EMPLOYMENT PAPER
2002/32

The South African labour market in a globalizing world: Economic and legislative considerations

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Employment Paper

ISBN 92-2-113057-6

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Acknowledgements

We would like to thank, in the first instance, the Employment Strategy Department of the ILO for providing financial and other assistance in conducting this project. In particular, the authors thank Mr. Muqtada for his intellectual guidance throughout the duration of the project. Finally, the comments of two anonymous referees are acknowledged. The usual disclaimers apply.

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Contents

Tables and figures

List of abbreviations

ANC: African National Congress
BCEA: Basic Conditions of Employment Act
CCMA: Commission for Conciliation, Mediation and Arbitration
COFESA: Confederation of Employers of Southern Africa
COSATU: Congress of South African Trade Unions
EEA: Employment Equity Act
EEC: Employment Conditions Commission
FAWU: Food and Allied Workers Union
GEAR: Growth, Employment And Redistribution
IES: Income and Expenditure Survey
LFS: Large Firms Survey
LRA: Labour Relation Act
NEDLAC: National Economic Development and Labour Council
NEPA: Ntsika Enterprise Promotions Agency
NUMSA: National Union of Metalworkers of South Africa
OHS: October Household Survey
SACP: South African Communist Party
SACTWU: South African Clothing & Textile Workers Union
SALFS: South African Labour Force Survey
SETA: Sector Education and Training Authorities
SDA: Skills Development Act
UIF: Unemployment Insurance Fund

Foreword

During the past two decades, the developing countries have undertaken, in varying degrees, several policy reforms towards liberalization, structural adjustment and greater integration of their economies to global trade and investment. Moves to encourage greater flexibilization of labour markets has been a strong element in the framework towards economic liberalization during the 1980s and1990s. Yet there have emerged in the recent years equally strong concerns over growing job insecurity and erosion of conditions of work. The human and labour rights dimensions, as implicit in the latter, are being increasingly discussed in the codes of global transactions.

The Employment Strategy Department of the ILO is engaged in country-specific as well as cross-country policy research on the parameters of a new labour market policy framework that would analyze the need for enhancing flexibility to foster productivity and competitiveness on the one hand, and the need to ensure minimum stability and security for workers on the other. This paper, a country case study of South Africa, addresses some of the important issues involved.

South Africa has been experiencing a rather sluggish economic growth, far too inadequate to reduce the high incidence of poverty, unemployment and rising inequality. During the past decade, several policy reforms have been introduced. The effects so far in the achievement of sustained growth have been intangible, although there has been discernible wage flexibility. Further considerations are being given toward a modification of the labour regulatory framework in order to enhance competitiveness, growth and employment. The paper examines a number of these considerations and the legislative environment that needs to be factored in the design of a new labour market policy for the country.

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I. Introduction

Following the onset of democratic rule in South Africa in April 1994, it soon became clear that the transition was a political one, in the narrowest sense of the term. Specifically, the new South African government was beset with the longer term and more inertial consequences of *apartheid*. These consequences can be represented generically as the economic outcomes engendered by the policy of legislated racial exclusivity. In particular, the system had ensured that social and welfare gains through the economy's industrialisation process, remained essentially the privilege of the White populace. A policy of this sort then was likely, over a sufficiently long period of time, to yield inequality and poverty outcomes that are both extreme and defined strictly across racial lines. Since 1994 though, there has been a deliberate attempt by the new government to correct these imbalances. Hence, social welfare and poverty eradication interventions are high on the policy agenda for the majority government. One key exogenous factor though, that has become increasingly important in the state's thinking around domestic policies to reduce indigence, has been the rapid process of globalization since the early 1990s.

The purpose of this study is to try gauge the responses, specifically the labour market responses, to this relatively new phenomenon of globalization. It should be noted at the outset, that South Africa's experience with globalization, or trade liberalization as a subset, is fairly short. As such then, the study is likely to be considering responses that are over a fairly short time period. In addition, while in certain cases it may be possible to directly estimate the impact of trade liberalization or globalization on the labour market, in many instances this is extremely difficult. The study then will sway from exact representations of the impact of globalization, to informal and derived analyses of this causality.

The paper has three broad components. Firstly, we briefly outline the environment that currently characterises South African economy. We will detail here issues related to the macroeconomy and the trade regime, both of which are particularly important within the context of globalization. We close off the section with an examination of the inequality and poverty challenges that domestic policy makers face. The second section of the paper will provide a descriptive overview of the labour market between 1995 and 1999, in an attempt at understanding shifts that may have occurred in the liberalization period. Hence the section will examine issues such as employment and wage shifts, hours of work, unionisation rates, levels of outsourcing and so on. The third segment of the paper goes on to analyse the legislation framework for labour market policy. Emphasis is given to the four key pieces of legislation that capture the basic tenets of labour market policy in South Africa. In particular we concentrate on the economics of this legislation, and how they may or may not represent appropriate responses to the challenges of globalization.

II. South Africa's current economic environment

Following the elections of April 1994, the new government went about speedily setting up an economic policy framework that would detail to the international community, its general approach to domestic economic management. In addition, this formal policy framework was buttressed by rapid adjustments that were initiated within the arena of trade policy. We look then at each of these two policy initiatives individually.

Recognising soon after the euphoria of the transition, that the international community needed clear signals concerning the economic policy direction of the new government, domestic policy makers produced a set of policy stances, encapsulated under the Growth, Employment and Redistribution (GEAR) strategy. The GEAR strategy was formally announced in 1996, and represents to this day, the formal economic policy approach of the majority government. The broad objectives of the GEAR strategy are:

- Higher growth in non-gold exports
- Expansion in capital accumulation by private sector
- Rise in public sector investment
- Investment and output growth that is job-generating
- Increase in infrastructural development & service delivery

In essence, there is an intention to break out of the country's dependence on mineral exports, thereby encouraging the growth of non-gold export revenue. In addition, there is a clear signal that both foreign and local private sector investment is to be encouraged. Indeed, the GEAR document views the sustenance of a stable and predictable environment as key to achieving investment growth. The rise in public sector investment is viewed as the key driver to overcoming existing welfare constraints. Importantly though, the GEAR document states that a restructured, decentralised and more efficient public sector would best realise this outcome. As we will see below, this restructuring of the public sector, has dominated many of the labour market shifts that have occurred since 1995. In the last two broad aims, the GEAR strategy twins them to specific requirements and interventions. Firstly, there is the view that greater labour market flexibility is necessary to increase the labour absorptive capacity of the economy. We explore this in detail in terms of the legislative changes that have occurred and the extent to which they reinforce this policy stance. Secondly, a national skills development programme is called for to both improve employment creation and create a climate for improved service delivery and infrastructural development.

In addition to the above, the GEAR strategy places heavy emphasis on the need for strict monetary and fiscal discipline. Indeed, one of the hallmarks of economic policy since 1994 has been highly inflation-sensitive monetary policy combined with a rapid deficit reduction programme[1]. In terms of foreign prices, the government is also committed to reducing exchange controls, which it has gradually relaxed over the years. Linked to this, is the stated aim of maintaining a competitive, real exchange with minimal intervention from the Reserve Bank. Another factor that is indicative of the state's commitment to orthodox economic management, has been the intention to privatise and commercialise numerous state-owned assets. For example, the state-owned monopoly in the telecommunications industry has undergone numerous changes with regard to ownership structure, performance clauses and new competition from the cellular industry. This has all been state-sanctioned, and is perhaps the most visible example of the new government's commitment to deregulation in a domestic economy that has very high ownership concentration ratios.

It is clear therefore that the new government very swiftly sought to assure the international investment community, that it was pursuing orthodox macro- and micro-economic strategies. The response from the international community has been to recognise this policy position and, for example, has resulted in South Africa being recognised by the international investors as an 'emerging economy'. It remains the only such economy in Africa. The South African economy therefore entered the new, fast globalizing, world economy on the back of a very strict and orthodox fiscal and monetary policy regime, buttressed by complementary strategies such as deregulation and the lifting of exchange controls. However, probably the key policy regime

[1] The recent move to inflation-targeting in the South African Reserve Bank's monetary policy regime, is further indication of this orthodox approach to domestic and foreign price management.

shift, with respect to the direct impact of globalization on the domestic economy, is to be found in the arena of trade policy.

It is well-known that South Africa's process of liberalization has its origins in the late 1980s and early 1990s, prior to the onset of democratic rule. The apartheid government had thus initiated the process of liberalizing external trade. With the onset of the new government though, the pace of liberalization quickened considerably. Accordingly, South Africa signed the Marrakech Agreement of the GATT in 1994 and in 1995 applied formally to the WTO. In addition, the new tariff reduction programme began in 1995. The table below, drawn from World Bank country research indicates quite powerfully, the extent to which this liberalization has been effected. Indeed, across all the different measures provided below, they indicate in different ways, the extent to which external trade has been liberalized.

Table 1: South Africa's tariff liberalization progress, 1990-99

Measure	All Rates, 1990	All Rates, 1996	All Rates, 1999	Positive rates 1999
No. of tariff lines	12500	8250	7743	2643
No. of different rates	200	49	47	45
Min. rate, %	0	0	0	1
Max. rate, %	1389	61	55	55
Unweighted mean rate, %	27.5	9.5	7.1	16.5
Std. Deviation	n.a.	n.a.	10.0	8.6
Coefficient of Variation	159.8	134.0	140.3	52.2

Source. World Bank, 2001

For example, the number of tariff lines were drastically reduced from a bloated 12500 in 1990 to just over 7700 by 1999, representing a cut of over a third of the tariff lines that existed in 1990. In addition, the number of different tariff rates or bands declined from 200 to 47 over the ten-year period. But perhaps the two most revealing statistics are the maximum rates and the unweighted mean tariff rate. In the former case, there was a drastic decline from a maximum of over 1000 per cent to 55 per cent. In the latter case, the mean tariff fell to about a quarter of its 1990 level, from 27.5 per cent to 7.1 per cent. It is important to note that the pace of this tariff liberalization slowed down considerably in the 1996-99 period, relative to the 1990-96 period. It can be argued that the earlier period represented the 'slash and burn' phase of import phasedowns where high and extreme tariff lines and rates could be significantly reduced. This was then followed by more careful and nuanced adjustments that needed to be made in more sensitive industry and product lines. Ultimately though, these figures display very importantly the seriousness with which the new government has taken the issue of tariff and trade liberalization specifically, and more generally the relevance of globalization to domestic economic policy.

