

Article

International perspectives and parallels

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Preface

In many ways, the apartheid era left South Africa as a 'special case' in the field of labour market analysis, with large gaps of human development particularly in older generations, a huge degree of under-utilisation of its labour force, and difficult tensions in its industrial relations. As if this heritage were not enough, the 1990s brought another scourge with potentially disastrous consequences for the life and work of the people of this country, in the form of the HIV/AIDS pandemic. For those who study South Africa's labour market, it is often hard to see many useful parallels with developments in other countries, in view of all these dramatic challenges.

And yet, there is a lot to be learned from international comparisons, even between countries with different development histories. Labour markets function with surprising similarity in countries with very different economic and social structures, although it is not always easy to draw analytical conclusions from such parallels and even more difficult to base policy recommendations on them. The focus of the present paper is not on producing as much comparable data as possible, but on finding examples of analyses and case histories on relevant themes that could stimulate and deepen the discussion in South Africa. The paper is a contribution to the Labour Market Analysis (LMA) project presently undertaken by the South African Human Sciences Research Council (HSRC) of South Africa with the support of the Swedish International Development Cooperation Agency (Sida).¹ The project aims primarily to identify priorities for future labour market research rather than to formulate recommendations for policy intervention. That is also the purpose of the present paper.

1. Changing economic structures

In comparative studies of economic development, South Africa is mostly treated as one among a score of countries that analysts refer to as 'emerging

economies'. This group of economies is very diverse, and in order to capture the most important factors that influence demand and supply in the labour market, it is necessary to focus the comparisons on countries that have something in common with the South African economy. Because of its history and pattern of economic growth, South Africa has more in common with Latin America than with the rest of Africa, and it is often relevant to compare its structure and the functioning of its economy with countries like Brazil and Mexico, which also have a history of ethnic repression still reflected in big income differences.

Table 1 shows South Africa's basic economic data compared to six other middle-income economies. The group has been chosen to cover diversity rather than common patterns of behaviour, and it comprises both bigger and smaller countries, whose income levels differ widely depending on whether the comparison is made at Purchasing Power Parity (PPP) or by nominal US dollar values. Since we are studying both external and internal transactions, either of those standards is applicable to different comparisons. Other countries will be included when they are of particular interest, but it is useful to return to most of these six countries from time to time, to take note of differences as well as similarities.

Table 1: Basic economic data of some middle-income countries

Country	Population million 2001	Per Capita Income USD 2001	Per Capita Income \$ PPP, 2001	Gini Coefficient	Human Development Index Rank
South Africa	44.4	2,820	10,910	59.3	111
Brazil	174.0	3,070	7,040	60.7	65
Mexico	100.5	5,530	8,240	51.9	55
Malaysia	23.5	3,330	7,910	49.2	58
Poland	38.7	4,230	9,370	31.6	35
Turkey	69.3	2,530	5,830	40.0	96
Slovakia	5.4	3,760	11,780	25.8	39

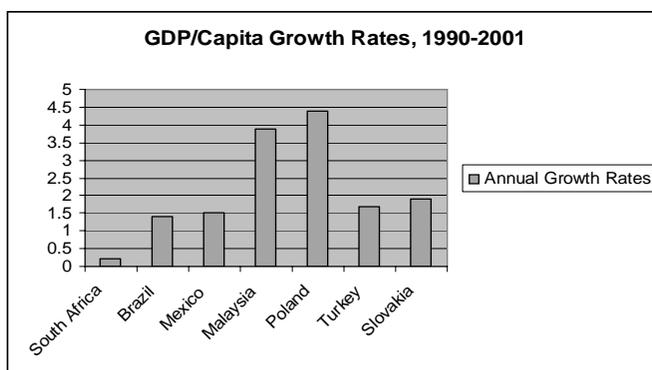
Sources: UNDP (2004) and World Bank (2004).

In this group of countries, South Africa is medium-sized and has a relatively high income, if the comparison is based on domestic purchasing power. The high Gini coefficient of inequality in the four first countries has its origins in the availability of mineral resources (and, in Malaysia, a plantation economy) combined with ethnic differences. The two Central and Eastern Europe (CEE) countries still show the low income differences characteristic

of the former socialist economies. South Africa is an outlier as regards the Human Development Index (HDI), but this is a recent phenomenon caused by the onslaught of the HIV/AIDS pandemic since the beginning of the 1990s. In the 1980s, South Africa's HDI was closer to the other countries in the group.

The 1990s brought a lot of changes to the emerging economies, as a result of changing global patterns of trade and investment, but also as a result of internal policy change. A number of middle-income countries achieved very high rates of economic growth, particularly some of the East and South East Asian economies. China's economy grew by almost 10 per cent per year, the South East Asian economies by more than 7 per cent, and the South Asian economies by 5.4 per cent per year according to the World Development Review. African and Latin American economies grew by an average of 2.6 and 2.9 per cent respectively, barely enough to compensate for population growth. The per capita growth rates of our seven middle-income countries are shown in Figure 1. South Africa's per capita growth rate is the lowest in this group, but it corresponds roughly to the average of countries in sub-Saharan Africa and is only slightly lower than the Latin American average for this period.

Figure 1: GDP per capita growth rates of seven countries



Source: World Bank (2004).

