LOW WAGE WORK IN SOUTH AFRICA

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Abstract

This paper draws together some preliminary thoughts on the emerging character of low paid work. It outlines the various ways that household incomes for poor people are uncertain, due to a combination of high unemployment, low wages, and high labour 'turnover'. The paper points to a combination of contributors to precarious livelihoods, particularly the changing industrial structure which has been shifting from resources to services since the 1970s. There are substantial implications for the role of the state, where it seeks to reduce both unemployment and poverty. The very low wages currently paid means that reducing unemployment does not have the kind of impact on poverty that would have been thought. To halve unemployment and poverty, the paper finds that it would be necessary to have minimum wages and standards, as well as social grants. These two policies are already in place: the critical point is that they will be needed as part of an overall livelihoods strategy that will be needed even at full employment.

The paper also shows that important decisions are still required about budget choices and trade-offs. In particular, many of the interventions that plug employment shortfalls are extremely costly: almost any scenario for halving unemployment needs a commitment to create about 0.5 to 1 million EPWP jobs a year; an expansion in the public service by about 3.5% a year, in a context where there are also legitimate demands for salary increases; continued social grants; employment subsidies; and so forth.

Achieving objectives for growth, employment and service delivery are likely to require more active participation of organised labour and civil society groupings. This is partly to enable 'voice', partly to enable the identification of on-the-ground service delivery innovations, but also for active participation in the actual delivery of services.

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1. Background

South Africa faces a difficult conundrum, with a capital-oriented investment path and a very large low skill labour surplus. As a middle income economy, the economy 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. Approximately 26% of the workforce is unemployed, and about 50% of the population have expenditure below the poverty line recently proposed by National Treasury. Government has committed itself to halving unemployment and poverty between 2004 and 2014. Altman (2006) estimates that employment would need to grow by 40% to meet that target, or by 5 million net new jobs.

Unlike many other emerging economies, South Africa's Apartheid legacy is such that income inequality is amongst the most severe in the world, and a very large proportion of the work-force earn extremely low wages relative to the cost of living.

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 more precarious. 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 means that efforts to simultaneously promote growth, employment and poverty reduction are particularly challenging and costly. For example, it is naturally thought that reducing unemployment might have a large impact on reducing poverty: however, there is some preliminary evidence to show that low wages could mitigate against this impact. But, efforts to raise low skill wages to reflect the cost of living may create disincentives to employ. A larger role for the state in underpinning incomes through grants to achieve poverty reduction goals will be costly, might divert resources from more growth-inducing applications, and might create disincentives to work.

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 two sets the unemployment scene, an important backdrop to this discussion. Low paid work is a greater burden in a context of high unemployment: it means large numbers of people depend on fewer low paid earners. Section 3 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. This combination of factors helps to explain high wage inequality, and more particularly the high proportion of poor working people. Section 4 outlines the character of the working poor in SA. It reviews who they are, what they earn, labour standards and job security. Section 5 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.

2. 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 26%.

Table 1 – Unemployment rates in South Africa

	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]

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).

[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 %

Country/Region	Year	Unemployment Rate (%)
World	2003	6.3
Industrialised economies	2003	9.8
Transition economies	2003	9.4
Latin America	2002/2004	9.8
East Asia	2003	3.1
South East Asia	2003	7.1
South Asia	2003	4.8
Middle East & Africa	2003	11.9
Sub-Saharan Africa	2003	10.8
Southern Africa	2003	31.6
Botswana	2001	18.9
Ethiopia	2004	23.4
Lesotho	1997	37.9
Mauritius	2004	8.4
Namibia	2000	33.8
South Africa	2005	26.5

Source: extracted from table 2, ILO (2004) and South Africa's Labour Force Survey (September 2005). Unemployment rate for Southern Africa from ECA(2005).

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.

Precarious employment and easy entry should theoretically, according to neoclassical economists anyway, contribute to 'labour market clearing'. This is particularly seen to be the case in developing countries, where fall-back options are more limited. The informal economy is seen as infinitely expandable with low barriers to entry and few capital inputs (Fields, 2006): more entry simply has the impact of reducing profitability or wages. Open unemployment is seen to be a possible feature of higher income economies that are more capital intensive and where the unemployed can depend on high earning family members and social security.

Although South Africa's unemployment rate is extreme by global standards, unemployment is more common in the developing world than is normally thought (see Table 2). The 'informal economy' does not appear to be doing its job as a social security net for the poor in developing economies generally. An unemployment rate of 4% to 6% is commonly seen as a frictional rate (where some proportion of the workforce are between jobs) and a smaller policy concern. While the 'world average' is about 6%, almost all regions have unemployment rates above that. The lowest unemployment rates are found in highly populated regions such as North America, South Asia and East Asia. Unemployment rates of around 10% are found in Latin America and Sub-Saharan Africa. Unlike Latin America, the average unemployment rates in Sub-Saharan Africa have been quite stable over the 10% mark for at least a decade (ECA, 2005:6). Southern Africa had the highest regional average unemployment rate of 31.6% in 2003 (ECA, 2005: 6).[3] So, in these countries one finds both high unemployment *and* underemployment, the latter being evidenced by the high rates of 'working poor' defined as those whose dependents live on less than $ 1 per day.

Then what explains the persistence of high unemployment globally, even in low income economies? Is it possible that all countries have supply side problems? These might be caused by barriers to entry, insufficient access to capital or skills, or reservation wages. Or could there be insufficient demand?

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[3] Southern Africa includes South Africa, Mozambique, Botswana, Namibia, Swaziland and Lesotho.