The domestic economic policy environment since 1994 can thus be caricatured as one where the new government immediately sought to allay foreign investor concerns, and set out on a path of orthodox management of the economy. The clearest and strongest yet signal of this intention lies in the GEAR strategy of 1996. As a complement to this strategy, and perhaps the most pertinent response to globalization, has been the state's rapid tariff liberalization programme. This, in and of itself, was a signal that the foundation for economic growth, as far as the new policy makers in South Africa were concerned, would be conservative economic management policies together with greater openness to trade.

Before proceeding to a more detailed overview of the labour market trends over the period 1995 to 1999, it may be useful to provide a snapshot of general economic trends over this period, together with a sense of the poverty and inequality challenge that the new government faces. In trying to assess the first of these, the table below provides a set of estimates of a variety of key economic indicators over this period. Note that all these variables, excluding the deficit to GDP numbers, are per annum growth rates and where relevant all are real values at 1995 constant prices. It is clear firstly, that economic growth rates have been modest, with the highest recorded being 4.2 per cent in 1996. Furthermore, the trend over this short period has been downward as growth rates fell steadily over the period. Unlike many other emerging economies then, South Africa doesn’t yield high levels of growth rates. There can be no doubt that the economy, since 1994, has remained in something of a low-level growth cycle. As we will see below, together with the consistent challenges of globalization and the growing demands for expanded welfare provision, this reinforces the necessity for the economy to yield high economic growth rates.

Table 2: Selected economic indicators for South Africa, 1995-99

Year	GDP	Gross fixed capital formation	Exports of g & s	Imports of g & s	Disposable household income	Core inflation	Deficit to GDP Ratio
1995	3.1	10.7	10.4	16.9	4.3	7.9	-4.6
1996	4.2	7.5	9.3	8.7	5.1	7.2	-5.1
1997	2.5	5.2	5.5	5.4	2.5	8.8	-5
1998	0.6	4.8	2.3	2.1	0.6	7.5	-3.7
1999	1.2	-6.9	0	-7	0.6	7.9	-2.9

Source: Reserve Bank Quarterly Bulletin, March 2000

Reflective of these tepid growth rates then, has been the secular decline in gross capital formation. This is indicative of a relative poor domestic and foreign investment climate since 1995. The parallel decline in import demand is to be expected, given that imports in South Africa are strongly pro-cyclical, and therefore dependent on high levels of domestic aggregate demand. In addition, this slow growth in aggregate demand has resulted in decreasing household income growth, which the table illustrates remained stagnant in 1998 and 1999. The difficulties with integrating into the world economy, and maintaining international competitiveness is most evident in the export growth rates. At their highest in 1995 at over 10 per cent, export volumes have grown steadily at a slower pace since 1995.

One fact that does come out clearly here is that macroeconomic stability has been rigidly maintained in the economy. Hence, inflation rates have remained within a fairly narrow band and are in the one-digit range. In addition, the deficit to GDP ratio has come down remarkably well from a high of 5.1 per cent in 1996 to 2.9 per cent in 1999. It is fair to say that the deficit reduction programme of the new government has probably been their most successful policy intervention to date.

Ultimately though, the short-run performance of the domestic economy since 1995 has been unspectacular. Growth rates together with export volumes have not initially been expanding fast enough, and furthermore have decline over the period. Given the size and scale of the poverty, inequality and labour market challenges the society faces, it is clear that the current domestic economic performance has not been sufficient to begin to ameliorate these problems. In addition, while the process of globalization cannot of course alone be the sole determinant of this performance, undoubtedly it has had a role. Hence, it is evident that greater demands on firms to become more competitive internationally, South Africa being exposed to contagion effects, the role of foreign currency dealers in swaying the local currency's value, the rise in highly competitive final product imports – stand as just some of the factors that have made output growth fairly slow in this period. Accepting that the process of liberalization and globalization more generally is a given, and that long-run economic growth is at the core of a development strategy, then clearly South Africa is in a serious low-level equilibrium trap. It is a trap that is made more acute by the existing welfare challenges the current government faces. It is to these challenges that we now briefly turn.

The table below attempts a sketch of the nature and extent of this social welfare challenge that the new government has inherited. It is clear that the extent of poverty and inequality, captured in the table below, has been as a result of the official policy of racial exclusion. South Africa's Gini coefficient has always served as the starkest indicator of the country's unequal distribution of income.[2] For a long time, South Africa's Gini was the highest recorded in the world. Table 3 presents a comparison of South Africa's Gini coefficient and income shares to countries with similar income levels[3]. It is clear that Brazil and South Africa are far less egalitarian societies than the other nations presented here[4], but also that Brazil has a slightly higher level of income inequality compared to South Africa. Both these Gini values though are extremely high, indicating very skewed distributions of income. By comparison, Poland and Thailand have Gini coefficients of 0.27 and 0.46 respectively, showing that these economies have a significantly more equitable distribution of income.

Table 3: Gini coefficients and headcount indices for South Africa and selected middle-income countries

Category	**Gini**	**Headcount Index (P_0)**
Total	0.603	32.02
African	0.531	38.22
Coloured	0.491	21.51
Asian	0.484	3.73
White	0.494	3.03
Male	0.601	26.39
Female	0.523	43.52
International estimates		
Brazil	0.63	
Malaysia	0.48	
Venezuela	0.54	
Poland	0.27	
Thailand	0.46	

Source: IES99 and World Development Report, 1996

[2] The Gini coefficient always has a value between zero and one. The bigger the number, the more inequality exists.

[3] The Gini and Headcount indices are drawn from the Income and Expenditure Survey of 1999 (IES99), which is an update of the IES for 1995. Both estimates are based on household income figures. It represents the latest available data set on household income and expenditure accounts in South Africa.

[4] Note that because of variability in the date of data collection and differing methodologies, these figures should be taken as indicative only.

The Gini has also been isolated by race and gender for South Africa. It is therefore evident that by race, higher levels of inequality are found amongst African households, where the Gini stands at 0.531. In comparison, the Gini for non-African households is significantly lower – ranging between 0.48 and 0.49. This yields the well-known fact about South African society, namely that in recent years it has been growing inequality amongst African households that is driving the national inequality measure. Interestingly though, the highest recorded Gini in these sub-groups is for male-headed households, where the index stands at 0.601, while female-headed dwellings yield a lower level of inequality, measured at 0.523.

The poverty measures, based on the simple headcount index, yield equally disturbing trends. Hence, the data shows that in 1999, just under a third of South African households were poor. Specifically, of the estimated 11.4 million households in the society, approximately 3.7 million were below the poverty line[5]. The racial breakdowns reveal the maldistribution of this poverty incidence. Hence, we find that while about 38 per cent of African households are poor, only 3 per cent of White homes and 4 per cent of Asian households are earning below the poverty line. Coloured households though, reflect poverty figures much closer to those of Africans. Given that access to income is derived primarily through the labour market, the differing opportunities and options available to Africans and Coloureds in the labour market, remain key to understanding this differential poverty status. Indeed, the labour market trends outlined in the next section will reinforce this fact. Apart from the concentration of poverty amongst Coloured and African households, it is evident that female-headed households in addition bear the brunt of indigence. Close to 45 per cent of these households then, are in poverty, compared with only 26 per cent of male-headed dwellings – a figure below the national headcount measure.

The importance of the above is that, against the backdrop of fairly conservative macroeconomic management, an intensive tariff liberalization programme and finally fairly unspectacular growth figures since 1995, the fundamental social welfare and equity challenge is to drastically reduce the current high levels of poverty and inequality in the society. The fruits of globalization will ultimately be measured according to the extent to which they have managed to assist in alleviating these inequities. The next section goes on to examine what we believe to be the key transmitter for these inequities, namely the labour market. Specifically the section will try and examine labour market trends, through a variety of different covariates, over the period 1995 to 1999.

III. Labour market outcomes in the post-liberalization period

As stated above, although the process of liberalization started in the late 1980s, intensification occurs in the second half of the 1990s. As such, this section concentrates on the evolution of labour market outcomes between 1995 and 1999 and exploits principally the October Household Survey (OHS) released by Statistics South Africa for these two years. Both surveys are based on randomly sampling some 30 000 households and about 140 000 individuals. In the case of the 1995 data, the 1991 census weights were used, while in the case of the 1999 OHS, the 1996 Census were applied to the data. In working with the analysis of the 5 years evolution of labour patterns, clearly this differential weighting would pose a problem. As a result, to ensure that consistency and comparability was achieved in the data set between the two

[5] The poverty line used here was an annual household income of R12982.5. This was based on the 1995 household poverty line of R903 per month, drawn from May *et al* (1995), and updated using the core inflation figures for the period 1995 to 1999.

years, the 1995 OHS was re-weighted using the 1996 weights. Owing to the fact that the questionnaires slightly differ between the two surveys, it won't be always possible to have such accurate trends as wanted, in particular for wages and conditions of work.

The first section examines the employment and labour market trends between 1995 and 1999 and attempts to infer the influence globalization can have on employment. In the second section, an analysis of wage trends is conducted with a particular focus on race groups. The third section considers the relationship between wages and employment in the South African labour market and provides an overview of the wage-employment elasticity as well as an analysis of the linkages between wages, inflation and labour. The wage-employment adjustment can also be turned into more flexible forms of employment, such as outsourcing or insecure job contracts. Section 4 therefore investigates how firms used these alternatives to permanent employment in order to face the effects of globalization. Finally, in section 5, we will have a look at the evolution of the conditions of work and unionisation.