The expanding world trade enabled many emerging economies to change their economic structure from being dominated by primary commodities to enjoying a growing share of manufacturing production and exports. This was the case in particular with some Asian economies that achieved a rapid growth of labour-intensive exports, mostly through investments by

multinational enterprises. But a number of Latin American and East European countries also underwent structural changes as a result of growing international trade. Like many mineral and oil exporting countries, South Africa suffered a loss of revenue from primary exports, but it managed to compensate this by growing manufacturing exports. The shift to a more open trade regime in the early 1990s brought a compensating increase in production, but employment effects were dampened by the introduction of more capital-intensive modes of production. Similar trends were found in the other countries in our comparison, caused by intensified competition in global markets.

Rising incomes and a changing structure of domestic demand and international trade gradually changed the composition of GDP in the middle-income countries. In some of them, in this group represented by Mexico and Malaysia, manufacturing exports to Western markets expanded the share of the manufacturing sector in the economy. Those among the CEE countries that first completed their transition to a market economy, here represented by Poland and Slovakia, also experienced a rapid recovery of manufacturing production. For most of the high and middle-income economies, as well as for a very large number of the poorest ones, the share of manufacturing followed a long term declining trend, while services – provided by the public as well as the private sectors – steadily expanded their share of GDP. South Africa and Brazil belong to this group of countries and did so already in the 1980s. The implications for manpower demand will be discussed in Section 4.

Social structures and processes also have a strong influence on employment outcomes. Middle-income countries like South Africa on average invest more than the poorer countries in developing human capacities and protecting their citizens from misfortune. The labour market benefits from the effects of these actions, which are undertaken by society as well as by private organisations and enterprises. First, these facilities provide human security and a better quality of life and work, and second, their delivery itself offers opportunities for employment. Table 1 shows that the Human Development Index ranking of the six middle income countries is generally at high or medium level, with South Africa lowest at a ranking of 111 among 175 countries. This low ranking is due to the fall in life expectancy after 1995. In that year, South Africa had an HDI that was level with the Asian and Latin American countries in the reference group, only exceeded by the two CEE countries. The same applies even today to South

Africa's achievements as regards adult literacy and gross education enrolment.

Research priorities

In the economic debate about employment and development, International Financial Institutions (IFIs) have strongly emphasised the rate of GDP growth as the most important contributor to employment growth. Experience from Asia, Africa and Latin America shows that the *pattern of growth* is at least as important as its annual rate. It also shows that government policy can influence the patterns of investment, production and employment growth, although it is not always easy to establish exactly how these relationships interact. Such demand side analysis is not covered by the outline of the present Labour Market Analysis Project, but it is obvious that it is important for employment and living standards in a long term perspective.

2. Education and its economic returns

Education is relevant to the labour market in several ways. A higher level of education is generally considered as an entry ticket to better paid and intellectually more rewarding jobs. When the education level of the entire labour force of a country rises, the productive capacity of the economy will increase, hence creating more job opportunities. With education levels rising all over the world, foreign trade and investment presuppose ever higher education levels among workers of all categories, and countries with low general levels of education will have difficulties competing both domestically and in international markets. Last but not least, in many middle-income countries, the education sector is one of the biggest, if not the biggest employer of trained manpower. The focus in this section will mainly be on the economic returns to individuals that are generated by higher levels of education.

Education levels

The last three decades have seen a very rapid expansion of general education in South Africa, with secondary education for Africans doubling every ten years. University graduation has grown more slowly and has only picked up speed from 1998 onwards. A comparison with other middle-income countries is made in Table 2. In terms of primary and secondary enrolment, as well as in gender balance, South Africa compares very well. Its tertiary enrolment levels are still low, however – around half those of South East Asian economies like Thailand, the Philippines and Malaysia. Most of the CEE and Commonwealth of Independent

States (CIS) countries, ie former Soviet Union (minus the Baltic States), have had high enrolment levels for a long time, and most of them managed to maintain them through the transition. The tertiary enrolment level of countries like Poland, Bulgaria and Russia is still significantly higher than other middle-income countries. The rate of secondary enrolment in Brazil is the result of a recent effort on a scale that poses a challenge to the quality of education. Its secondary enrolment rate rose from only 15 per cent in 1990 to 71 per cent in 2001, which indicates an extraordinary effort. Its tertiary enrolment level, on the other hand, remains in the low range.

Table 2: Education enrolment in selected countries, 2001

Country	Combined primary & secondary enrolment: females	Combined primary & secondary enrolment: males	Net Primary Enrolment	Net Secondary Enrolment	Gross Tertiary Enrolment	% of tertiary students in Science, Maths & Engineering
South Africa	78	78	89	57	15.0	18
Brazil	97	93	97	71	18.2	23
Mexico	74	74	103	60	21.5	31
Malaysia	74	71	98	70	26.6	n.a.
Poland	91	86	98	91	58.5	n.a.
Slovakia	74	72	89	75	32.1	43
Turkey	54	65	89	41	24.8	22

Source: UNDP (2004a) and UNESCO (2005).