3. Employment

3.1. 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 3 shows employment gains and losses between 1970 and 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 3 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 3 – Employment shifts by race and sector, 1970-1995

	Formal employment gains/(losses)	Avg growth pa
Employment	1,400,000	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 to 2005 was generally a period of positive employment growth, as shown in Table 4. 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 to 2005 period are depicted in Figure 1. 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 information technology 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 4).

The informal sector does appear to have grown quite substantially since the mid 1990s, off a very small base. Between 1997 and 2005, about 1.1 million jobs were created in the informal sector.[4] 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.

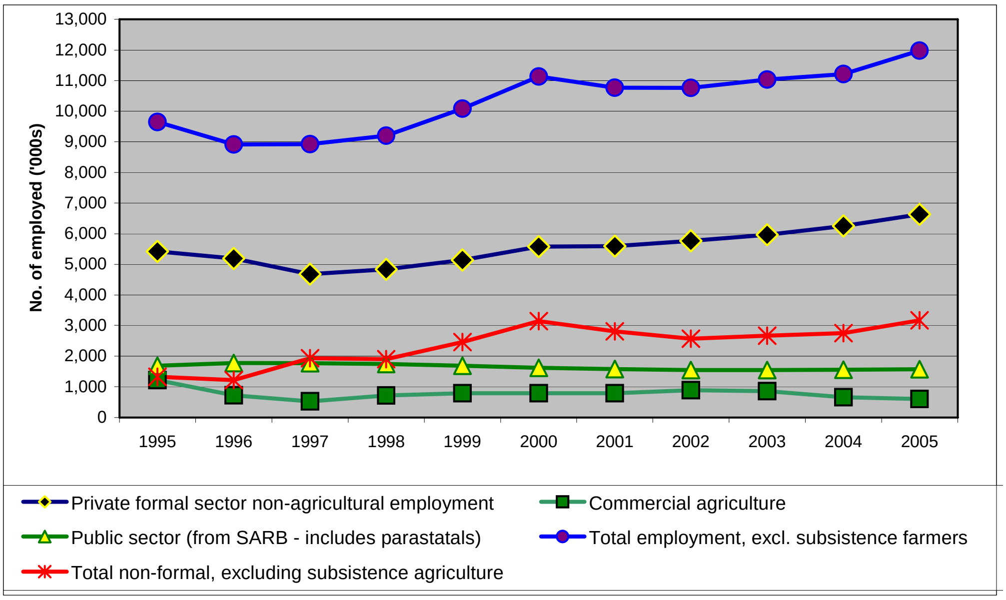
Table 4 – % change in formal employment by sector, 1997 – 2005

	Total 1997-2005	**Avg annual growth (%)**	**Sector employment in 2005 ('000s)**
Manufacturing	6.2%	0.8%	1,467
Construction	75.1%	9.4%	618
Finance	86.4%	10.8%	1,238
Trade	58.1%	7.3%	1,848
Community services	21.0%	2.6%	2,033
Total FS employment	26.2%	3.3%	8,812
Informal sector	107.0%	13.4%	1,954
Domestic work	9.6%	1.2%	1,088

Source: Calculated from StatsSA: OHS 1997 - 1999; Sept LFS 2000 – 2005

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

Figure 1 – Employment in formal and 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[5]. 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 and 2002.[6]

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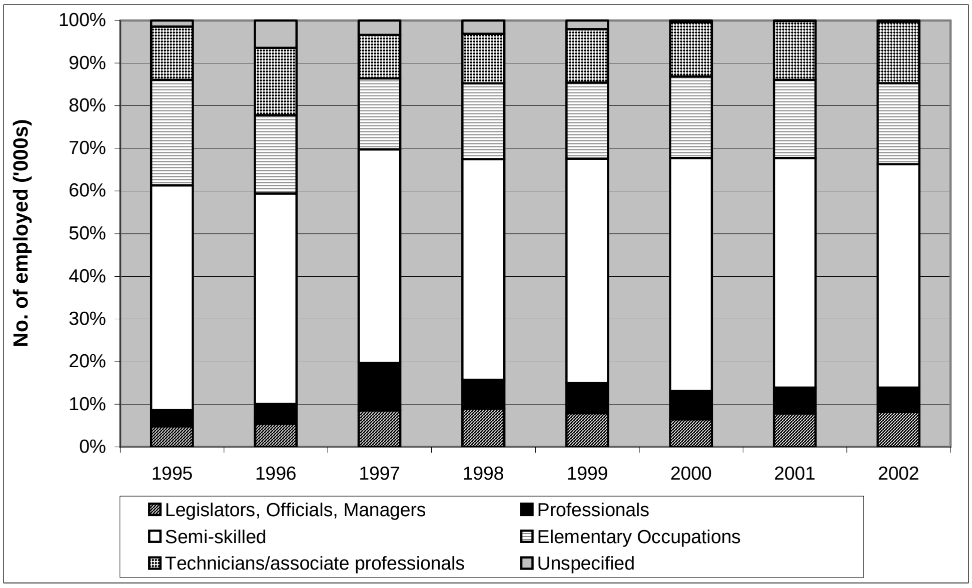
[5] Bhorat considered the shifting skills composition cross-economy, across and within sectors. Edwards focused on changes within manufacturing, to assess the impact of international trade on employment.

[6] 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

Figure 2 – 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 and 2002. Figure 2 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.

Figure 3 presents the distribution of the labour force by employment status in 2005. About 14% of the labour force (or 20% of workers) relies on informal work. 7% are domestic and 10% are temporary workers. Almost 40% of the labour force (57% of workers) have permanent contracts in the formal sector. About 65% of working people earn very low incomes – below R 2,500 per month.

