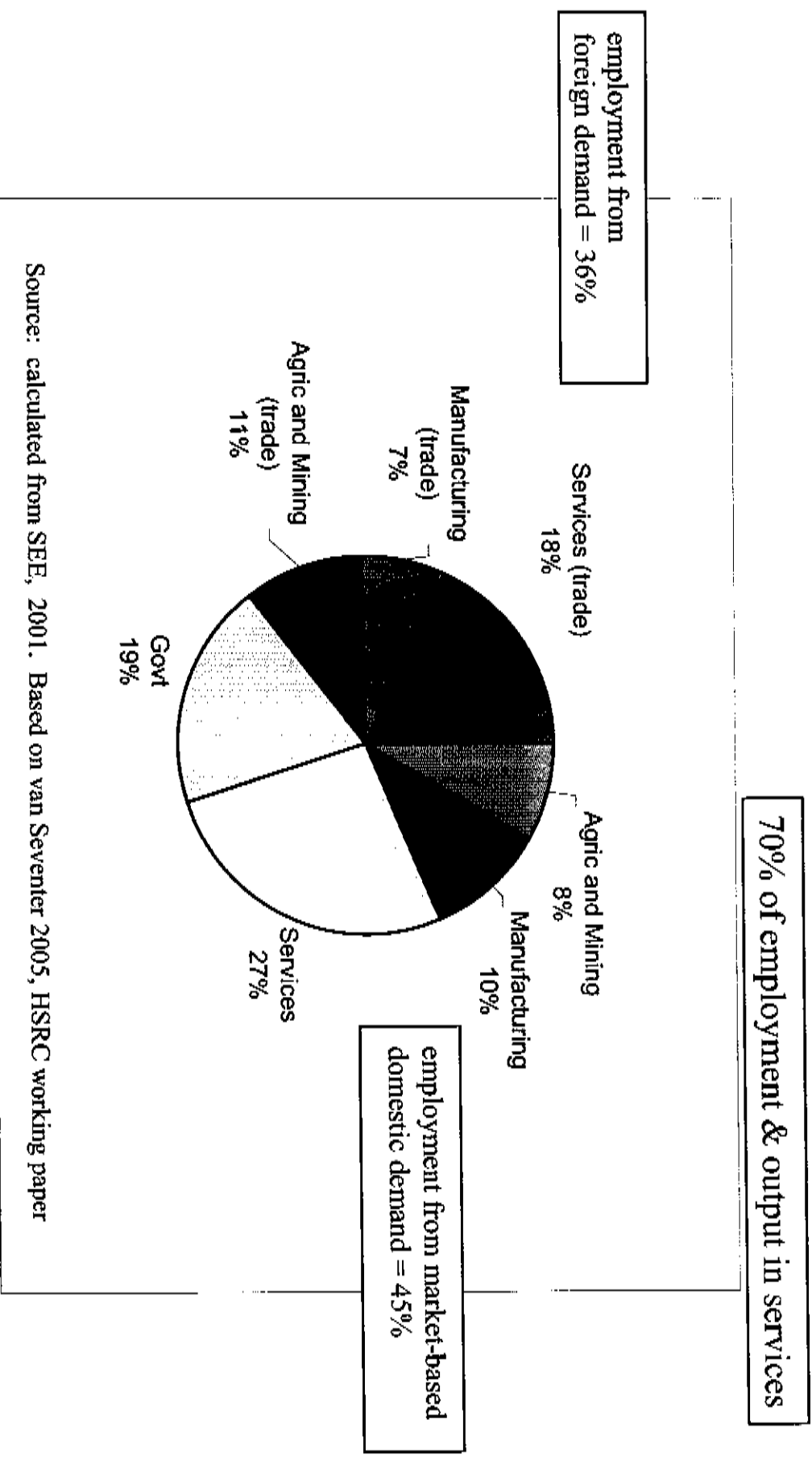
Source: World Bank, WDR 2004

Slow growth in most sectors relative to comparative developing countries

Sources of employment