Although the broad coverage of South Africa's education compares favourably with many other middle-income countries, there are some reassuring signs as regards the orientation of study. International comparisons show that the proportion of students in science, maths and engineering as per cent of all tertiary students is around one-third in industrialised countries and in the CEE countries as well as in Mexico, while it is 22-23 per cent in Brazil and Turkey and 18 per cent in South Africa. A high share of science and maths students is commonly regarded as an investment in future industrial competitiveness. What makes this question particularly thorny for South Africa is that black and white students at higher institutions of learning have strongly diverging bias in choosing their fields of study. Miriam Altman (2004) has shown that about 70 per cent of black students enroll in humanities and social sciences and in education, while the corresponding proportion of white students is 44 per cent.

Conventional wisdom has it that an entrant to the labour market has a higher chance of getting a good job, the higher their education; and chances of remaining employed are also enhanced by longer education, preferably updated by repeated studies and courses. Support for this hypothesis is provided by a number of studies that estimate positive returns to education (see for instance Psacharopoulos 1993). But most of these studies cover only those who are employed, and there is plenty of evidence of unemployed university graduates, particularly in developing countries that have maintained high rates of tertiary education for several decades.

Economic returns to education

The increase in income that can be gained by an individual by adding one more year of schooling is often referred to as the economic return to education. These returns can be calculated either from the point of view of the individual (private returns) or from society's point of view, deducting the costs of public subsidies (social returns). In this context, we shall discuss private rather than social returns, since our perspective is based on the individual's options and preferences in preparing his/her entry into the labour market.

The returns to education are to a large extent determined by the structure of demand for various types of manpower. Rising differentials between unskilled and highly skilled employees are characteristic of labour markets all over the world since the mid-1980s, a tendency that is widely regarded as induced by globalisation of trade and changes in technology. The rise in earnings differentials with respect to education has had different strengths in different economies, due to a large range of factors, such as the capacity of the education system and the structure of labour demand in the national economy. Expanding education systems increase the supply of educated job-seekers and would therefore tend to dampen economic returns to education. The introduction of universal primary education in some middle-income countries, for instance, has brought the return to one additional year at primary level close to zero, while the average level for African and other poorer countries still remains around 20 per cent (Psacharopoulos and Patrinos 2002). A similar trend can be observed in industrialised countries where post-secondary education has expanded to a point where the return from a year of tertiary education averages less than 10 per cent.

Likewise, South Africa has moved from whatever affinity to the 'African' pattern that it may have had, closer to those of the middle-income countries. A study by GJ Trotter in 1984 of metropolitan Durban quoted by

Psacharopoulos (1993) produced rate of return figures very close to the African patterns: primary level 22.1, secondary 17.7 and tertiary 11.8 per cent. More recent studies have produced very different results. Fryer and Vencatachellum (2003) studied the education and employment of women in 1989-90 in 331 households of the Machibisa township in KZN and found that primary education gave no returns at all in terms of wages and employment, while the lower secondary education was highly profitable. The upper secondary did not give any value added, which seems a bit strange, given that clerical jobs require a full secondary education.²

The differentials between average monthly wages in South Africa with respect to education levels in 1995, given in Table 3, were quoted by McCord and Borat in the HSRC's *Human Resources Development Review* (2003:129).

Table 3: Median monthly wage by education level, 1995

Education level	Median wage (Rands)	Per cent of 'no education'
No education	501	100
Grades 1-7	631	125
Grades 8-11	1,248	249
Matric	2,420	483
Tertiary	3,500	699

Source: Stats SA (1996).

These earnings differentials are very high by international standards. The table below gives comparable data from Latin American countries, some of which are regarded as providing very high returns to post-secondary level education.

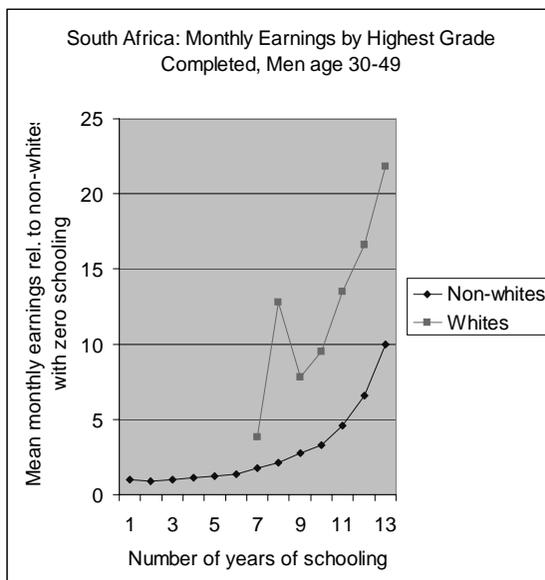
Table 4: Earnings differentials in Latin America. No schooling group =100.

Level	Latin America	Mexico	Brazil	Argentina	Peru
Primary complete	50	100	100	35	40
Upper Sec. Complete	120	170	170	80	80
University Complete	200	260	280	160	145

Source: *América Latina frente a la Desigualdad*, Interamerican Development Bank (IDB) (1988-99).