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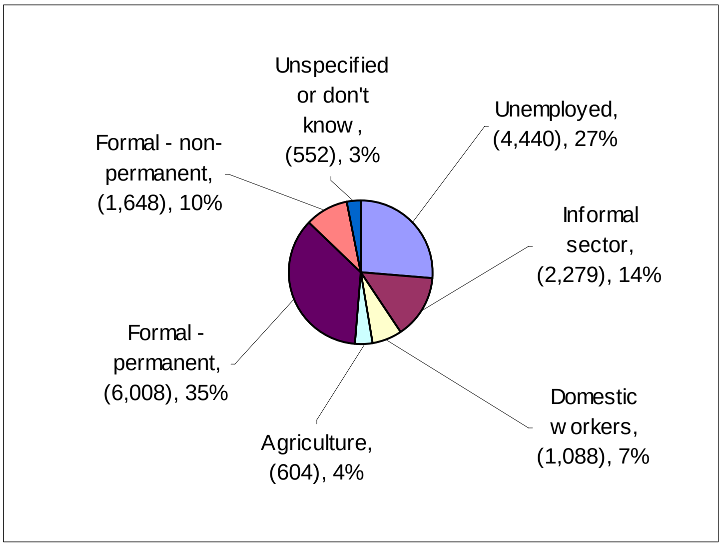
explained by continued job losses in those sectors. 'Private households' (or domestic work) were another sector showing a shift from low skilled to semi-skilled labour – which does seem unlikely.

Figure 3 – 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'.

3.2. 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 underproductive 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 artisan 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.

Capital intensive minerals exporter but a services economy

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.[7]

[7] 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

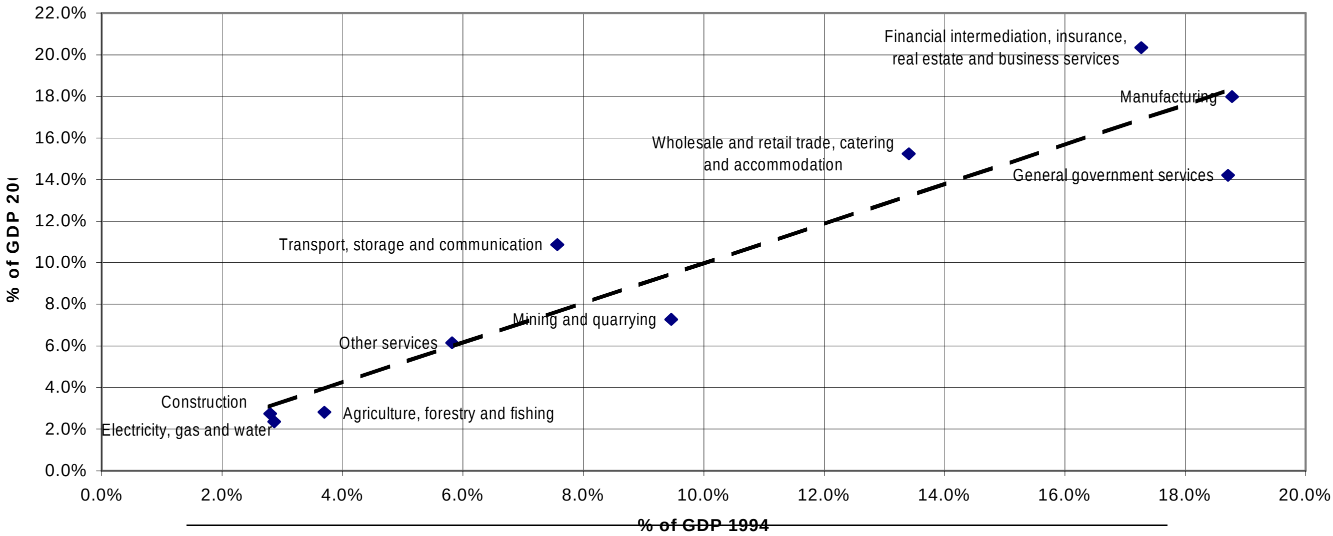
Theoretically, the shift from import substitution to export oriented industrial policy in a context of a labour surplus should result in a bias toward labour intensive exports. Empirically, most high and middle-income countries shifted toward higher skill and capital intensity in their tradables. This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

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



long been very close inverted correlation between manufactured exports and the price of commodities (gold in particular) (Golub & Ceglowski 2002).

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 have 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 and 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.

While the tradables sector (including resources, manufacturing and services) largely became more capital intensive, the more labour-intensive domestically oriented services sectors expanded more rapidly. This represents a large transition, over a 20-year period, from resource-based to service industry employment.

The changing composition of employment and industry is not peculiar to South Africa: instead it is an emerging global phenomenon. Palma (2006) shows how services employment is becoming a bigger share of employment and value added globally. Rowthorn (1994) had shown how in high income economies, manufacturing employment rises as a proportion of total employment, but at a certain level of per capita income, begins to fall as a proportion of total employment: He found this point to be $12,000 in 1991 dollars. Palma (2006) shows two additional characteristics to this turning point. First, for middle and high income economies, there has been a "declining level of manufacturing employment associated with each level of income per capita" between 1960 and 1998.

A number of factors may explain this. On the demand side, services tend to have a high income elasticity of demand so would grow with per capita incomes. On the supply side, the contracting out of services has in itself generated competitive markets in a range of activities that were previously handled administratively. Moreover, microelectronics and new technological capabilities have enabled new divisions of labour.