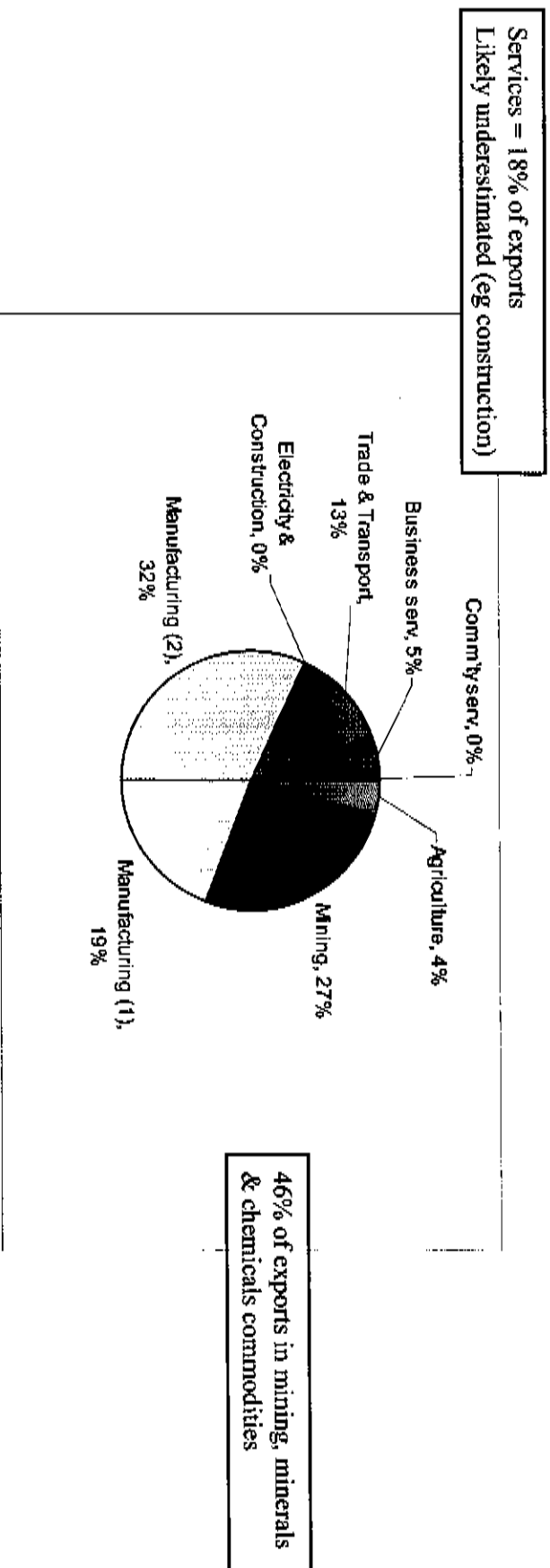
Sources of employment



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

Direct & indirect

Exports by sector

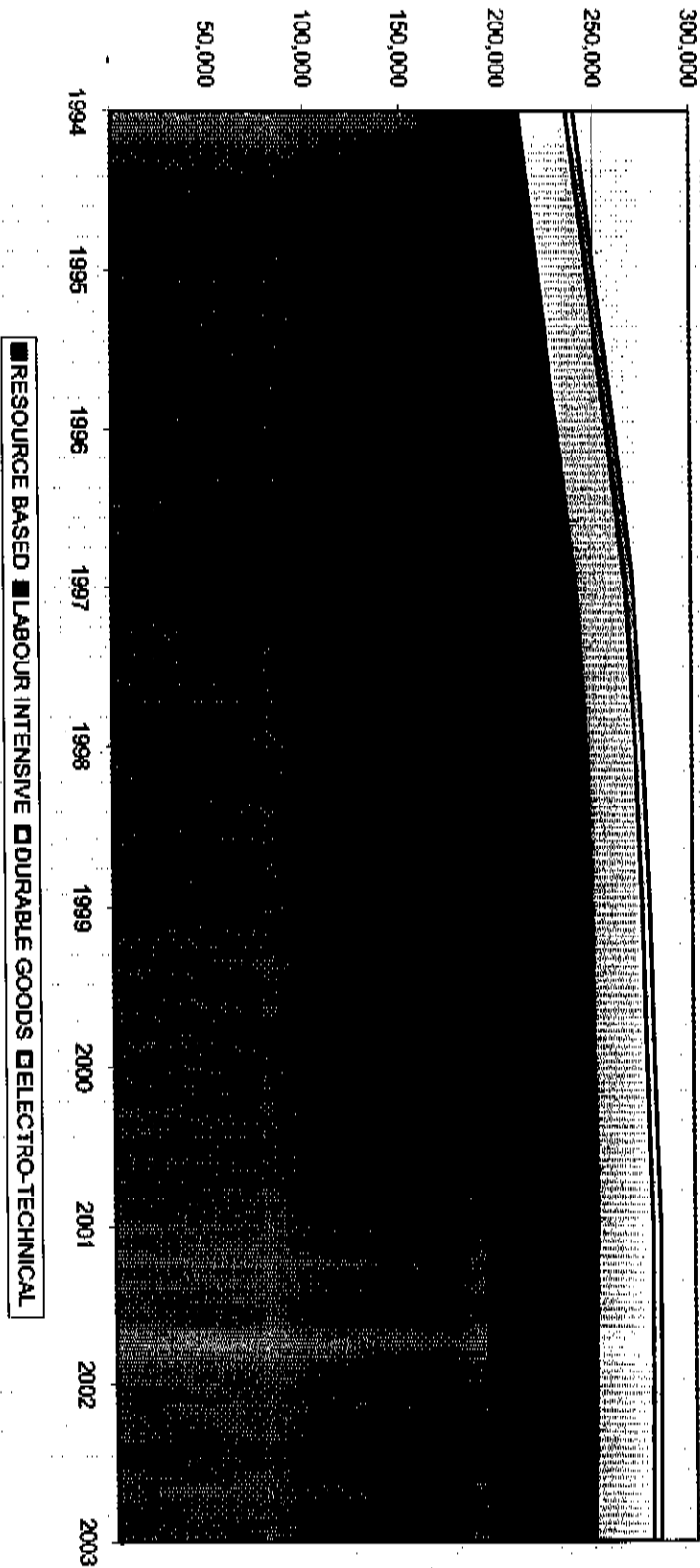


Source: TIPS easy data

Notes: Manufacturing (1) includes petrol refining, basic iron & steel, basic non-ferrous metals & basic chemicals
Manufacturing (2) is all other manufacturing.