A study which allowed controlling for the very strong interaction by the racial factor in South Africa was made by David Lam (1999) on the South Africa October Household Survey (OHS) data for 1995. This is a large Statistics South Africa (SSA) survey based on interviews with 32,000 households, and contrary to most other studies of returns to education, it covers the whole labour force and not only those employed in large enterprises. It was made as part of a comparative study with Brazil, to which we shall return shortly. For non-white men, the earnings per year of education did not rise significantly until after five years of schooling, from where the rise was very rapid: at nine years of schooling, the average income was double that of the ‘no education’ group and at university level it was ten times the earnings of non-white men with no education (see Figure 2). The earnings differentials for white men rise less steeply, although comparisons are difficult due to the lack of observations at primary level. It is important to note that unemployment and zero earnings amounts to around 30 percent among non-white men with less than 12 years of education, a factor that significantly reduces their average earnings. Unemployment is one of the major factors of inequality, together with the racial factor.

Figure 2: Earnings per year of education, South Africa



David Lam's study was designed to examine the role of earnings differentials in two countries (South Africa and Brazil) with extreme income total differences, to find out what a wider distribution of education at all levels could do to reduce the overall dispersion. In Brazil, as in the South African case, he distinguished between whites (57 per cent in the comparison) and non-whites (43 per cent). The Brazilian national household survey 1995 comprised 85,000 households, and the base for comparison with the South African data presented above was 40,505 men age 30-49. Education was much less widely distributed in Brazil than in South Africa of 1995, the median number of school years for the two groups being 8.3 years for the South African men and four years for the Brazilians. The percentage with no schooling at all was much higher in Brazil than in South Africa: 23.4 per cent of the non-whites and 8.3 per cent of the whites.

The percentage of Brazilian men with zero earnings was much lower than in the South African group: 10.5 per cent of non-whites and 8.7 per cent of whites. As in South Africa, zero earnings are significantly less frequent at education levels above 12 years. The difference in earnings between university level and primary level would be 25 per cent less in South Africa in the absence of a zero earnings group (ie at full employment) and 9 per cent less in Brazil. Figure 3 shows a graph comparable to the one for South Africa (Figure 2).

An interesting difference between the two countries is that an additional year of education gives high economic returns in Brazil even at the primary level, while the returns in South Africa are low. In Brazil, the returns rise progressively with the number of years and change to a steeper gradient from ten years upwards. The gradient in that phase is quite similar for all groups, white and non-white, Brazil and South Africa. The racial earnings differential, however, is relatively smaller at the university level than at secondary level in both countries, although on average it is much bigger in South Africa.

Racial wage discrimination

Racial wage discrimination, ie using different standards of remuneration for persons with different ethnicity but with the same 'productive characteristics' (such as education, occupation, age or productivity), has been studied in many countries, in particular the US. The most common method is decomposition of each one of the 'productive characteristics', leaving an unexplained residual that is

assumed to be caused by ethnic discrimination. It is important to remember that access to the 'productive characteristics' may be subject to discrimination, so the racial residual does not tell the whole story.

In David Lam's data set, the differences have been 'decomposed' by controlling for sex, education and racial factors. The white male average wage for the lowest education level where whites are represented, 8-10 years, is 3.7 times the non-white wage at the same level. This differential falls with rising education levels to 2.2 times in the group with university education. In contrast, the differential in the Brazilian material is highest as 45 per cent for the group with no education at all but is fairly constant around 30 per cent for all other levels up to university.

In South Africa, a decomposition study was made based on OHS data by Paul Allanson and Jonathan Atkins (2001), who controlled the racial average wage differences 1993-99 for age, education, occupation, economic sector, trade union membership and geographic residence. The unscrambled wage data had indicated that the differences between African and European wages were narrowing, but this could be a result of rising levels of education. The Allanson-Atkins study showed a compression of the unexplained residual in the difference between African and European wages from 1993 to 1995 and then some reversal towards the end of the period. Differentials arising from discrimination were smaller than the ones one can derive from Lam's study but seemed to be very stubborn.

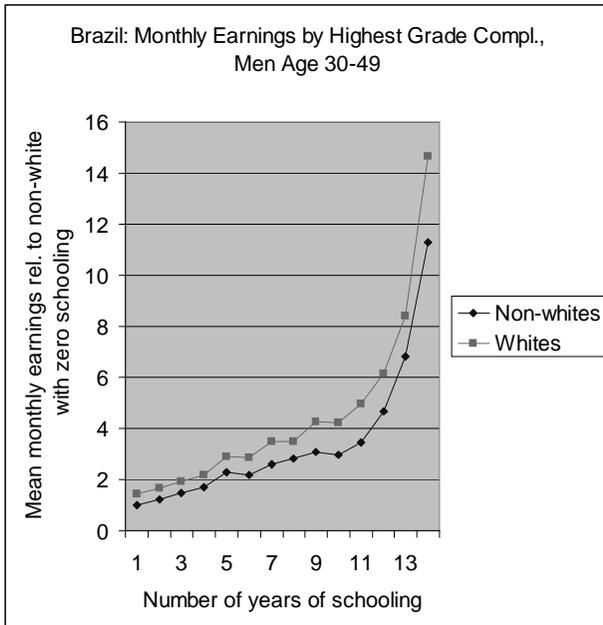
The World Bank has studied ethnic discrimination in Latin America (Patrinós 1994) and found that the ethnic factor had relatively small effect on wage differences in most countries, but that it explained around half of the differences in Guatemala, Mexico, Peru and Brazil. The biggest differences were found in Brazil.