1. Employment and labour market trends between 1995 and 1999

The aim of this section is to analyse in detail the most recent statistics on the employment performance of the labour market. Hence, we provide an overview of the national employment and unemployment shifts with a particular focus on different population groups. Then we examine employment trends by occupation and sector. Trade liberalization is one of the factors that can explain these labour demand changes. We therefore briefly review the most recent research undertaken on the influence of globalization on employment.

1.1 National employment and unemployment trends

Table 4 below presents the evolution of employment and unemployment between 1995 and 1999 in the South African labour market. Considering the aggregate employment performance of the domestic economy, the data show that over the period 1995 to 1999, employment increased by about 929 000 workers, representing a 9.7 per cent increase over the 5-year period. This first observation from the figures is that the notion of aggregate 'jobless growth' in the South African economy is erroneous: the economy, in the aggregate, has been creating jobs rather than shedding them[6].

It is important though to try and place this absolute expansion of employment into context. Specifically, it is necessary to assess the number of jobs that have been created, relative to the new entrants that have come into the labour market annually between 1995 and 1999. The data indicates that between 1995 and 1999, the number of new entrants increased by about 2.9 million individuals. Over the same period, 929 000 additional jobs were created. This has meant therefore that about 2 million individuals – some of whom were first-time entrants into the labour market – have been rendered or have remained jobless since 1995. Hence, the broadly measured unemployment rate is extremely high by international standards and increases from 28.9 per cent in 1995 to 35.9 per cent in 1999. The upshot from this is that while we did not have jobless growth, we have clearly had 'poor employment growth' over the last 5 years.

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[6] This stylised fact is not consistent with the national statistics provided by Statistics South Africa (also used by the SA Reserve Bank) since these latter only cover employment in the non-agricultural formal business sector. According to this data source, total employment decreased by almost 7 per cent between 95 and 99 (South African Statistics 2000). The advantage of the OHS is to provide information on the agricultural and the domestic sectors, on a few more formal activities not covered by the other data sources, as well as on the informal sector.

Table 4. Labour market trends, 1995-1999

Category	1995	1999	Change
Employed	9 612 536	10 541 679	929143 (9.7%)
Unemployed *	3 899 208	5 900 294	2 001 086 (51.3%)
EAP	13 511 744	16 441 973	2 930 229 (21.7%)
Unemployment rate	28.9%	35.9%	7%

Source: Own computations from OHS 1995 and OHS 1999
Note: * According to the broad definition, unemployed are those people who did not work during the seven days prior to the interview, want to work and are available to start work within a week but had not taken active steps to find work in the four weeks prior to the interview. This definition, including discouraged job seekers, can be perceived as the more relevant (see Kingdon and Knight, 2000).

These aggregate figures hide the high discrepancies that exist by race and gender. Table 5 below divides the national employment and unemployment trends by race. It is evident that for all groups the demand for labour increased. Hence, the highest increase in percentage terms was for Coloured workers, followed by Asians, Africans and then White workers. The racial distribution of the total employment shift between 1995 and 1999 therefore indicates that all groups gained from employment. However, figures for unemployment show that over the same period a large number of new entrants into the labour market did not find a job. While unemployment rates increased for all race groups the African unemployment rate remained the highest, and grew the fastest over the period.

Table 5. Employment and unemployment changes (1995-1999), by race

Race	Employment			Unemployment rate (Broad definition)		
	1995	1999	Change	1995	1999	Change
African	6 168 336	6 779 953	611 617 (9.9%)	35.9%	43.7%	7.8%
Coloured	1 156 129	1 299 502	143 373 (12.4%)	20.4%	23.4%	3%
Asian	360 239	396 606	36 367 (10.1%)	12.4%	20%	7.6%
White	1 927 832	2 048 158	120 326 (6.2%)	4.9%	6.7%	1.8%

Source: Own computations from OHS 1995 and OHS 1999

Table 6 below distinguishes between the employment and unemployment trends for males and females. While the female employment growth rate (15 per cent) was relatively high and outstripped that of males (6 per cent), employment creation for females was not high enough to compensate the increasing number of female job seekers. Thus, between 1995 and 1999, their unemployment rate increased by 5.7 per cent, placing the rate as high as 43 per cent in 1999. Comparatively, males seem to be in a slightly better position, with 29.7 per cent of their economically active population being unemployed.

Table 6. Employment and unemployment changes (1995-1999), by gender

Gender	Employment			Unemployment rate (broad definition)		
	1995	1999	Change	1995	1999	Change
Male	5 766 311	6 112 696	346385 (6%)	22%	29.7%	7.7%
Female	3 846 225	4 422 003	575 778 (15%)	37.1%	42.8%	5.7%

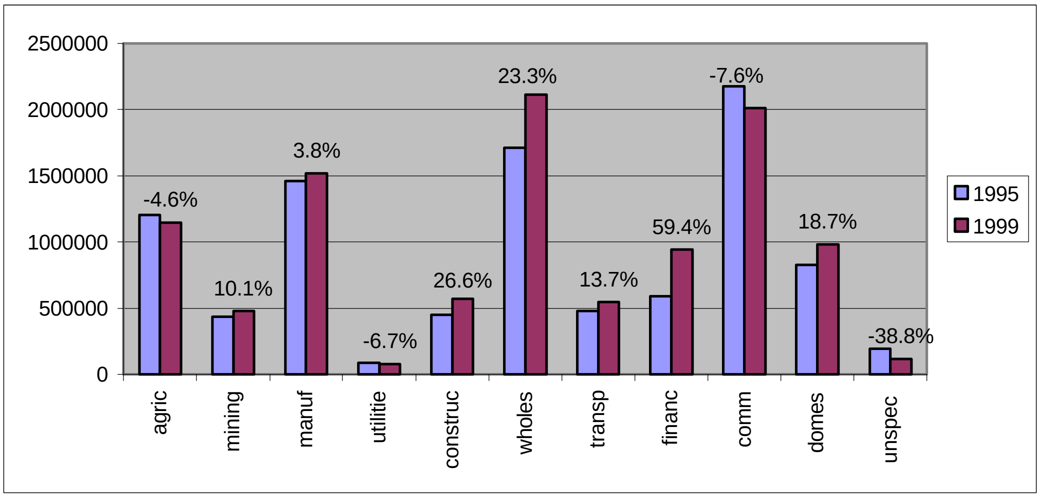
Source: Own computations from OHS 1995 and OHS 1999

The above descriptive statistics are aimed at giving a broad idea of some of the labour market trends observed during the period of intensified liberalization after 1994. So far, no evidence enables us to infer obvious links between liberalization and these employment trends. In fact, globalization is likely to have had an impact on the sectoral and occupational labour demand, which in turn will influence the race, and gender-based employment shifts. The next section therefore analyses the repartition and the evolution of employment on a sectoral and occupational basis and attempts to explain some of the origins of these shifts.

1.2 Employment shifts by sector and occupation between 1995 and 1999

Figure 1 below presents total employment evolution in the economy between 1995 and 1999, by main sector. The detailed employment shifts indicate that the national employment expansion had a differential impact at the sectoral level. Hence, we find that the largest increase in employment was reported for the financial and business services sector, where employment grew by 60 per cent over the 5-year period. The second and third fastest growing sectors were Construction (27 per cent) and Internal Trade (23 per cent) respectively. These high employment numbers reveal on the one hand the continued expansion of the services sector, in keeping with global trends and already noted in the long-run labour demand studies that have been done on South Africa (Bhorat & Hodge,1999; Bhorat,2000; Edwards,2001). This includes in part, the

Figure 1. Employment shifts by sector, 1995-1999



Source: OHS 1995 and 1999

Note: Unspecified category represents incorrect or nil returns for these codes in the questionnaire construction industry, which does have a fairly significant services component. Furthermore, the construction data also suggests that short-term, albeit modest, GDP growth resulted in employment gains for a sector that is very pro-cyclical in nature. Indeed, the growth in the services sector and the consequent positive impact on employment in these sectors is a trend that is likely to intensify and continue over the medium- to long-run in South Africa.

An interesting result is that while all the service sectors reported healthy employment growth rates, community, social and personal services was the only service sector to yield a decline in employment over the period (7.6 per cent). The public service dominates this sector as well as Utilities, which also experiences a great decrease in employment (6.7 per cent). These results are manifest of the new government's intention to reduce inefficiencies within government, reduce the size of the public sector wage bill and finally to drive its restructuring plan around the notion of outsourcing non-core functions at all tiers of government. The result of this extensive and rapid public sector restructuring programme therefore, has been significant employment losses within the sector.

Apart from community services and utilities, the sector that reported a decline in employment levels since 1995 was agriculture (4.6 per cent). This shorter-term data analysis did not reveal the patterns observed in the long-run labour demand analysis, namely that both primary sectors' were in secular decline. Instead, while Agriculture continued to shed jobs, the mining industry gained some 44 000 new workers over this period. However, this result should be interpreted very cautiously since in the 1995 OHS, the sampling frame did not adequately cover mining hostels whereas it did in 1999. Hence, the employment growth in the mining sector is likely to capture this different sampling frame rather than real job creation. As a matter of comparison, the Survey of Total Employment and Earnings[7], conducted on a totally different sample by Statistics South Africa, shows that employment in mining has decreased by 27 per cent between 1995 and 1999. It is worth adding that using the OHS, we find that, as a share of total employment, the mining work force has slightly declined. Noticeably, the economy's largest contributor to GDP, Manufacturing, has seen its employment levels rise by about 4 per cent since 1995.

Figure 2 below reveals that the demand for most of the occupational groups increased, with the exception of four skills categories – domestic workers, clerks and technicians and operators, in a smaller extent. Domestic employment fell by close to 300 000 over the time period. In turn, the number of clerks fell by just over 65 000 over the same period – representing a 5.7 per cent decline in employment over the period.

The following poorest performers were technicians and operators, whose employment essentially remained constant over the period. In terms of increased labour demand, the largest increases were recorded for professionals (70 per cent) and managers (29 per cent), whose together accounted for close to 390 000 new jobs created over this period. Interestingly, the third largest increase was recorded for craft workers, whose employment rose by about 20 per cent since 1995. The employment of sales staff also increased over this period, at an average rate of 15 per cent across all sectors. We expand on the reasons for this growth pattern in the intra-sectoral discussion below.