Investment – still directed to resources

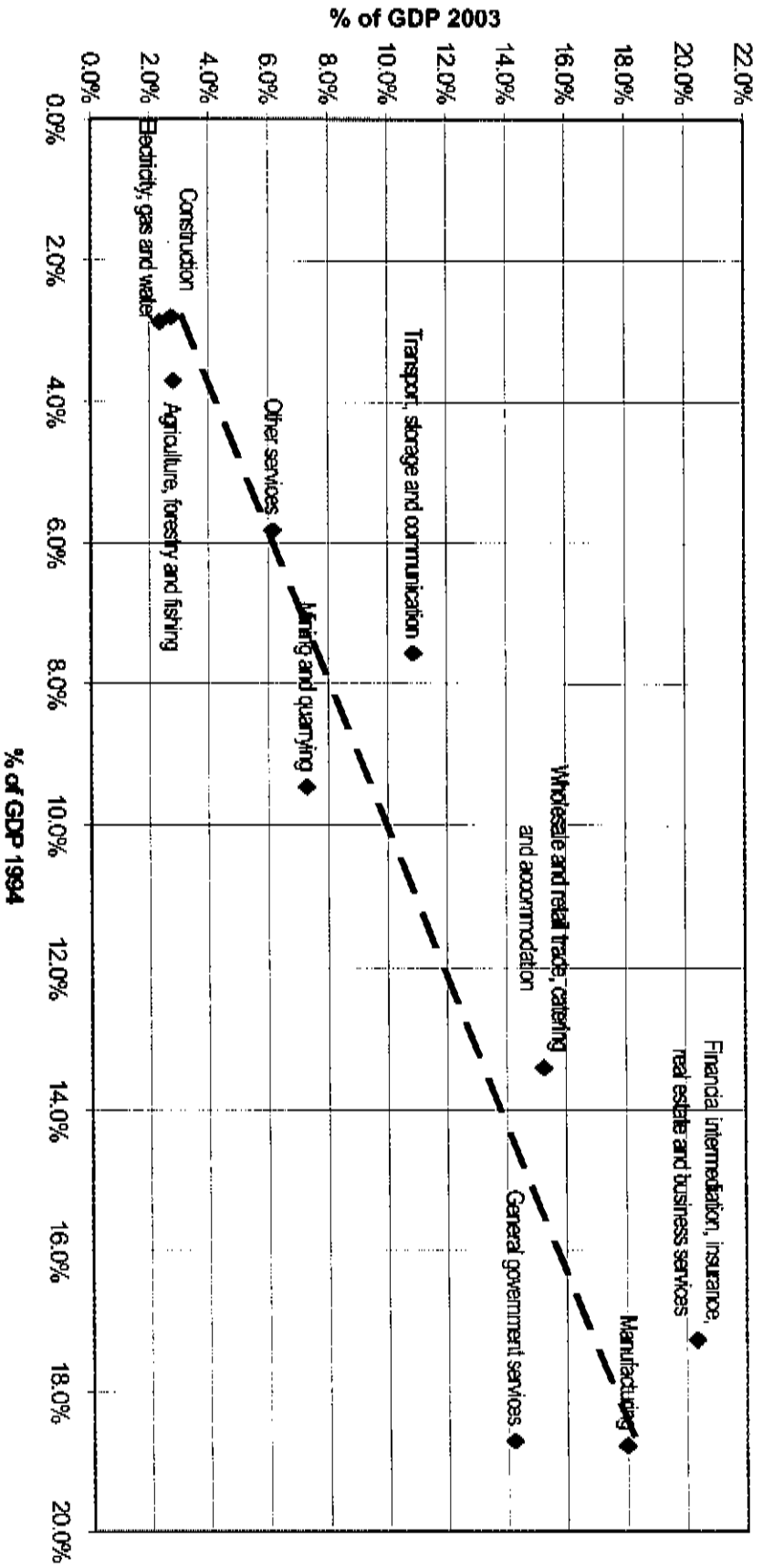
Sectoral share in Manufacturing Investment: 1994 – 2003, Constant 2000 Rands



Source: Quantec RSA Standardised Industry Database

Approx. 60% of manufacturing investment is directed to resource based industries vs 20% to labour intensive