Second, Palma (2005) shows that, since 1980, there has been a large fall in the level of per capita income where this "turning point" occurs: "from $ 20,645 in 1980, to just $ 9,805 in 1990 (and $8,691 in 1998; all figures in 1985 international US dollars)". Palma refers to predictions made by Rowthorn & Wells (1987) who imagined this might happen as a result of technology diffusion, where "productivity catch-up is fastest in manufacturing".

What is the relevance to this discussion? These sectors tend to have higher wage inequality and a smaller mid-level wage earning class, relative to manufacturing. In part, these industrial shifts help to explain the substantial growth in employment for low skill labour since the mid-1990s and a fairly stable ratio of low to high skilled labour in the economy. It also helps to explain rising wage inequality, where the top echelons tend to earn high and rising salaries, while the lower echelons experience stagnant or falling real wages. A large proportion of formal sector working poor are increasingly found in these industries.

A new distributional environment has emerged since 1976 globally, which has contributed to rising wage inequality and has weakened the bargaining power of nations and of labour. This has been a consequence of a growing mobility of capital relative to labour (Palma, 2006; Rodrik, 1997). This mobility intensifies competition between firms and encourages strategies to reduce cost and mitigate risk. One result is lower gains accruing to wages from productivity growth. By way of example, Palma (2006) reviews the experience in Mexico showing that real wages did not benefit from large improvements in productivity in its motor export industry. This has also been the case in South Africa, where real wages have trailed well behind productivity growth. The impact on wages in less traded sectors such as construction, personal or business services is more profoundly felt, where productivity growth will characteristically be slower. Real wages for Mexican workers fell dramatically in these sectors. Again there are parallels with South Africa, albeit less dramatic, due to a continuing commitment to corporatism in labour markets that is no longer found in Mexico.

4. The working poor – how have their lives changed?

4.1. Who are the working poor?

In South African policy, there is a jargon currently used 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 and marginalised. However, the 'second economy' is often treated synonymously with the 'informal sector'. Formal sector workers are seen to be relatively well off. A central guiding policy document (Accelerated and Shared Growth Initiative for South Africa or Asgisa on http://www.info.gov.za/asgisa/) seeks to 'eliminate the second economy'. The aim is to enlarge the 'first economy' and improve access to its opportunities by marginalised people. But at the same time, providing a "ladder up" is often interpreted to involve support to informal and community based activities to enable them to develop.

Instead of focusing on informal firms, the character of low paid work is the subject of analysis to understand the different ways that households assemble a livelihood. This recognises that low paid workers will often have multiple and rapidly changing sources of income. Moreover, there is evidence that a large proportion of poor working people are found in formal employment.

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?

We defined as 'working poor' anyone who is 'employed' by the definition of the LFS, working in the formal or informal sector, and earning less than R2,500 per month in 2004. 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 in that year as the minimum level below which workers are exempt from income tax[8].

Having chosen this ceiling, we found that 65% of all working people earned less than this amount. Workers earning less than R1,000 per month accounted for about 39% of working people (Valodia et al, 2005).

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[8] 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 R2,500 per month, 83% were African and 12% were Coloured. This accounts for three-quarters of all African workers and 60% of Coloured workers.

How do these earnings link to poverty? In 2007, National Treasury proposed a poverty line of R 430 per person per month. This is very close to the $2/day MDG poverty target. If each earner supports 4 to 6 people (including herself), then R 2,500 would translate into $2.80 to $ 2.00 per person per day. That is, it would be close to the poverty line proposed by Government. However, a wage of R 1,000 per month would translate into $1.20 to $0.75 per person per day, which is about 60% below the poverty line. Of households with monthly expenditures of between R800 to R1,119 and R1,200 to R2,499, respectively 28% and 19% report having "problems meeting food needs sometimes, often, or always" (StatsSA: Sept LFS 2002).

It is sometimes assumed that the majority of poor workers are found in the informal sector. In fact, most work in the formal firms. Table 5 presents the distribution of low wage earners by whether they earn less than R2,500 or R1,000. It shows that 58.7% of those who earn less than R2,500 per month work in formal companies. Approximately 42.4% are found in the informal sector and domestic work.

Table 5 – Type of low waged employment (%)

Sector	≤ R1,000	≤ R2,500
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

Tables 6 and 7 show 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.

A miniscule proportion of low earners are found in the public sector despite accounting for about 13% of total employment (Table 8). 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 6 – Low waged earners as a % of total workers, by sector (%)

Sector	**≤ R1,000**	**≤ R2,500**
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 7 – Low waged employment by economic sector, formal and informal, 2004 (%)

	≤ R1,000	**≤ R2,500**
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 8– % of low earners found in the public, private and non-profit

	%
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 9 shows that the majority of machine operators and craft related occupations also earn less than R2,500 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 9 – Distribution of low earners by occupation, formal and informal, 2004 (%)

Occupation	% of earners ≤ R 2,500	≤ R2,500 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.

4.2. 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. Woolard & Woolard (2006) show precisely this result: it reviews earnings for five skill categories and found that that relative wages had widened (Woolard & Woolard, 2005). [9] [10] Figure 5 shows falling real wages

[9] This contrasts with the research based on data to the mid-1990s which showed 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

of low skill workers, and stagnant semi-skilled, skilled and high skilled (female) workers. This particularly affected African workers.