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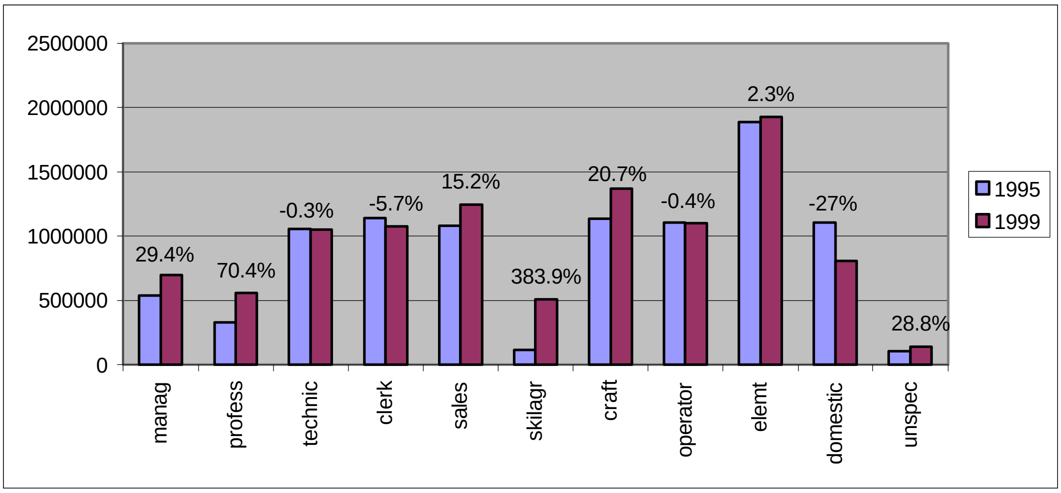
[7] This quarterly survey, conducted by Statistics South Africa, covers a sample of private and public business/organisations in the formal non-agricultural business sector of the South African economy. It doesn't collect information from a few formal industries (as restaurants, water and air transport, financial institutions other than banks and insurance companies, health services etc.), as well as from household services and informal sector. As such, it is considered here, that for the purpose of this study, the use of the OHS is more pertinent.

Figure 2. Employment shifts by occupation, 1995-1999



Source: OHS 1995 and 1999
Note: Unspecified category represents incorrect or nil returns for these codes in the questionnaire
The huge increase in the aggregate demand for skilled agricultural workers occurs in the agricultural and the domestic sectors and is difficult to explain. It might be due to a change in the definitions used in the two survey years as in these two sectors, elementary employment decreased in a similar extent.

Table 7. Change in skill-band employment according to economic sector (1995-1999), % row total

		Highly skilled	Semi-skilled	Unskilled	Elementary
Agriculture	1995	0.9%	11.4%	10.7%	77%
	1999	3.3%	32.7%	11.6%	52.4%
Mining	1995	6.8%	52.3%	22.2%	18.7%
	1999	8.6%	45.2%	36.9%	9.3%
Manufacturing	1995	11.6%	34.1%	34.8%	19.4%
	1999	17.3%	37.2%	28.2%	17.3%
Utilities	1995	18.7%	50.3%	17.1%	13.9%
	1999	19.1%	51%	11.9%	17.9%
Construction	1995	9.5%	65.9%	5.6%	19%
	1999	9.4%	69.4%	3.5%	17.8%
Trade	1995	17%	57.5%	5%	20.5%
	1999	14.6%	56.2%	3.2%	26%
Transport	1995	26.5%	32.7%	29.2%	11.6%
	1999	23.5%	31.6%	35.5%	9.3%
Financial	1995	38.2%	53.7%	1.8%	6.3%
	1999	42.7%	47.1%	2.1%	8%
Services	1995	46%	35.6%	3.3%	15%
	1999	52.8%	33.1%	2.8%	11.2%
Domestic	1995	0.2%	2.4%	0.1%	97.3%
	1999	0.1%	15.9%	0.6%	83.4%
Unspecified	1995	20.2%	36.6%	11.6%	31.5%
	1999	22.2%	40.4%	10.6%	26.3%
Total	**1995**	**20.2%**	**36.6%**	**11.6%**	**31.5%**
	1999	**22.2%**	**40.4%**	**10.6%**	**26.3%**

Source: Own computations from OHS 1995 and OHS 1999
Notes: Highly skilled labour consists of managers, professionals and technicians. Skilled labour regroups clerks, skilled agricultural, craft and related trade workers. Unskilled consists of operators and elementary labour is made of elementary occupations and domestic workers.

Intra-sectoral employment shift by skill category

The important point though is to try and determine which skill categories within each of these sectors bore the brunt of the overall employment losses, or as the case may be, gained most from intra-sectoral employment growth. Table 7 above presents the change in occupational employment (grouped in skill bands) according to economic sector between 1995 and 1999.

This table again highlights the skill bias associated with the employment growth between 1995 and 1999 since only highly skilled and skilled workers increased their share in total employment. However, disaggregating the shift in skill levels by sector adds more nuances to this aggregate result.

The share (albeit not the numbers) of highly skilled workers in employment felt in two secondary sectors, namely construction and internal trade, and in the transport industry. The increasing number of semi-skilled workers largely led the employment growth in the former sector while unskilled and elementary workers lost a part of their contribution in the sectoral employment. Hence, while this sector is of course pro-cyclical, this result suggests that this industry, with the right economic growth conditions, can be a major source of semi-skilled employment growth. This is an important result, as it goes against previous evidence which seemed to suggest that demand was bifurcated strictly along high skilled and unskilled lines only, with semi-skilled worker demand remaining essentially dormant. Ancillary (and very informal) evidence suggests that the output-employment elasticity of the sector is fairly high with respect to semi-skilled workers, given that in this same period construction output grew by a modest 1.26 per cent. Of course, one needs to note that these employment figures are for the short-run, and within construction particularly may not be manifest of long-term and sustainable employment growth.

Within the internal trade industry (the biggest employer in South Africa), the big winners were elementary workers who increased their share in employment by 5.5 per cent. This is representative of a sector that grew fairly strongly in output terms, as growth was close to 3 per cent in the sector. What this suggests is that expansion in the large-scale retailing industry will induce greater demand for unskilled workers. It is also possible though that, given the focus on formal and informal employment, the rise in employment is picking up the increasing number of individuals entering the informal retailing industry for lack of a job in the formal sector. The third sector that experienced a decrease in the share of highly skilled workers is the transport industry. Within this tertiary sector, the overall increase in employment benefited machine operators more than any other occupation. Elementary workers within transport though, continued to be shed and subsequently experience a reduction in their share in sectoral employment. The performance of these three sectors suggests that should these industries continue to grow, semi-skilled and unskilled employees will be the key beneficiaries of this output expansion.

This tendency for increasing demand for semi-skilled and unskilled workers is replicated within the financial and business services industry. With the rapid growth and increasing dominance of this sector, it is natural that the employment results here would have particular importance. Not unexpectedly, the trends reveal a rapid growth in demand for professionals, managers and technicians. What is very heartening to note though, for a skill-intensive sector, is the increasing share in employment of semi-skilled and bottom-end workers. There are of course several important caveats to this result. Firstly, the absolute number of employed within financial services means that even at higher growth rates, it is unlikely to induce significant reductions in unemployment numbers. Secondly, while sectoral growth can realise employment gains for the unskilled, it is still higher skilled workers who have a greater probability of finding employment. But the relevance of this result cannot be overstated: that we now have evidence to suggest that while there is skills-biased employment growth, at least since 1995, in certain growing sectors unskilled and semi-skilled workers have also gained. Simply put, growth is good for all occupations, but continues to be better for those at the top-end.

The share of operators in employment also increased in the primary sectors, namely agriculture and mining. In the former, despite the overall drop in employment, the highest skilled occupations yielded an employment expansion for the period and thus, slightly increased their contribution to employment. As should be evident from this table, the loss was disproportionately due to the attrition rate amongst elementary workers. However, this result has to be interpreted cautiously because of the reclassification in the encoding between 1995 and 1999, from elementary to semi-skilled agricultural workers. Within the mining industry, the aggregate employment growth again masks the occupational breakdowns. Hence, the employment the industry gained between 1995 and 1999 was primarily amongst individuals classified as operators who increase their share in employment by almost 15 per cent. However, as underlined before, this figure could simply report a change in the sampling frame and as such, should be taken carefully. Highly skilled workers also benefited, albeit to a smaller extent, from this shift. Despite this overall increase in employment, losses were reported for semi-skilled as well as for elementary workers whose share in employment felt respectively by 7 and 9 per cent.

In conformity with the skill bias observed in the aggregate employment growth figures, manufacturing and the community services sector experienced an increase in the share of highly skilled in employment and a decrease in the share of unskilled and elementary workers. Within the former sector, the rise in employment was once again for top-end workers, and in a smaller extent, for semi-skilled workers. In contrast there was a high attrition rate amongst operators and elementary workers. In the former case, this reflects most probably on sub-sectors such as the clothing and textile industry, which under enormous global competition, has rapidly shed its unskilled workforce. Again, the manufacturing industry reveals trends that replicate the results found in the long-run labour demand studies.

The Community services sector comprises almost wholly of the public sector. As such then, it represents the single largest employer in the economy. South Africa has embarked on a sustained programme of privatisation and deregulation, which has been matched by a concerted effort to restructure the public sector. This changing ethos of the new government has had an immediate and profound impact on labour market trends within this institution. Specifically, the sector has been the largest single shedder of jobs since 1995. More importantly, the brunt of the adjustment has been borne by elementary workers and machine operators. Collectively, between 1995 and 1999, the public sector has shed about 100 000 employees in these two occupations. In addition semi-skilled employees have also witnessed a significant depletion in their numbers and shares in employment. Despite this restructuring process though, the number of highly skilled workers within the public service rose dramatically. Hence, since 1995, the share of workers in these top-end occupations increased by nearly 7 per cent.