Sectoral shifts as, % GDP – 1994 - 2003

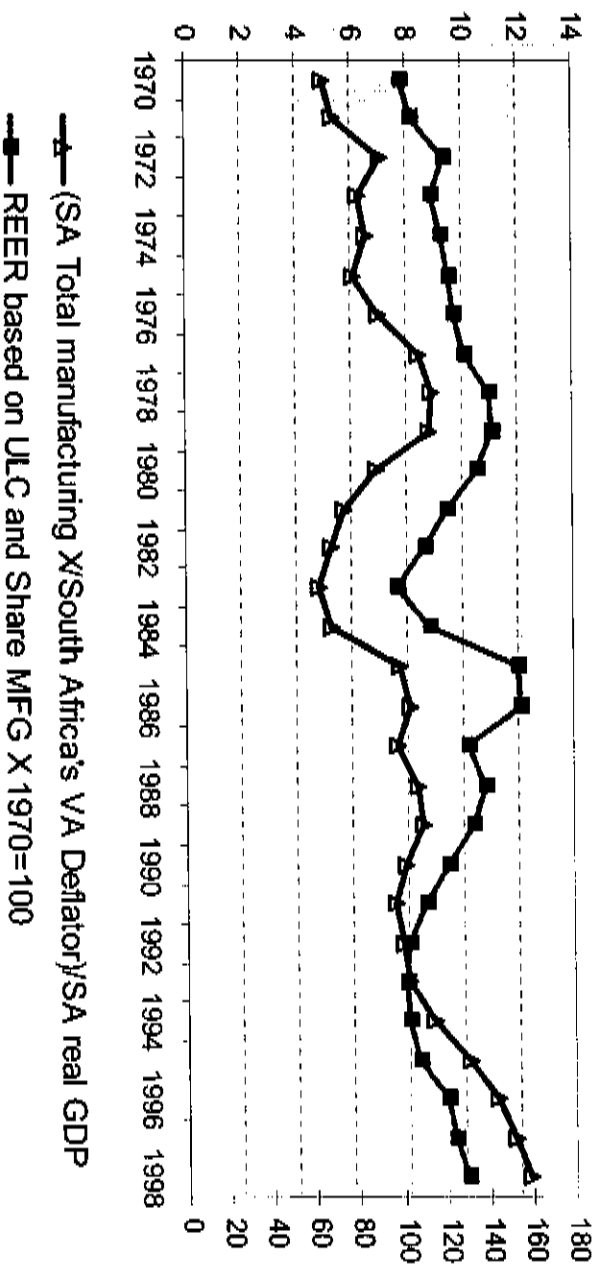


In manufacturing, the only sectors that increased their share of MVA were: basic iron & steel; basic chemicals; basic non-ferrous metals; motor industry

Exchange rate & exports – constraint on growth of new activities?

ULC = unit labour costs

Real Manufactured Exports (as % of real GDP)
v. Inverted REER-ULC



Exchange rate policy may be creating anti-labour bias, in encouraging capital bias, weak non-traditional export growth & encouragement of imports – as reflected in current account deficit (about 3.2% of GDP in 2004)

Trade imbalance is being reduced through exports and through import substitution.

Services likely to be main source of future employment growth
but neglected in thinking about drivers of economic development & employment

What are the drivers of demand for services?

- Growing incomes by middle and upper classes for personal, social and consumer services
- Domestic outsourcing of services
 - Creates statistical growth in services
 - But also stimulates real growth, as markets are created
- Global outsourcing of services
 - Like manufacturing, SA will be better placed to garner these markets if it has already built a capability based on domestic demand
 - Global growth in services trade outstripping that for manufactures, especially in non-traditional business & related sectors (eg IT, construction, etc)
- Services growth!
 - services also service services industries.
 - For eg. finance for tourism, IT services for payroll processing, etc.

Services: biased to high income earners

- In usual development trajectory, services become large part of economy as incomes rise.
- SA has leap-frogged to this stage as a result of high income inequality, and the powerful demands of strong SA corporates.
- Result =
 - High value, high quality (albeit high priced!) services for high income consumers and corporates
 - Low value, low quality (and also high priced!) services for low income consumers.
- Opportunity & challenge =
 - Leverage off high value capability to take advantage of global growth in these sectors. Amongst other things, this will require improved value for money and support mechanisms
 - Improve quality and price of services targeted to low income HHs.
 - Note that low value does not mean low quality: SA could excel in these markets with a different policy orientation. (eg. Used equipment refurbishing, micro finance, health, social services, pre-paid metering, etc)

What possible direction?

- Strategy to expand higher value added exports, building on minerals capability. Ideally drawing in larger numbers of skilled labour over a generation
- Large number of low skill/low wage jobs in domestic economy over next generation
 - market & non-market based
- Improved alignment will require
 - Conducive macro-framework (eg exchange rate policy)
 - Fiscal decisions (eg support “non-market” services)
 - Skills & education
 - More attention to social wage balance with private wages

Example of what can be done in
domestic market:

promoting community based care work

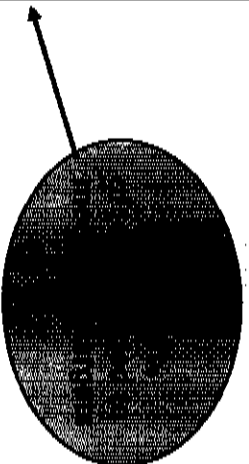
The promotion of care work through govt procurement