Very few systematic studies of ethnic discrimination comparable to the South African findings have been made in other developing countries.

A conclusion that can be drawn from these comparisons is that the more even distribution of education in South Africa is reflected in lower returns to primary and secondary education than in Brazil. One might expect that the accelerated growth of university education for non-whites in South Africa since 1995 may in due course lower the returns to higher education

as well. International evidence points in a different direction, however, for the simple reason that earnings levels are sensitive not only to supply but to demand. Studies of the changes in returns to education during the 1990s in both Brazil (Blom, Holm-Nielsen and Verner 2000) and Mexico (Lopez-Acevedo 2001) show that in spite of expanding university populations, economic returns to tertiary education have been rising. This is generally ascribed to changes in labour demand, with service sectors growing relative to manufacturing and a growing emphasis on formal education among employers. Some authors talk about a tendency towards ‘skill-biased technological change’, which entails using skilled workers for tasks that were previously performed by workers with much lower formal education and training. It is doubtful, however, whether exaggerated demands for education can be sustained for very long in the face of economic realities. A more likely reason is that the knowledge requirements of the work process are universally rising, partly as a result of a changing international division of labour. This is likely to maintain the returns to tertiary education in middle-income economies even as the number of graduates is expanding.

Figure 3: Earnings per year of education, Brazil



Research priorities

There is a strong case for research into the factors that guide (a) the students' choice of stream and (b) the employers' strategy for hiring skills. There are probably both institutional factors and traditional thinking involved, and there are great risks of individuals investing in education that has low economic returns. It is important to give both students and employers the best information possible about current labour market prospects in various fields, even though these prospects can change quite fast (and be influenced by the forecasts themselves). A new Labour Market Dynamics study along the lines of Standing, Sender and Weeks (1996) would be useful as a base for such studies, as well as for many others covered by the LMA project.

There are many indications that the returns to education of women are very different from those of men (see, for instance, Fryer and Vencatachellum 2003) and that they are changing over time. It would be interesting to pursue the same type of study as that of David Lam for both sexes, and in the present labour market situation. It is also important to get a better handle on the occupational structure, which interacts with education, gender and race in a way that may obscure the forces at work. The possibility of refining the occupational classification of an OHS sub-sample may help in throwing light on these forces.

3. The wages-employment trade-off

The most common measure for describing the labour absorption of economic growth is the concept of *employment elasticity*, which is calculated as the ratio of employment growth to output growth. While this concept is useful for descriptive purposes, it is difficult to use in analysis. The elasticity measure conceals more than it reveals, since its implicit production function is unknown. When either numerator or denominator is negative, the value of the ratio will be difficult to interpret.

A more useful approach for analysing the growth-employment-wages relationship has been developed by Dipak Mazumdar (2003) in the form of a *decomposition* exercise, in which the total production growth in manufacturing is broken down into four factors:

1. Employment changes;
2. Real wage changes;
3. Changes in the Wages/Value Added ratio;
4. Changes in the Domestic Real Exchange Rate (DRER).

Factors 3 and 4 are necessary to make the components add up. When factor 3 is negative, it means that a certain share of the output increase is not available for distribution in the form of wage increases. Factor 4, the DRER, is the change in the ratio of producer to consumer prices. If the rate of consumer inflation is higher than that of producer prices, this is a leakage that will reduce the scope for real wage increases. Mazumdar's method of accounting for the way the cake of growing production has been divided between capital and labour is more sophisticated than the usual one of splitting total output growth between capital and labour, since it also takes into account the price changes that affect the real value of the shares that each party has taken.

The growth paths of different countries and regions of the world have differed widely with regard to the relative sizes of these components. By using a United Nations Industrial Organisation (UNIDO) dataset, Mazumdar (2003) has calculated the breakdown of manufacturing growth rates for four different regions, East and South East Asia, OECD member countries, Latin America and the Caribbean, and Eastern and Southern Africa (eight countries, not including SA). A summary of the results is given in Table 5.

Table 5: Decomposition of real wage growth rates in manufacturing, four regions

Period/Region	Real Wage Growth	Output Effect	Employment Effect	Wage Share Effect	Price Effect
1971-80					
East Asia	5.32	11.47	5.77	1.07	-0.41
OECD	1.72	3.27	-0.23	0.99	-1.78
Latin America	-2.13	1.83	-0.64	0.97	-4.60
Africa (E&S)	-3.44	2.34	4.45	0.85	-1.33
1981-92					
East Asia	5.17	12.04	4.36	1.09	-2.53
OECD	1.35	3.03	-0.31	0.80	-1.99
Latin America	-3.13	1.77	-0.78	0.97	-5.68
Africa (E&S)	-4.36	3.66	3.59	0.87	-4.43

Source: Mazumdar (2003)

The patterns of growth and distribution over the different components show a number of striking differences, some of which are relevant to the present enquiry. It is important, however, to point out at the outset that the decomposition does not tell us anything about the *causes* of these changes and differences. These are subject to influences from a large number of factors, in particular from changes in technology, investment climate, trade flows, manpower demand and supply, government policies, industrial relations and institutional behaviour. The usefulness of the decomposition as an analytical tool depends on the quality of data that explain the changes in those factors, which are often closely interrelated. For instance, as Adrian Wood (1994) has shown, competition from low-wage producers in developing countries did not only lead to contraction in labour-intensive industries in the West but also to technological change. Both these factors led to increased productivity and created room for wage raises, but not necessarily for increased employment. Hence, the drop in labour absorption in OECD countries from the 1970s onwards was caused by a complex chain of influences rather than by one single factor (wages being the usual suspect).