Woolard and Woolard (2005) also 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 10 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 12. 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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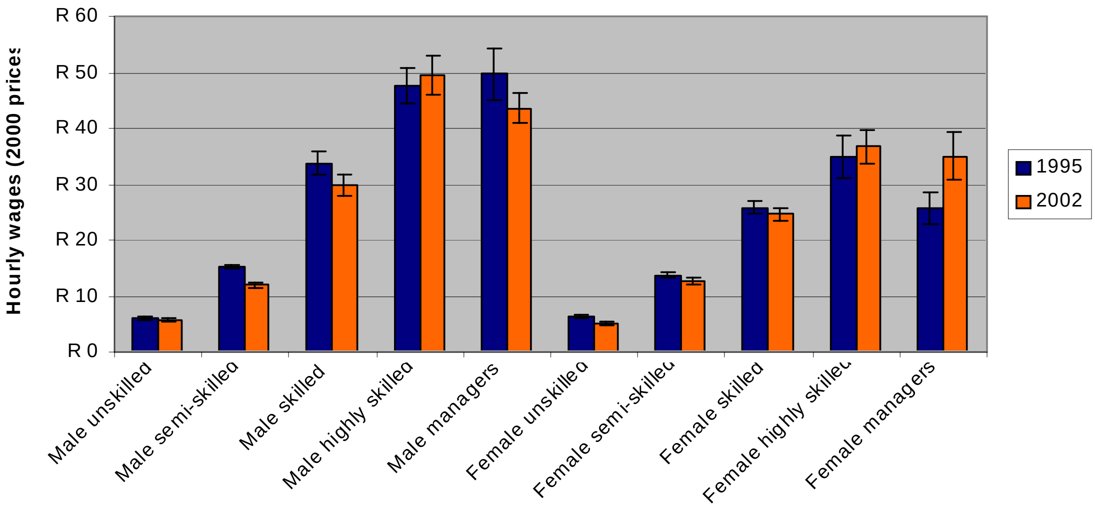
very much, explained by a continued crowding of African workers in low paying jobs. For example, approximately 50% of African women workers are found in domestic work or 'elementary' occupations.

[10] 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 10 – 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 11 – The distribution of formal sector earnings by sector

Sector	Wages earned per month 1-1000	1000 – 2500	2500 +
Agriculture, hunting, forestry and fishing	85.2%	4.7%	10.1%
Community, social and personal services	20.4%	10.7%	68.9%
Construction	58.0%	22.2%	19.8%
Financial intermediation, insurance, real estate and business	30.0%	15.5%	54.5%
Manufacturing	38.0%	23.6%	38.3%
Mining and quarrying	10.1%	32.6%	57.4%
Private households	95.7%	3.4%	0.9%
Transport, storage and communication	28.3%	16.7%	55.1%
Wholesale and retail trade	56.0%	17.3%	26.7%

Source: LFS, Sept 2004

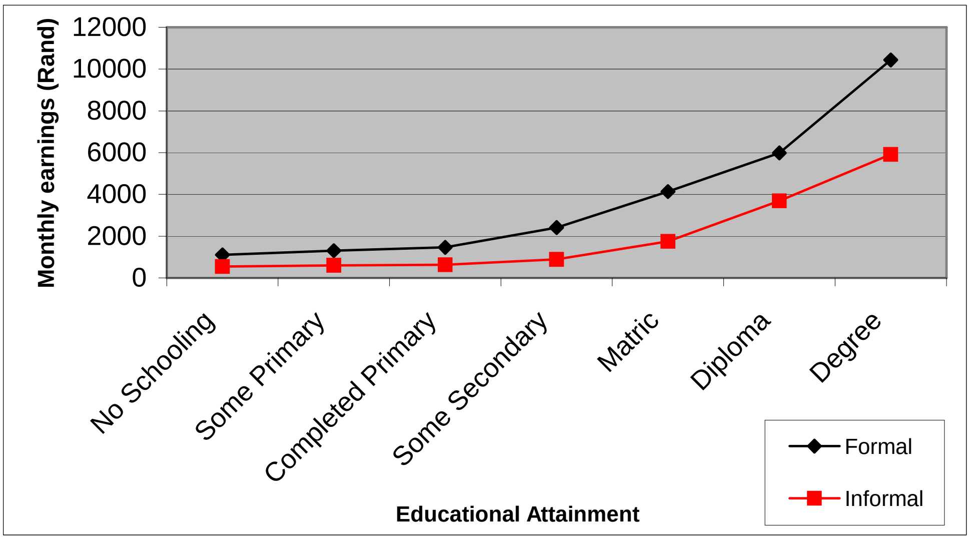
Table 11 shows that those earning below R 2,500 are quite evenly spread across the economy. However, there are certain sectors that tend to be particularly poorly remunerated such as construction and retail. Although manufacturing and finance are seen as high skill and well paid sectors, some would be surprised that almost one third of workers live on less than $1 per day. Almost all participants in any form of agriculture or informal activity (subsistence agriculture, domestic work, and other unregistered activities such as trading) are working poor.

Table 12 – Mean monthly incomes

	2002 Rand		1999 As % of formal urban African male earnings		2002	
	Men	Women	Men	Women	Men	Women
White workers						
Formal (urban)	9,328	6,150	341%	217%	318%	210%
African workers						
Formal (urban)	2,931	3,092	100%	94%	100%	105%
Informal (urban)	1,055	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 and informal sector, by level of education (2002)



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

4.3. 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.

Historically, a large portion of the workforce was employed through a migrant labour system that offered substantial flexibility to the mines, in particular. Wage flexibility was further built into the labour market system, with different wage setting systems by geographic region, be they urban South Africa, outside of the urban areas of South Africa or in the 'homelands'. A hierarchy of wages could be paid depending on the distance from an urban area. This offered industrialists a 'world in a country' and so many companies developed organisational hierarchies to take advantage of these differential rates (Altman, 1997).

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).