- We are looking at how to *responsibly* scale-up community care services through government procurement
- Context:
 - Low human development indices that would benefit from these services (eg child stunting, pre-school cognitive ability, etc)
 - Recognise that about ½ of African women work are domestic workers or in some low level “elementary” job such as cleaning, ‘tea lady’, etc. Home care or ‘care work’ is still (invisible) women’s work that is undervalued, under (or not) paid, little training
 - “*Isn’t this what mothers do?*”
 - Increasing evidence of role services can play, if well implemented
 - Community based delivery networks have unraveled over the past decade, partly due to funding problems
 - Currently low efficiency in SA social spending

Example of low skill non-traded services:
 Potential job creation through infrastructure & social dev programmes

Programme	Current empl (est)	Jobs in 2011	Net new job creation
HCBC	31 565	100 477	68 912
ECD	54 503	325 218	270 715
ABET	20 000	32 233	12 233
Infrastructure*	370 000	492 541	122 541
Housing	44 000	88 457	44 457
Total	520 068	1 038 926	518 858

Figures do not include infra backlogs
 Figures may still underestimate size of current social programmes



Note – approach involves identifying need and appropriate delivery mechanism.

Employment is indirect benefit.

“Maharashtra state”-type programme

ECD(0-4) = main outstanding programme with most potential impact

	Number of staff	cost at full scale (million Rand)
Option 1: current delivery through institutions future delivery through servicing mothers	70 000	1 734
Option 2: All future delivery is centre based - upper limit	345 182	7 339

- *Appropriate mix of services likely to be mix of centre based care, with training for families*
- *Note – ‘centre-based’ can mean creche’s in the home – these are not orphanages*
- *figures based on delivery ratios provided by Dept of Education*
- *NB – this is not ‘make work’ programme*
- *SA Govt has committed more resources to ECD, but not to this scale*

Policy dilemmas

Social Delivery

- Currently low efficiency in public spending
 - Large resource commitments, weak outcomes
 - Need to strengthen alignment between grants & social services
- Public finance and administration
 - Role of national, provincial & local govt
 - Role of communities: Govt not strong at linking into community based delivery, but somehow needs to strengthen this base
- **Any scaled up programme should focus on improving child indicators (and not jobs)**
- Scaling up must recognise inherently dangerous aspects of caring for vulnerable

Job Creation

- Considerable pressure to move quickly on job creation
- Concern:
 - Unlike construction, limited historical inputs into know-how
 - Seen as 'intuitive' women's work
- Need to know more about:
 - Job hierarchies & complementarities
 - Quality assurance & capacity building
 - Know-how in community structures

Role of implementation networks & experimentation

- Draws together research, different levels of govt & community delivery agents/networks, training institutions
- Works through existing channels
- Aligns groups in govt that are focused on work creation & on social delivery
- This project:
 - Focuses on identifying child indicators
 - Experiment with combination of grants, services & social welfare services that promote co-responsibility by beneficiaries & long term behavioural change
 - Experiment with simplified funding and delivery channels
 - Identify appropriate models for drawing in marginalised workers into labour force
 - Identify effective screening & M&E approaches.
 - As child indicators are core deliverable
 - Scalable programmes for vulnerable people has built-in dangers

Some conclusions...

Possible paths to construction of livelihoods?

- **Expand employment opportunities - Large increase in low skill/wage jobs**
 - Market (direct) – over time, expand tradables sectors with aim of increasingly absorbing labour force, so that in a generation misalignments become less
 - Market (indirect) – eg as middle class expands, demand more personal services. These can be stimulated (eg metered taxis)
 - Non-market services – eg low level care services stimulated through budget
- **Find effective balance between private and social wage**
 - Regulation to increase work-based earnings & entitlements unlikely in context of precarious work
 - Improved access to social wage (financial & in-kind) would reduce pressure on private actors, both labour and business
 - *Labour & social grants & basic services regimes need to reflect changing world of work (eg training, HIV, quality social services, early child care, employment adjustment, etc)*