This first part of section 1 basically displays descriptive statistics of some labour market trends observed between 1995 and 1999. It shows that the benefits of employment growth haven't been equally spread between sectors and occupations, resulting in important consequences on employment gains for the different population groups. A further analysis of the skill orientation of the employment shift indicates that it has largely been top-end workers who have gained from these employment shifts, with a few sectoral exceptions. Though, this section attempted to give some explanation for these sectoral and occupational employment evolutions, it remained imprecise on the role globalization could play in these shifts. It is possible of course to argue that the period of intensive liberalization has brought with it a growing preference for semi-skilled and skilled workers, as certain service sectors began to thrive in the fast opening domestic economy. In addition, we could argue that the demands of globalization also led to certain sectors, notably the public sector, trying to become more efficient in its provision of public services and management of the economy. But these causalities are very general correlations, that are often too general to hold up to any serious scrutiny. For example, the process of increasing demand for high-skilled workers has been shown to be an ongoing trend in South Africa, with this trajectory reported for the period 1970 to 1995 (Bhorat & Hodge,1999) – long before the challenges of globalization were present. In addition, these long-run labour demand studies revealed that technological change was the dominant reason for the skills-intensification across the sectors. While globalization has clearly had some influence on the pace and intensity of technological change, the two forces are clearly not synonymous. Ascribing particular labour market outcome from descriptive statistics to globalization, is therefore a very risky business. Instead, we know intuitively that globalization undoubtedly has some part to play in the employment shifts note above. However, we cannot deduce the value and robustness of this effect. In order to do so we require more sophisticated models and more thorough estimation techniques As a result, the aim of the following section is to shed light on this area and to try to more specifically quantify the impact of trade liberalization on the evolution of employment between 1995 and 1999.

1.3. Globalization and employment in South Africa: evidence from previous studies[8]

The first studies dealing with trade and employment in South Africa (Bell & Cattaneo, 1997, and Edwards, 1999) adopt a factor content approach to estimate the direct employment impact of South Africa's changing trade structure (between 1972 and 1993 for the former study and between 1993 and 1997 for the latter one). Their results suggests that trade liberalization has had adverse effects on employment, particularly through its influence on ultra-labour intensive sectors[9]. Both of these studies identify sectoral shifts towards capital intensive exports and ultra-labour intensive imports, however without inferring whether these shifts resulted from trade liberalization, changes in the domestic demand or in technology. Furthermore, they focus only on direct impact of trade flows and ignore the indirect effect changes in trade can have on the intermediate sectors.

We now go on to consider in more detail, two recent studies on the impact of trade liberalization on employment. The first, by Bhorat (2000), uses a decomposition technique to try and derive the impact of international trade on employment. Hence, in the first instance, the estimates are of the impact of net exports, rather than liberalization *per se,* on labour demand. We report below the results for the manufacturing industry over the period 1970 to 1997.

Apart from the first time period, the results in Table 8 below are broken down into five year periods. It is immediately evident that the annual data covering manufacturing only reveals employment patterns different to those obtained with the national two period coverage in the above section. Hence, while the total figures suggest a positive employment effect in manufacturing due to trade from 1970 through to 1987 - it is clear that for the last two periods, 1988-92 and 1993-97, trade flows had the impact of decreasing overall manufacturing employment levels.

[8] This section is mainly based on Edwards (2001).
[9] Wood, leather, furniture, footwear and wearing apparels. All these sectors have a K/L ratio lower than 20.

Table 8: Relative employment shifts from trade flows within manufacturing, 1970-1997

Period	Highly skilled	Skilled	Unskilled	Total
1970-72	8.11	9.42	16.89	30.63
1973-77	13.17	14.63	20.56	34.60
1978-82	0.10	2.29	10.80	28.87
1983-87	-4.83	-2.22	6.12	25.41
1988-92	-18.28	-21.27	-33.24	-57.93
1993-97	4.98	0.92	-14.37	-49.32

Source: (Bhorat, 2000)

Indeed, the employment losses from trade since the late 1980s, outweighed, in percentage change terms, the gains in employment within the sector in the previous years. Essentially the period from the late 1980s marks the beginning of South Africa's tariff liberalization programme, with the last four or five years representing the start of the formal GATT-linked tariff phase-down process. This changing tariff regime clearly had the impact of significantly reducing total manufacturing employment levels.

These overall employment losses however hide important labour market detail about which types of skills were affected relative to others. The data shows that in the period 1970-82, all workers across all skill groups gained. The percentage increase in employment ranged from 0.1 per cent for highly skilled workers in 1978-82 to about 21 per cent for unskilled workers in the mid-1970s. What is evident though, is that in each of these first three time periods, unskilled workers in fact gained more from trade flows than skilled or highly skilled workers in manufacturing. What this suggests is that the period of high protection and significant limits on import substitutes in manufacturing, created the conditions for the growth of sectors that were intensive in the use of labour. Specifically then, flows of trade in the period benefited labour-intensive industries in manufacturing resulting in a large rise in the demand for unskilled workers relative to skilled or highly skilled employees. Rising trade flows in this period meant, in the case of import demand in particular, that domestic production was also increasing. Hence, the benefit of these trade flows would seem to have gone disproportionately to labour-intensive producers, and this is manifest in a demand for unskilled workers that was greater than the preference for skilled or highly skilled workers. Ultimately, in the period of high protection within the manufacturing industry, while trade flows caused employment levels to increase, this increase was unevenly distributed with the primary winners being those at the bottom-end of the job ladder.

From the late 1980s, this distribution of employment gains by skills was fundamentally altered. In the period 1988-92, all skill groups lost from trade flows, but the losses were skewed towards unskilled employees. While the latter saw its employment due to trade fall by 33 per cent, the figure for highly skilled workers was about half of this, at 18 per cent, and that for skilled workers about 21 per cent. From the total employment reduction in this period of 58 per cent, it was unskilled workers who bore the brunt of this early tariff adjustment period. The last period in the above table though, is indicative of the changing employment effects from trade. The total employment loss of 49 per cent in this case, was solely borne by unskilled workers as their employment fell by about 14 per cent. On the other hand, skilled and highly skilled workers gained, with highly skilled workers experiencing a 5 per cent increase in their employment from trade flows in this period.

Ultimately then, the above analysis suggests that international trade in manufacturing has benefited highly skilled workers at the expense of unskilled employees. One of the key drawbacks of the above technique of Bhorat (2000), though, is that it cannot account for the direct and indirect effects resulting from international trade. Edwards (2001) attempts to deal with these shortcomings using an input-output decomposition technique that allows dividing changes in occupational employment into four demand side factors: domestic final demand variation, export expansion, import substitution and technological change. Table 9 displays the results of his research for the period between 1993 and 1997.

Table 9. Occupational impact of economic growth, 1993-1997

1993-97	Final demand	Exports	Import substitution	Net trade	Technology	Employment change
Skilled	1.39%	0.75%	-0.74%	0.01%	1.70%	3.09%
Semi-skilled	1.91%	1.20%	-1.32%	-0.12%	-3.63%	-1.84%
Unskilled	1.77%	1.23%	-1.13%	0.10%	-5.18%	-3.31%
Elementary	4.97%	2.01%	-1.03%	0.98%	-9.66%	-3.72%
Total	**10.23%**	**5.28%**	**-4.32%**	**0.96%**	**-14.82%**	**-3.63%**
Employment change	642176	331899	-271463	60436	-930853	-228241

Source: Edwards (2001), table 3.

Looking first at the total employment change, it is apparent that the employment decrease mainly originates from variation in final demand and technology rather than from trade flows. Final demand expansion, resulting from the recovery in GDP growth, boosted employment by 10.2 per cent whereas technological change reversed this trend, reducing it by 14.8 per cent. While trade effects have not dominated, export generated employment overcame losses due to import penetration and as a result, net trade raised employment by 1 per cent.

Turning to the occupational decomposition, total employment change is characterised by an important skill bias against low-skilled workers. Employment of high-skilled labour strongly increases by 3.1 per cent whereas unskilled and elementary workers suffer from a loss of employment higher than 3 per cent. Once gain, the dominant source of employment changes is technology, which involves direct elementary labour saving[10].

The results of this study, in contrast, do not support the notion that trade liberalization, or globalization, has resulted in excessive losses in employment during the 5-year period between 1993 and 1997. Employment generated through exports has matched that lost due to imports and reflects a restructuring of the South African economy in the face of international competition and domestic policies. However, Edwards highlights the fact that export-led employment growth is still inadequate to reduce unemployment.

We would expect that a similar study for the period from 1995 and 1999 to produce different results as employment grew by 10 per cent during these 5 years and export growth rates declined as well as import demand (see table 2 at the beginning). However, owing to data and time constraints, it appears difficult to apply this input-output decomposition methodology for this more recent period.

[10] Bhorat (2000) finds similar results using a different decomposition technique. According to him, the shift away from unskilled to semi-skilled and skilled employment is mainly explained by technical changes within sectors.

2. Wage trends between 1995 and 1999

The data available from the Household Surveys didn't enable us to run simple analysis of the wage trends between 1995 and 1999 using mean or medians. Whereas the OHS 1995 includes the monthly earnings of almost every employees interviewed, the OHS 1999 , on the other hand, only reports it for less than 50 per cent of the employees. Instead, it gives the income bracket in which the earnings fit. Then, the most viable alternative around these data constraints was to inflate the 1995 monthly earnings up to 1999 values and to place them into income categories consistent with those used in the OHS 1999. This allows us to study the evolution of the percentage of workers (excluding self-employed) in each income category during this 5-years period.

Since, one of the most important challenges that South Africa faces in this era of globalization is the reduction of poverty and inequalities within and between racial groups, this section focuses on the analysis of 1995-99 wage trends for Africans, Coloured, Asians and Whites using cumulative earnings distribution and simple earnings regressions.