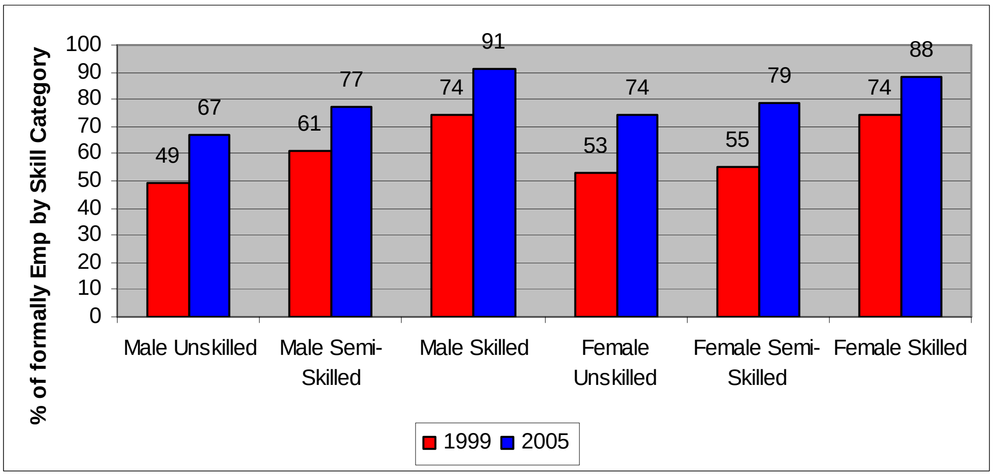
There is much debate about the impact of this legislation: does this legislation slow down the rate of low skill job creation? Do the benefits of minimum standards outweigh any possible dampening of labour demand? There is little empirical evidence to prove the case either way.

Written Contracts

Many observers of the South African labour market reflect on its 'inflexibility'. This is usually meant to refer to difficulty firms might have in firing labour, thereby making them more reluctant to hire. If so, falling or stagnant real wages would require explanation, since they are a strong sign of weak contracts, labour turnover and weak bargaining power of labour.

Figure 7 shows the proportion of workers in the formal sector who say they have a contract. 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 62% of workers having written contracts in 1999 as compared to 82% in 2005. Figure 7 shows that this 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[11]. Approximately three-quarters of formal workers say they have full-time contracts. Only 20% of the formal workforce has temporary or casual contracts.

Figure 7 – Formal sector workers with written contract by skill category (%)



Source: Altman 2004, calculated from Stats SA, OHS 1999, LFS Sept 2005

Job Security

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[12]. They show that 53.7% of workers changed

[11] 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.

[12] 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".

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 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.

Private Benefits

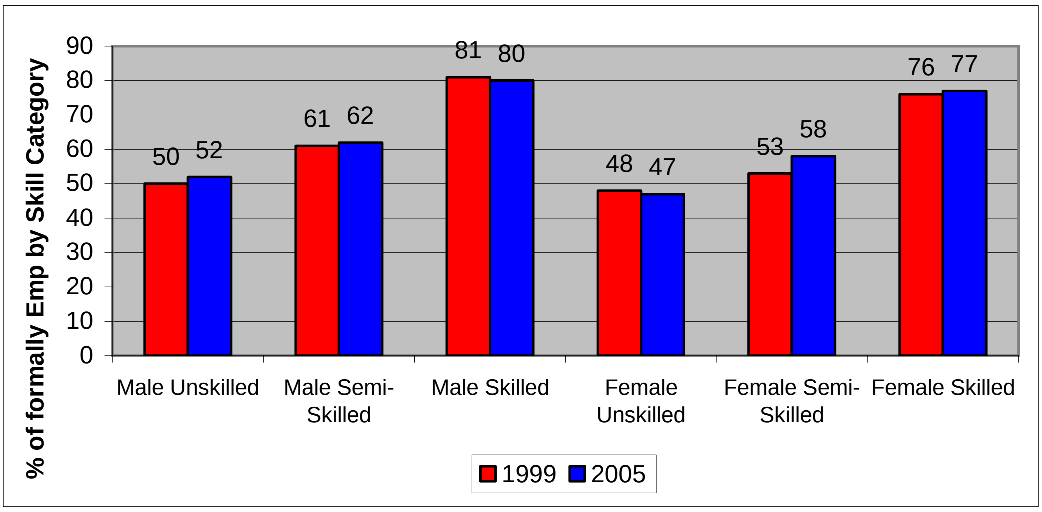
The expansion in written contracts for unskilled and semi-skilled workers did not necessarily translate into benefits – possibly indicating that while more workers have contracts (or are aware that they have contracts), they are not necessarily of a very binding or long-term nature. The number of workers covered by private pension plans hardly changed from its coverage of between 62% to 66% of the formal workforce, over the period from 1999 – 2005.[13] If the public sector were excluded, 53% of formal workers would have had private pensions. Other sorts of measures also indicate weak access to benefits that would normally be associated with formal sector jobs. For example, a large majority say they have not had any training that would help them at work.

"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".

[13] It is worth noting that the formal sector figures include both private and public sectors. In 2005, 90% of public sector workers had a contract and pension. So the figure for the private sector alone would be significantly lower.

Figure 8 – Formal sector workers with pension plan by skill category (%)



Source: Altman 2004, calculated from Stats SA, OHS 1999, LFS Sept 2005

4.4. The role of unions and 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 13 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 13, 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.[14] This was as true in the mid-1990s (Standing, Sender and

[14] 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.

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 13 – 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.

Table 14 – Unionisation of low earners, 2004 (%)

Income category	% of workers who are unionised at 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.