In brief, the different patterns indicate that Latin American workers have suffered large losses of real income in spite of a modest output growth. A major factor behind this seems to have been persistent inflation. In East Asia, the results of a high rate of production growth were shared between wage increases and employment growth. In a more detailed comparison of South Asia and China, Mazumdar shows that the distribution in China in the 80s favoured employment over wages, while the opposite trend was evident in South Asia. Whatever the reason for this shift, it benefited China in its competition for international markets. In Eastern and Southern Africa on the other hand, employment continued to grow even as real output fell, which was made possible through rapidly falling real wages, leaving the African industries at the end of the 1980s overstaffed as well as underpaid.

A similar decomposition of South African data was made by Mazumdar and van Seventer (2002). A summary is given in Table 6. The table shows that real output growth was about equally shared between wage increases and employment increases in the 1970s. Stagnating growth in the 1980s gave a small increase in employment through a corresponding fall in real wages. This pattern is broken in the last five years of this 30 year period, when real wages increased, seemingly at the expense of employment.

Table 6: Decomposition of real wage growth in South African manufacturing

Period	Real Wage Growth	Output Effect	Employment Effect	Wage Share Effect	Price effect
1970s	2.6	4.4	2.4	-0.3	0.5
1980s	-0.4	1.0	0.3	-1.5	-1.1
1990-95	1.0	1.0	-1.2	-0.9	-1.1
1995-2000	3.9	0.6	-3.0	0.9	0.2
1990-2000	1.8	1.4	-1.5	-1.4	-1.1

Source: TIPS South Africa Standardised Industry Data Base and authors' own calculations.

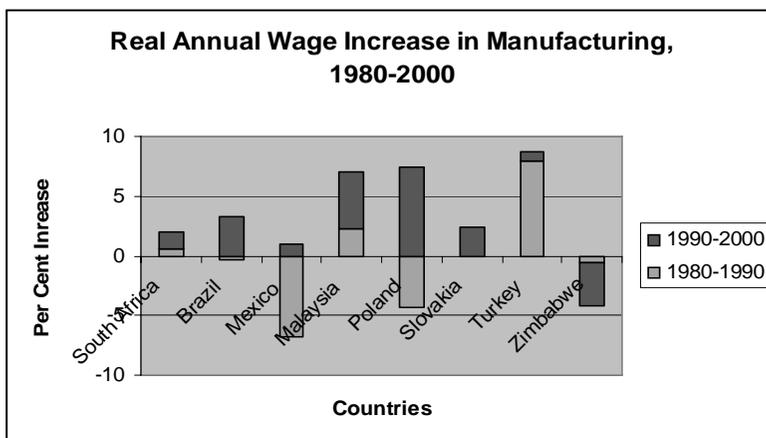
These figures indicate that the easing of restrictions on trade unions in the 1970s and 1980s did not lead to wage increases that were harmful to employment growth, since they did not claim a greater share of the growing wealth than the share of wages in total production costs. In the second half of the 1990s, however, there was a dramatic shift, which entailed accelerating growth of real wages with a corresponding fall in employment. Some of this shift can be explained by capital deepening, driven by harder international competition, particularly in manufacturing. It is fair to assume that the higher pay increases of the later half of the 1990s were one of several factors that dampened employment growth during that period, but there is no evidence that it represents a significant paradigm shift in the division of proceeds between capital and labour in South Africa.

Woolard and Woolard (2004) have examined National Household Survey (NHS) data for formal sector earnings in different occupational categories and find that the narrowing of skills and racial differences that were characteristic of the 1970s and 1980s has not been continued during the period 1995-2003, and that the real wages of unskilled workers have actually declined since 1999. The pay rises of the mid-1990s would thus not seem to herald a new era in South African wages policy. In fact, the more recent South African experience of widening pay differentials conforms to a pattern observed in both industrialised and emerging economies in the 1990s, with stagnant or falling real wage levels for the lowest paid categories of workers. As in other emerging economies, a hardening pressure from international competition will likely dampen efforts to break out of that pattern.

Figure 4 shows manufacturing real wage increases in the countries reviewed in Section 1. The South African wage increases do not stand out

as very big in comparison, particularly if production and productivity increases are also considered.

Figure 4: Real wage increases in manufacturing in the 1980s and 1990s, in selected economies



Source: ILO-KILM (2003).