2.1. Analysis of wage trends by racial groups between 1995 and 1999

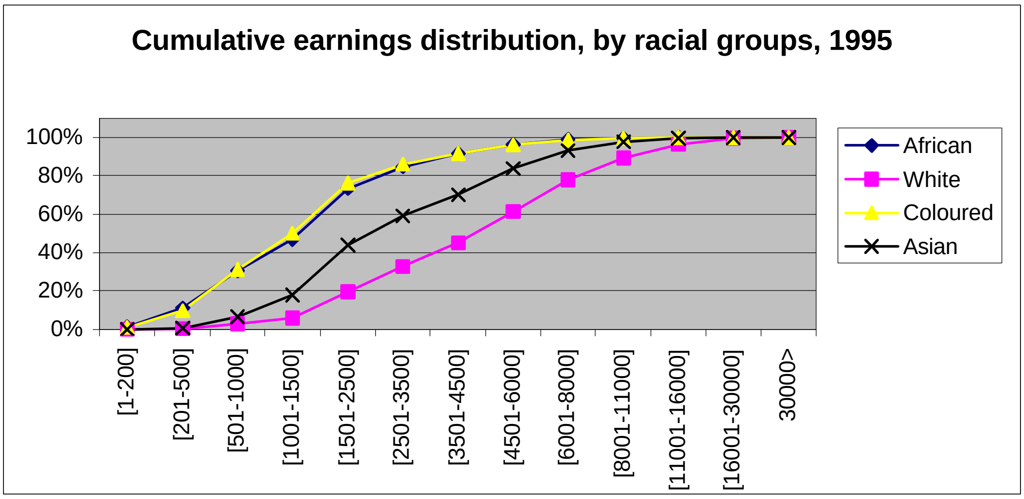
Figures 3a and 3b below present some cumulative distribution functions (c.d.f.s) derived for the employees of the four racial groups in 1995 and in 1999. The vertical axis cumulates individuals in the sample and varies from 0 to 100 per cent as the sample increases. Monthly income categories, along the horizontal axis, start from [1-200 R] and increase until [more than 30 000 R]. The values on the vertical axis display the percentage of the employees' sample captured in each income category[11].

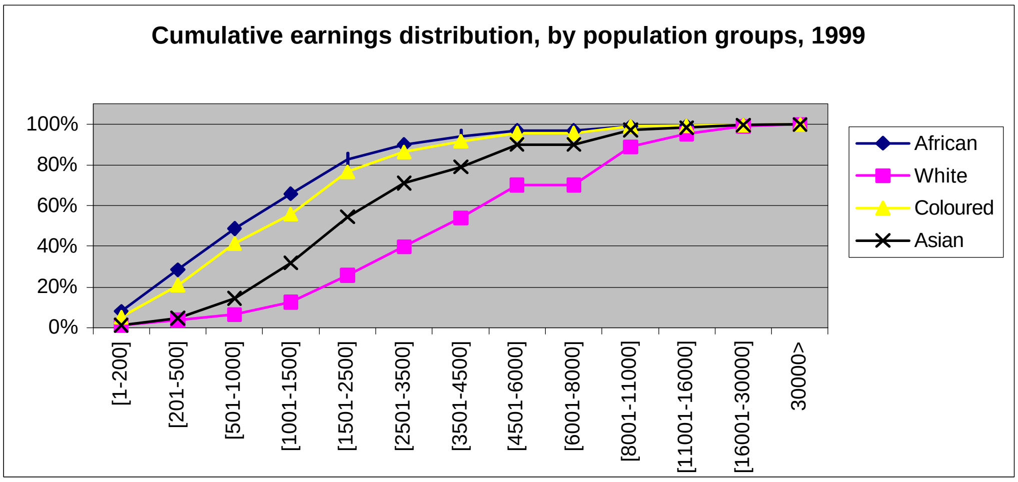
Figures 3a and 3b below first illustrate that for both years, the cumulative distribution of White workers first-order dominates the distributions of the three other population groups. Put differently, it means that across all income bands, the probability of White workers obtaining a higher real wage exceeds that of Africans, Coloured and Asians. This result will be further investigated, other things being equal, while estimating earnings regressions (cf. table 10). In terms of poverty, these figures show that the employees with the lowest fraction of individuals in poverty are Whites.

It also appears from figures 3a and 3b that the Asian c.d.f is the closest from the White one in 1995 and in 1999. This result is consistent with the figures reported in table 3 relative to the Headcount Index in 1996 that placed Asian households just after Whites in term of percentage of people earning below the poverty line. Conclusions are less obvious concerning African and Coloured employees. In this case, the level of first-order dominance is not clear especially in 1995 where the c.d.f.s for these two groups are nearly merged. However, in 1999, the cumulative distribution of Africans seems to be dominated by the c.d.f.s of all the other racial groups. This outcome highlight the well-known feature about South African society that Africans are the most affected by poverty and unequal earnings. These few comments suggest that, as far as wages are concerned, there are at least two different labour markets in South Africa, one for Whites and Asians and another one for Coloured and Africans. This corroborates with other evidence on the South African labour market (Bhorat & Leibbrandt,1999).

[11] All the frequencies are computed in the software STATA using the svy command, which allows to take into account the sampling weights and the clustering.

Figures 3a-b. Cumulative earnings distribution for the four racial groups, 1995 & 1999



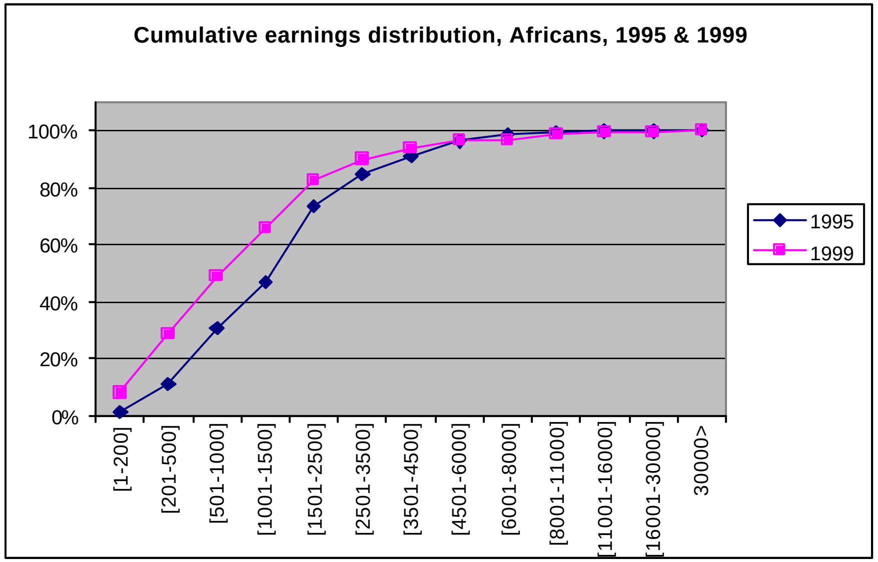


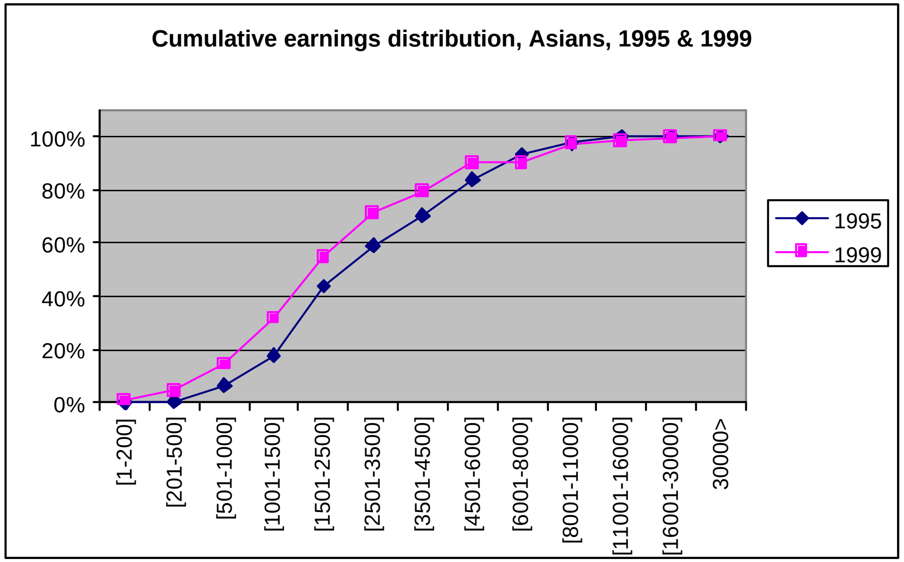
Source: 1995 OHS and 1999 OHS
Note: Surveyed sample excludes self-employed workers.

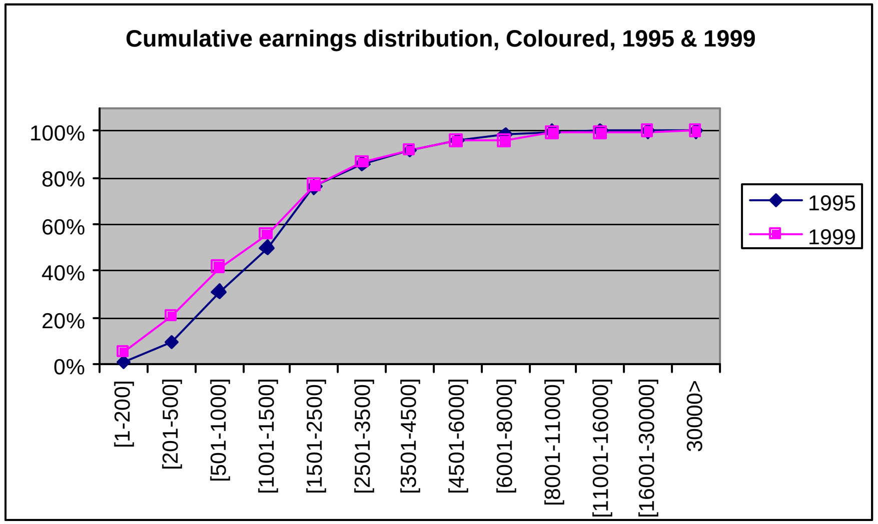
Turning from racial relative to absolute trends, it is interesting to have a look at the shift in the c.d.f between 1995 and 1999 for each racial group. Figures 4a to 4d display these results.