5. Some policy implications

The majority of South African households experience substantial insecurity in assembling a livelihood, and have difficulty accumulating sufficiently to enable them to weather crises. The link between work and well-being in South Africa seems tenuous. First, at least a quarter of the work-force are unemployed. Second, about 2/3 of those employed are 'working poor', enabling household members to live on $2 per day or less: this statistic is quite unusual for a middle income economy with attendant costs of living. Only a small proportion of employment is found in informal firms, and there earnings are half or less that found in the formal sector. However, informal firms are not the main location of low earners. More than half of the working poor are found in formal companies. These jobs are also very precarious: despite extensive coverage with written contracts, labour turnover is high, with workers shifting between formal, informal, unemployment and back on a continuous basis.

A very large proportion of households live precariously, although the South African economy is dominated a large and sophisticated formal sector. It appears that the political history plays some part in this. But so does the emerging industrial structure, where most employment is being generated in services industries with high wage inequality and relatively unstable employment opportunities. This latter feature seems to be taking place in many countries.

What are some of the policy implications?

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

South Africa is essentially a minerals exporter with a 'services economy'. Its trade profile is dominated by basic resource linked products, particularly metals and minerals. Its domestic employment growth is sourced from services. Despite restructuring, some resource curse elements remain such as a volatile and sometimes overvalued exchange rate, investment targeted at resource based capital intensive industry, and extremely 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, 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 traded goods and services will 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. A second option involves depreciating the currency has often been used in other countries to reduce the real price of labour, but could have other destabilizing effects. A third option involves policies that contribute to "labour-using productivity improvements": this means changes that improve the productivity of labour, but do not involve labour displacement. Examples include double shifts, improvements to commuter transport, or skills development.

There are other policies that could have an impact in encouraging more investment in traded goods and services. Amongst these are improvements to the competitiveness of core commercial transport, telecommunications and energy infrastructure; reduced mark-ups in commercial and consumer finance; vastly improved efficiencies at the Department of Home Affairs and a regulatory environment that enabled an easier flow of people; more strategic approaches to trade arrangements especially in relation to services industries; more forceful promotion of non-traditional exports such as construction, finance and recycling.

Enabling domestic value creation by entrepreneurs could be encouraged through policies that improve access to public transport, business finance and insurance, public safety, training, and helps build beneficial social networks. In addition, there is growing recognition that formal firms can play a role in making available opportunities through procurement of goods and services to small firms.

The informal sector grew dramatically in the 1990s, to about 20% 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 (e.g. Brazil).

5.2. Precarious jobs & minimum standards

Low earnings from work appear to be an emerging structural feature; underemployment and unemployment co-exist and are found globally; and the informal economy can not be seen as social security net.

The role of government in reducing poverty becomes more critical, even in low income economies with stronger traditional community support systems. This recognises that employment is a necessary but not sufficient condition for poverty reduction.

Low waged workers in the formal economy are becoming less able in accessing the benefits accruing from productivity improvements. This is not unique to South Africa. Setting minimum floors for wages, standards and benefits, and enabling voice to more vulnerable workers may be the only way to enable an improved distribution of between profits and wages.

Real wages in sectors that absorb large numbers of low skill workers are likely to be relatively stagnant in a context of high unemployment. Moreover, those sectors tend to have less union organisation. There are already minimum wages set by the Department of Labour for a wide range of sectors such as contract cleaning, wholesale & retail, private security and clothing, domestic and agricultural workers. This simply sets a minimum acceptable floor and is determined with affordability in mind (insofar as that is knowable by the state).

Minimum standards have to be chosen carefully to avoid possible trade-offs. Two come immediately to mind. The first is an employment-wage trade-off. The second trade-off might be possible encouragement to employers to displace regulated workers with unregulated ones. Although this question is generally handled ideologically, it is the subject of empirical investigation. In many countries, formal firms generally pay above the minimums set, and the rate simply acts as a floor to stop exploitation by some. There is also evidence that informal rates can sometimes track formal ones: so a rise in the formal wage enables a similar rise in the informal.

There is some 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.

5.3. Social wage

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. The benefit of socialised entitlements over enterprise based ones, is that they are more supportive of a precarious livelihoods where workers may move from formal to informal to unemployment and back over relatively short periods of time.

An important way of improving livelihoods would entail reducing the reliance on "money wages", and increasing the reliance on a 'social wage'. This involves any policy where the state ensures delivery of quality goods and services that lift some financial burden: the obvious examples include health and education services, including the cost of associated inputs like travel to school, school uniforms, books or medicines. It can also refer to industrial training or social security to mitigate risks and vulnerability such as maternity, disability, unemployment, death, retirement, etc.

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 and 2004, an increase of about R22 billion overall.

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?

Education & training

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 15). This skills mismatch 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 15 – 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%
Unspecified	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

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 16 – Educational attainment of working poor

	≤ R1,000 %	≤ 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), calculated 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.

Government has introduced a payroll tax that accrues to a central training fund (the National Skills Fund), which is meant to be re-directed to industrial training and training for the unemployed. This is one way of centralising payments for training aimed at the unemployed. But nothing will replace access to good quality basic education.

Active labour market interventions

More forceful active labour market policies can help in transition periods. These can include job matching services, re-training, allowances to move to a job or to search, employment incentives, etc.

Health

Precariousness in a highly unequal society is particularly a problem in the context of the spread of HIV/AIDS and TB, especially felt in Sub-Saharan Africa. In South Africa, the average HIV infection rate is 13%, but 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). This will clearly impact on the precariousness of livelihoods. Government has adopted a policy to distribute ARVs. However, only 200,000 of the eligible one million receive ARVs, partly due to slow delivery in the public sector. 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. 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. Funeral and life insurance for low income families can be an important contribution where funerals are common and costly, especially if it involves the loss of a breadwinner.