Research priorities

Almost all attention in this discussion in South Africa (as well as in many other countries) has been focused on manufacturing. This is understandable in view of the strategic role of this sector in technological innovation, exports and linkages to all other sectors. Manufacturing will remain an important sector for economic policy, even if it no longer has a lead role in employment creation. But it is also necessary to examine the potential for productive employment generation in services and utilities. UNDP’s Human Development Report for South Africa (2004 b) suggests that South Africa has under-invested in the expansion of quality services and the maintenance of social service infrastructure. UNDP also suggests that the government should devote more attention to potential exports of services, such as tourism. International comparisons of public service capacity are notoriously difficult to make because of incompatible data, and it should be a priority for research to assess to what extent and in which lines of activity the public sector needs to expand to provide the necessary social and economic infrastructure. Manpower requirements in public health must be updated in view of expected attrition due to the HIV/AIDS pandemic.

4. Employment protection and competitiveness

There is an old and never-ending debate about the effects on employment of institutional mechanisms to protect jobs and incomes of workers. Trade unions argue that legislation and collective agreements regulating advance notice, dismissals, temporary employment, severance pay, redeployment, retraining and redundancy benefits will raise productivity by providing a stable and well-motivated labour force. In some cases, union officials have even argued that legislation and other mechanisms protecting those who are employed will actually lead to lower unemployment. Employers, on the other hand, argue that all these rules and benefits impose costs that will make industry less competitive internationally and may hence reduce employment. South Africa is no exception in this regard, with World Bank economists falling in on the side of the employers (Fallon 1992, Lewis 2002, Black and Rankin 1998).

There is a valid theoretical base for suspecting that regulations protecting the rights of those already employed could impinge on the opportunities of those who are unemployed or have not yet entered the labour force. The Lindbeck-Snowder (2001) theory of how those who are already employed ('insiders') manage to block the entry of newcomers to the labour market or workers laid off in other establishments ('outsiders') is easy to verify in establishments with strong protective institutions, whether they are legislative or the results of collective bargaining. If the insiders press their advantage, they will exact a monopoly rent on the employer, and indirectly on the outsiders who will be deprived of job opportunities.

The impact of employment protection regulation depends entirely on how it is designed and managed. A study has been made by OECD comparing its 19 members with regard to the strictness of employment protection legislation (OECD 1999). An index was constructed based on a number of factors, such as advance notice, severance pay, definition of unfair dismissal, rules for collective dismissal, temporary and fixed-term work regulation. Countries with a high stringency of legislation were mostly found in southern and continental Europe, while among the least stringent cases were the US, Australia, UK, Japan and the Scandinavian countries.

The OECD study found that the strength of employment protection regulation had no significant effect on the overall level of unemployment, but it had very noticeable effects on the structure of employment and unemployment, insofar as stricter regulation led to a higher proportion of adult men with long tenure among the employed and to an increasing

proportion of women and youth and cases of long-term duration among the unemployed. It probably also led to lower participation rates, although this tended to be counterbalanced by an increase in the proportion of self-employed among the economically active population. On the whole, protective legislation seemed to have an impact on who was to be unemployed rather than on the overall level of unemployment.

Less stringent regulation of employment security does not necessarily mean leaving the workers to the unfettered play of the market forces. The ILO has studied how a balance is struck between the workers' needs of stability and the employers' needs of flexibility, in some countries with relatively flexible regulation of employment protection, such as Denmark and the Netherlands. Auer and Cazes (2003) found that a combination of flexibility and security termed 'flexicurity' could be found in those countries, based on certain general principles that satisfied the requirements of the social partners. The first principle was to reach a consensus about the macroeconomic policy that formed the base for employment generation. In the Netherlands and Ireland, this consensus developed into an institutionalised partnership to ensure that employment objectives remained at the forefront of public policy. The second principle was that labour market changes were managed by the local partners with the full support of public institutions that provided income security and support for mobility and retraining. In recent years, these functions have expanded the negotiating role of unions and employers at local level.

The policy mix that the ILO calls 'flexicurity' would not be possible without strong institutions that provide income security (eg unemployment insurance, mobility incentives) and assistance in finding and acquiring employable skills. The advantage with the *social insurance* approach to redundancy and restructuring is that it spreads the burden among many enterprises and over time, while the ad hoc approach used in most developing economies places the burden on those workers and enterprises that happen to be affected by the crisis, at a time when they are least capable of coping. An interesting departure from the latter was the public fund that was established by Singapore in the 1970s to finance re-education and restructuring, at a time when Singapore was still an emerging economy. As a result of a very high rate of forced collective savings in this fund during the 1970s, Singapore could successfully manage the transition crisis that hit its economy in the early 1980s, as mentioned above. The transition in Eastern Europe and CIS countries had some help from the remnants of their

social security systems, but in many of those countries the public finances quickly deteriorated to a point where large numbers of workers were thrown out into unemployment without any public support (Cazes and Nesporova 2003).

The international trends indicate that industrial relations systems all over the world are under increasing pressure and that, more often than not, employment protection is at the centre of controversy. Trade union density figures have been falling for some time in most industrialised countries, as a result both of a reduced labour market presence of traditionally well-organised sectors like manufacturing and of a growing prevalence of individual rather than collective bargaining. Bargaining is increasingly carried out at the level of the firm rather than at central or industrial level, a tendency which does not necessarily weaken the unions but inevitably widens the differences between negotiated outcomes. The pressure from international competition on individual firms is now leading to local bargaining which in some cases takes back some of the benefits that workers have won in negotiations at national or industry levels and even undercuts levels determined by law.