The broad picture displayed by figures 4a-d below is that for every racial group, poverty seems to be higher in 1999 than in 1995 even if, for non-African employees, first order dominance doesn't hold across all income categories. The poverty line defined by Bhorat and Leibbrandt (1999) was R 650 in 1995, which inflated, increases up to 880 Rands in 1999[12]. Considering figures 4b-d, the c.d.f.s for 1995 and 1999 cross for income bracket higher than this poverty line, which means that the share of workers falling below the poverty line increased between 1995 and 1999 (Ravallion, 1994). Put differently, these figures suggest that across all racial groups, workers had a greater probability of earning a lower wage in 1999 than in 1995.

[12] 650 Rands was the wage required in 1995 to meet the household poverty line, given the mean number of employed plus unemployed in a household. Inflation rate between 1995 and 1999 was 35.2 per cent (South African Reserve Bank, quarterly bulletin).


Cumulative earnings distribution, Africans, 1995 & 1999
100%
80%
60%
40%
20%
0%
[1-200]
[201-500]
[501-1000]
[1001-1500]
[1501-2500]
[2501-3500]
[3501-4500]
[4501-6000]
[6001-8000]
[8001-11000]
[11001-16000]
[16001-30000]
30000>
1995
1999


Cumulative earnings distribution, Asians, 1995 & 1999
100%
80%
60%
40%
20%
0%
[1-200]
[201-500]
[501-1000]
[1001-1500]
[1501-2500]
[2501-3500]
[3501-4500]
[4501-6000]
[6001-8000]
[8001-11000]
[11001-16000]
[16001-30000]
30000>
1995
1999


Cumulative earnings distribution, Coloured, 1995 & 1999
100%
80%
60%
40%
20%
0%
[1-200]
[201-500]
[501-1000]
[1001-1500]
[1501-2500]
[2501-3500]
[3501-4500]
[4501-6000]
[6001-8000]
[8001-11000]
[11001-16000]
[16001-30000]
30000>
1995
1999

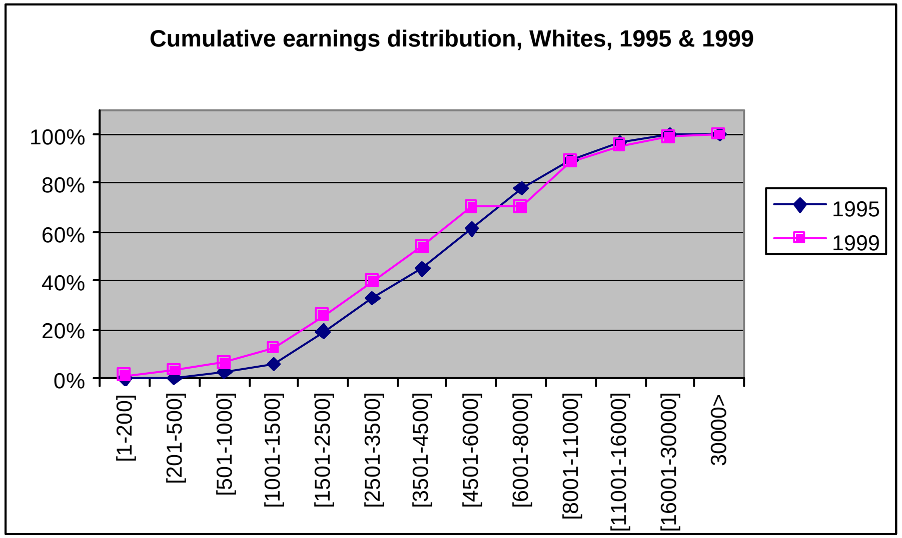

Cumulative earnings distribution, Whites, 1995 & 1999
100%
80%
60%
40%
20%
0%
[1-200]
[201-500]
[501-1000]
[1001-1500]
[1501-2500]
[2501-3500]
[3501-4500]
[4501-6000]
[6001-8000]
[8001-11000]
[11001-16000]
[16001-30000]
30000>
1995
1999

Table 10 below go deeper into these results, displaying the Headcount Index (P_0) by race using the [501-1000] income category as the poverty line[13]. We find that the percentage of wage earners below the defined poverty line increased by 15 per cent during this 5-year period to reach almost 40 per cent in 1999. The proportion of poor grew the fastest among the African group and increased up to 49 per cent in 1999.

Table 10. Headcount indices for South African workers, by race, 1995 & 1999

Population group	Headcount Index (P_0)	
	1995	1999
African	30.5	48.7
Coloured	31.2	41.4
Asian	6.5	14.5
White	2.8	6.5
Total	24.1	39.5

Source: 1995 OHS and 1999 OHS
Note: Surveyed sample excludes self-employed workers.

All these outcomes suggest that the labour market has changed during the era of globalization towards more wage insecurity and poverty. For all the population groups, there has been a redistribution of wage earners from high-income categories towards low-income categories.

This analysis using cumulative distribution functions indicates that race seems to be a relevant predictor of the earnings profile of workers, however, it doesn't control for differences in all the other individual characteristics of workers. Hence, estimation of earnings equations for 1995 and 1999 will enable us to precisely define the wage determinants and, for each of them, quantify their specific impact on earnings.

2.2 Earnings function analysis

(See appendix 1 for the presentation of the data and methodology).

Table 11 below reports the influence of a few selected individual characteristics on the earnings level. However, for the sake of simplicity, we only comment below on the effects of variables relevant to the purpose of that study.

One of the most important conclusions of these earnings regressions is that, other things being equal, race plays a determinant role in explaining the level of earnings. Results for 1995 and 1999 show that African, Coloured and Asians earn significantly less than White workers. The most disadvantaged workers are Africans who earn about 60 per cent less than Whites with the same characteristics, followed by Coloureds, with wages lower by almost 50 per cent than White earnings. Asians also suffer from a white-relative wage disadvantage, earnings about 30 per cent less than equally qualified Whites. These outcomes are consistent with the conclusions drawn from the cumulative earnings functions in figures 3a and 3b.

[13] These figures should be distinguished from those shown in table 3 since they report the percentage of workers – and not households– below the poverty line. Furthermore, the poverty line can't be compared neither.

Table 11. Estimation of monthly earnings function, 1995 & 1999

	1995		1999	
Independent variables	Coefficient	t-student	Coefficient	t-student
No education	reference			
Primary education	0.101***	5.39	0.119***	4.90
Secondary education	0.365***	15.98	0.368***	13.61
Further education	0.529***	12.93	0.627***	10.96
Higher education	0.676***	22.8	0.815***	20.41
Age	0.034***	10.82	0.041***	9.50
Age square	-0.0004***	-10.46	-0.0005***	-9.35
Tenure	0.027***	17.04	0.023***	11.91
Tenure square	-0.0005***	-11.31	-0.0003***	-6.85
White	reference			
African	-0.656***	-35.28	-0.632***	-19.14
Coloured	-0.472***	-21.25	-0.461***	-12.02
Asian	-0.316***	-10.38	-0.308***	-5.79
Other race	n.a		-0.232	-1.61
Male	0.219***	15.15	0.211***	11.91
Urban	0.102***	5.16	0.170***	7.42
Married	0.079***	7.19	0.108***	6.14
Headship	0.182***	12.13	0.145***	8.30
Unionised	0.146***	12.83	0.284***	11.24
Formal sector	n.a		0.211***	10.53
Manufacturing	reference			
Agriculture	-0.590***	-19.34	-0.574***	-16.53
Mining	-0.050	-1.07	0.010	0.22
Utilities	0.150***	3.49	0.247***	3.53
Construction	-0.126***	-4.88	-0.096**	-2.13
Trade	-0.153***	-8.56	-0.188***	-6.28
Transport	0.027	1.26	0.039	1.01
Finance	0.043*	1.92	0.089***	2.94
Service	0.028	1.42	0.028	1.01
Domestic sector	-0.626***	-12.74	-0.508***	-8.32
Artisan	reference			
Manager	0.570***	16.40	0.569***	10.93
Professional	0.486***	14.24	0.454***	10.18
Technician	0.385***	16.39	0.311***	7.64
Clerks	0.087***	4.25	0.127***	3.67
Sale person	-0.030	-1.44	-0.052	-1.51
Skilled agric	0.158*	1.67	-0.172***	-3.63
Operator	-0.102***	-5.54	-0.072**	-2.43
Elementary	-0.275***	-13.34	-0.187***	-6.36
Domestic worker	-0.275***	-10.60	-0.174***	-2.73
Western Cape	reference			
Eastern Cape	-0.088***	-3.28	-0.443***	-11.47
Northern Cape	-0.194***	-5.95	-0.294***	-6.31
Free State	-0.235***	-8.35	-0.742***	-11.65
Kwazulu Natal	0.067**	2.49	-0.164***	-4.45
North West	0.011	0.34	-0.158***	-4.15
Gauteng	0.173***	7.01	-0.035	-1.09
Mpumalanga	0.029	0.81	-0.150***	-3.45
Northern province	0.111***	2.94	-0.215***	-5.60
IMR	-0.042	-1.25	n.a	
Intercept	6.246***	77.08	5.976***	59.51
Number of obs.	24 716		18 145	
Number of weighted obs.	7 513 997		7 123 167	
Number of PSUs	2860		2820	
R square	0.676			
F observed	483.5		340.9	

Notes: *** statistically significant at the 1% level, ** the 5% level and * the 10% level. The values of the coefficients of independent variables can be interpreted only within each year. No size-order comparisons are allowed between 1995 and 1999 since, the variables introduced slightly differ and that the econometric techniques and the samples are not the same.

It is also worth examining the results for the schooling variables, as education is an endogenous characteristic and as such, an obvious instrument for redistribution policy. As expected, table 10 shows that the highest level of education an individual gets, the largest is his earnings. The completion of higher education increases the worker's wage by more than 60 per cent in 1995 and 80 per cent in 1999. Technical diploma (further education) also largely rises earnings. These outcomes highlight the extent to which the government can increase skill endowments focusing on institutional suppliers of human capital as universities and technikoms.