Business insurance

Support for insurance or assistance against disaster is another example of an intervention that could help to smooth incomes. For example theft is very common in urban areas and seen to be one of the major barriers to developing a small business.

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.

5.4. Poverty and Employment

How might falling unemployment impact on poverty? Even if unemployment halved to 13%, it is probable that the majority of working people will be poor if they relied only on wages.

The type of jobs that are created matters a great deal. One will generally find that capital and/or skill intensive sectors pay higher wages for the same skill level than labour intensive sectors. So, an office cleaner is likely to be paid more in the mining, chemicals or finance, than they will in the agriculture, clothing or restaurants. The income earned from employment will be important, particularly since the aim is to reduce unemployment *and* poverty. Strengthening broad-based economic participation can be the best way to ensure a more equal distribution of income. This requires, not only low rates of unemployment, but also rising income earned from work. In other words, some path is needed that would create jobs *and* also enable real wage growth in a way that is supportive of long run economic expansion.

In South Africa, earnings from employment and self-employment are low relative to the cost of living. The Labour Force Survey shows that about 65% of all workers earned less than R2,500 per month in 2004, and 39% earned less than R1,000 per month. Low earners are not only found in the informal sector: just over half of formal sector workers earned less than R 2,500 per month. Low earners in the formal sector are not only found in low level jobs: about two-thirds of craft workers and plant and machinery operators earned R2,500 per month or less. What does this mean for poverty? The National Treasury recently released a discussion paper proposing a poverty line of R 430 per person per month in 2006 Rand. About 50% of the population fall below this level.[15]

What if the unemployment problem fell from about 26% to 13%? Most of us assume that this would dig deeply into the poverty problem. Naturally, the poorest households would be much better off with reductions in unemployment. Per capita expenditure in poor households would rise by 70% to 120% if unemployment fell to 13%. However, wages are low relative to the cost of living and constrain the extent to which employment contributes to poverty reduction. *If poor households depended on their wage earnings only, and there was no real wage growth, approximately 35% would still fall below the proposed poverty line at 13% unemployment.*

Average wages for low and semi skilled workers have been stagnant or falling over the past decade, according to a recent HSRC study by Ingrid Woolard (Woolard & Woolard, 2006). This trend could continue in a context of high unemployment and the likelihood that a large portion of jobs will be created in domestically-oriented services, the informal sector and public works.

Insofar as market-determined wages don't sufficiently contribute to some minimum livelihood, it would be the job of the state to address this. Some balance is needed that does not create a disincentive to employ, but that also enables working people to assemble an acceptable standard of living. There are a number of ways this can be done.

The first approach involves raising the value of people's private earnings. For example, the National Treasury has made important moves over the past few years to progressively eliminate personal income tax on those who earn R 43,000 or less. This has received little popular attention, but is one of the most obvious policies to pursue: that is, at the very least not to tax the poor unnecessarily. More difficult is reducing the cost of living, particularly in relation to food prices, housing, transport, finance, education and health.

A second option involves raising minimum wages. *Some preliminary modelling shows that, if unemployment was halved, without minimums the poverty rate would fall to 35% and with the minimums it would fall to about 30%.*

Another option involves raising incomes through social grants. The South African state has dramatically expanded its system of grants in the 2000s. There has been some concern that this may cause 'welfare dependency'. However, as noted, even if the vast majority of grant recipients found jobs, it is probable that they would still

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[15] It is perhaps worth noting the limitations of a poverty line. People who earn more than R 430 per month per person are still extremely poor. With current dependency ratios, R 430 is just slightly more than the MDG target of $2 per day which is a ghastly thought in a middle income country cost structure.

qualify for their grant. A long term commitment to social grants may be a necessary part of ensuring that households can assemble a minimum livelihood, even if unemployment fell dramatically. For example, *preliminary modelling shows that if unemployment were halved or quartered, the application of minimum wages plus grants as currently available could bring the poverty rate down to 25%.*

5.5. Government spending

These preliminary findings reveal that halving both poverty *and* unemployment by 2014 and beyond will require serious consideration of budget choices and trade-offs. A policy package must be identified that doesn't 'break the bank'. Some of the policies are already in place, albeit possibly in smaller quantities than is needed. Some of the larger budget choices will relate to the expansion and pay of public employees, the expansion of public works and community-based social service employment, a deepening of social grants, deeper active labour market policies and employment incentives. Any one of these policies could involve an additional load of R 20 to R 40 billion per annum, and they will be needed well into the future[16]. They will therefore not all be possible at scale simultaneously. South Africa's corporatist decision-making capabilities should be supportive of arriving at some long-term balanced policy package. All parties will need to review their stance in relation to policy advocacy in the face of real public expenditure commitments.

5.6. Labour & Community 'Voice'

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[17]. 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

[16] In 2006/7, R 20 billion was equivalent to about a 1% budget deficit.

[17] Strike action is tracked by a private company Andrew Levy Employment Publications.

unionized, very large factories in industrial areas[18], 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.

This new working environment poses challenges to civil society that would like to see effective service delivery, job creation and a commitment to minimum working conditions. Demands are rightly made of Government, whose responsibility it is to guarantee these. However, there is widespread concern in respect of government capacity, even articulated by Government itself. In any context, civil society 'voice' and participation are critical to delivery and basic social protections: but this will be particularly true for South Africa. What might this entail? First, that civil society organisations have more reliable sources of income to enable them to build capacity. Second, that civil society organisations form coalitions where new lines of organisation blur boundaries between work and community. Third, civil society organisations must play a critical role in identifying innovations in service delivery. Fourth, programme delivery – from health to training - is likely to depend on active participation of unions and community groups.

[18] 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.

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