A study of negotiations for job protection in industrialised countries undertaken by ILO's Labour Law and Labour Administration Department (Osaki 1999) shows that although industrial relations systems differ widely between countries in their general philosophy as well as in the way they are managed by different actors, the universal pressure to maintain competitiveness is forcing them all to give more flexibility to the enterprise level. The pressure is not confined to export industries or import-competing manufacturing firms but it also affects the tertiary sector, public utilities as well as private services. The changes have been most dramatic in the cases of UK and Australia, where the influence of the trade union movements has been drastically reduced. In France, where government has traditionally played a strong role in industrial relations, direct interventions to rescue jobs or to influence conditions like working hours have been frequent but this has not halted the decline of the union movement. In Ireland and the Netherlands, on the other hand, national consensus on employment policy has been sought by the social partners and is being applied with some success in local level bargaining.

In Germany, the centralised bargaining pattern of the past was dramatically dissolved in the 1990s through a series of enterprise-level 'employment and competitiveness pacts' that effectively reduced the benefits achieved at

national level in the interest of maintaining jobs. The participation of unions in Germany and elsewhere in Europe in lowering employment conditions under the pressure of competition has sometimes been called ‘concession bargaining’, the employer’s concession being a reduction of anticipated job losses. This problem has become acute with the access of Eastern European countries to the EU. Firms in high-wage EU member countries are now holding both local governments and trade unions to ransom with the threat of moving production to low-wage Eastern European countries.

Even in Japan, with its tradition of life-long employment and low levels of unemployment, in the harder climate of globalisation and the erosion of the tradition of life-long employment, local unions have agreed to lower the level of employment benefits to maintain competitiveness.

South Africa has an elaborate institutional framework for protecting employment and labour standards which is partly built on modern concepts, partly on an old and rather dubious heritage of discretionary ministerial intervention. The different elements are not always coherent and give the industrial parties very demanding roles, both at macro and enterprise levels (Standing et al 1996). Although it has been criticised by employers for being rigid, its regulations are by no means unique and would not seem to be excessively complex or rigid compared to the legislative systems of, for instance, India or Brazil. Even though the regulations are not exceptionally rigid, however, there are worrying signs that the way they are managed poses big administrative problems to employers and delays and uncertainty to the workers. Paul Benjamin (2005) quotes a number of sources which complain of delays and estimates the number of dismissal cases submitted to the CCMA for arbitration as 100,000 per year, a clear indication of management problems. A system which clogs up in this way has difficulties ensuring that the potential for job creation is fully utilised.

The international experience quoted above demonstrates that even a strong industrial relations system like the German one must be flexibly managed if job opportunities are not to be lost. It shows that industrial relations and job protection systems must constantly be updated to withstand the global challenges of competition, technological change and emerging new modes of employment, like different forms of outsourcing and subcontracting. The current South African system has its strengths in industries where both partners are strong and have established common modes of operation, but it is weak in many important sectors. Union density is between half and two-thirds in large mining and manufacturing enterprises

but less than a quarter in non-government services. This means that the industrial relations machinery is weak in those industries where employment is growing fastest, such as private services and small enterprises in general.

Research priorities

It is useful to study the international experience in employment protection, not only with respect to the legal instruments but in particular to how they are managed by the State and the industrial parties. Recent developments in industrialised countries would be more relevant and provide a better guide for South African discussions than those in less developed countries. The present system of unemployment insurance should be expanded to stimulate occupational and geographic mobility. As to current hiring and firing practices in South Africa, the labour dynamics study mentioned in Section 3 could help throw light on how the system is managed at the enterprise level.

5. Concluding remarks

This review of different aspects of the labour market suggests that there are many lessons to be learned from international comparisons. South Africa's problems of economic structure and growth are similar to those of other middle-income countries, particularly in Latin America, where the formal economy fails to provide enough jobs for a growing labour force. Many of the factors that influence the growth of productive employment and wages are the same in South Africa as in Brazil or Mexico. South Africa has so far not grown an informal economy large enough to absorb a significant share of those excluded from the formal economy. In this regard, there are more similarities with the labour markets of the CEE countries, and the way the informal economy is beginning to emerge in some of them. As regards the HIV/AIDS pandemic, some neighbouring African countries have a longer experience of its impact, although their data bases are mostly weaker than that of South Africa. When it comes to inter-racial wage differences, however, South Africa remains in a category of its own. No other countries have racial wage differentials of a comparable magnitude, and the discrimination is so ingrained in social and economic structures that it is difficult to find international examples of models for radically eliminating it.

A more serious potential threat than pay differentials, however, is posed by the differences in living standards between those who have jobs and those who don't. To avoid a serious political recoil from the unemployed,

government must find ways of making economic growth absorb more workers in productive employment. This may call for structural changes that will not only create new jobs but will make some existing jobs redundant. To avoid placing the brunt of the burden of adjustment on vulnerable groups, it is necessary to develop a social insurance system that *both* protects the incomes of workers *and* facilitates occupational and geographic mobility.

Notes

1. The present is a condensed version of the paper, leaving out sections covered by other authors.
2. Occupational factors may have interfered with the regression. It is also important to note that the labour market of this township has a limited range of occupations, which makes it difficult to get adequate data for studying the tertiary level.

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