Another major point is that gender also greatly influences the level of earnings. Being male increases the probability of getting a higher wage, with earnings likely to rise by 20 per cent for males relative to females.

Concerning, the influence of the industry, it is observed, using the manufacturing as the base case, that employees' wages in the agriculture, construction, trade and domestic sector are significantly lower than those in manufacturing industry both in 1995 and 1999. On the other hand, individuals employed in the utilities sector and in finance earn higher wages than in the manufacturing industry. Coefficients for the transport and service industries dummies are insignificant both in 1995 and 1999.

Turning to the impact of occupations on wages, the artisan occupation was used as the referent case and as expected highly skilled occupations, such as managers, professional and technicians earn higher incomes in both years. Employees in lower skilled occupations, as operators, elementary workers and domestic workers, earn significantly less than artisans. The coefficient for the skilled agricultural dummy changes sign between 1995 and 1999. This result, a point noted above, could be explained by the new definition of agricultural occupation in 1999 that seems to include elementary workers. This observation would justify the negative coefficient in 1999. Finally, coefficients of the sales occupation dummy are negative but insignificant both in 1995 and 1999.

The above analysis has mainly focused on wage patterns related to race or individual characteristics. Owing to the lack of exploitable data on earnings in the 1995 and 1999 OHS, we could not analyse wage trends by sectors and skills. We can't really rely on other data sources, as they are likely to be inconsistent with the choices made in that study[14]. The next section goes further into the analysis of wages and employment and provides some indications on the way sectoral employment is expected to react to wage changes. More largely, it focuses on wage flexibility in the South African labour market.

3. Wages and labour market flexibility

It is important to revisit the issue of wages, in the specific context of labour market flexibility. The above analysis has attempted to determine wage movements between 1995 and 1999, as a predictor of whether conditions for those at the bottom-end of the distribution have improved or not. However, such a discussion of wages would be incomplete without due consideration being given to understanding the relationship between wages and employment in the South African labour market. We analyse two aspects of this relationship here. Firstly, an overview of the wage-employment elasticity is provided, with reference to the estimates that exist on the South African labour market – and what these mean for labour market flexibility. Secondly, we derive results on the linkages between wages, inflation and labour productivity – and in so doing provide evidence on the degree and extent of wage indexation in the South

[14] Statistics South Africa and WEFA produce some wage statistics however, the retained sectors and occupations are quite different from the ones covered by the OHS.

African economy. The latter is a crucial piece of information with respect to the power and discipline of unions in wage bargaining – and in some respects goes to the heart of the flexibility debate.

3.1 The wage-employment trade-off

In trying to understand some of the choices and trade-offs that exist in the South African labour market, the one issue that looms large is that of the wage-employment elasticity. Indeed, in the early part of the post-apartheid era, many of the labour market debates revolved very intensively around the nature of this relationship. In particular, it was very prominent in the 1996 Presidential Labour Market Commission's deliberations. The intention here is not to provide yet another wage-employment elasticity estimate, but rather to try and collate some of the evidence and thinking that has gone into this issue, and to try and relate the evidence to the issue of labour market flexibility.

Firstly, to clear up the conceptual issue of the wage-employment elasticity. It represents essentially the sensitivity of employment levels to changes in the wage rate. It can be measured on an economy-wide basis or sectorally. So, if we report a wage-employment (w-n) elasticity of –0.5, this means that for every 1 per cent increase in the wage rate, employment levels will fall by 0.5 per cent. Clearly then the higher the absolute value of the elasticity, the worse the reported employment effects. So what have been some of elasticity estimates for South Africa? Below is a table of such estimates, drawn from a World Bank study done by Fallon & Lucas in 1998, possibly the most comprehensive set of estimates available to date.

Table 12: Wage elasticities for black formal sector employees

Sector	Long run	Short-Run
Beverages	-0.184	-0.095
Tobacco	-0.057	-0.018
Textiles	-0.984	-0.346
Wearing apparel	-2.508	-0.709
Wood products	-0.196	-0.603
Furniture	-0.364	-0.139
Chemicals	-1.166	-0.344
Rubber and Plastic	-0.243	-0.153
Non-met minerals	-2.929	-0.451
Basic metals	-0.758	-0.166
Fabricated metals	-0.466	-0.175
Non-electr. mach.	-0.632	-0.408
Transport equipment	-0.440	-0.201
Mining	-0.146	-0.118
Construction	-0.554	-0.360
Services	-0.948	-0.147
Weighted mean	*-0.709*	*-0.156*

Source: Fallon & Lucas,1998

From the above table, it is evident that the long-run national average of elasticity is –0.71, which is reported as the weighted mean. This is most widely quoted elasticity figure in the debate thus far. In other words, for the economy as a whole a 10 per cent increase in the wage rate will lead to a 7.1 per cent decrease in black employment levels. Note that this is the *long-*

run elasticity, seen to be about 3 years. The short-run elasticity (being about 1 year) is much lower than the long-run. In other words, the argument is that the disemployment effects of a wage hike will grow over time. Generally, the short-run estimates are always lower than the long-run results. This long-run estimate agrees with other studies of the South African economy. For example, Bowles & Heintz (1996), using a different model, derive and aggregate elasticity of 0.73, although their sample was composed only of sub-sectors within the manufacturing industry. Bhorat & Leibbrandt (1998) estimated the wage elasticity of employment for manufacturing as a whole and for a select set of manufacturing sub-sectors. Several of these estimates were in the region of –0.7.

Most recently, Fields, Leibbrandt and Wakeford (1999) estimated elasticities for the period 1980-1998. These estimates are provided in Table 13 below. They find that these elasticities are large and have been increasing over time. Hence, as the table illustrates, their estimate for the period 1990-93 was –0.35, but for the period 1994-1998 had increased to -0.52. These aggregate elasticities though, are for the private sector only. Their public sector elasticities are lower, but statistically insignificant. In addition, this private sector estimate is slightly lower than the above studies quoted.

Table 13. Wage elasticities by main sector

Sector	1990-93	1994-98
Mining & quarrying	-0.19	-0.96*
Manufacturing	-0.06	-0.45*
Construction	-0.49*	-0.63*
Utilities	-0.02	-0.03
Commerce, catering & accommodation	-0.13	0.50*
Transport & communication	-0.10	-0.22
Financial services	0.20*	-0.01
Community, social & personal services	0.05	-0.50*
Private sector total	-0.35**	-0.53**

Source: Fields *et al*,1999
Notes: *: Statistically significant at the 5% level
**: Statistically significant at the 1% level

Comparing the elasticity results for both studies, it is evident that there remains a wide variation at the sectoral level. Indeed, the lowest estimate at the sectoral level, when examining the long-run results of Fallon & Lucas (1998) only and the 1994-98 period for the Fields *et al* study, is that Tobacco of –0.057. The highest elasticity is –2.93 for non-metallic minerals. Ultimately then, there remains a wide range in the reported elasticities at the sectoral level. Interestingly for a highly unionised sector such as mining, the elasticity is quite low, which is in contrast to the Fields *et al* (1999) study. In mining then, a 10 per cent wage rise will lead to a 1.4 per cent drop in employment, while for the later study of Fields *et al*, the figure is a 9.6 per cent drop in employment.

Ultimately, these elasticity estimates do indicate that employment levels are sensitive to rising wage levels. High wage demands will lead to employment losses in the South African economy. Balancing this fact though, is the notion – alluded to in the introduction of this paper - that lower wages will also induce greater levels of vulnerability and poverty in the society at both the individual and household level. This is currently the extremely hard choice that faces the society, namely that of balancing the employment creating opportunities offered by a reduction in wages, with the poverty-inducing effects of such a policy.

There remain though a few additional concerns to the wage-employment debate that deserve attention. Firstly there is the fact that employment losses in the past can be partly attributed to non-wage variables. Hence, one of the major factors causing employment losses in the last 20 years, has *not* been wage increases, but rather the decline in the primary sectors' contribution to GDP. Hence, both mining and agriculture for a variety of non-wage reasons have shed large numbers of workers steadily since 1970. Indeed these two sectors accounted for the loss of about 1.5 million jobs in the period 1970 to 1995. Some of the non-wage factors that have witnessed these large job losses include the decline in the gold price, the move to deep-ore mining, which required more capital equipment at the expense of workers, as well as the very low interest rates on capital equipment particularly during the 1970s. In agriculture, the low interest rates saw a move toward mechanisation, which meant a substitution of machinery for labour. These are just some of the factors that help explain the job losses in the economy. They can be broadly captured as forces of technological change within the sectors. Such technological change thus meant that, *independent of any wage increases,* jobs were going to be lost in these sectors. Therefore, while wage increases no doubt will result in employment losses, it is not immediately clear that these wage increases were the sole reason for the employment patterns we have observed thus far in the economy.

Another factor to consider in the employment loss equation is the extent to which tariff liberalization specifically, and globalization more generally, has contributed to, or hastened attrition rates of employed workers. Our analysis above showed that in the period of protectionism, up until the 1980s, unskilled workers in fact gained from trade flows (Bhorat,2000). However, from the period of liberalization, and particularly over the last 5 years, trade flows have caused a decline in the demand for unskilled workers, matched by an increase in the demand for highly skilled employees. Once again, this is completely independent of the impact of wage increases on employment. Thus the process of global competition and the opening up of our domestic markets has directly resulted in job losses at the bottom-end, with the level of wages having little or no effect on this process.

An inter-related issue on the wage-employment nexus is to initiate more research and work on the *wage bill* as a whole. South Africa's chronic skills shortage means that workers at the top-end are paid a premium, because there is such a supply dearth. But to what extent is this premium not accounted for by the 'shortage effect', but rather by firms paying their skilled workers excessively? Shares of the wage bill that go to skilled workers relative to unskilled workers - compared to other countries would be a good starting point in such an analysis. Should there be more than just a skills premium paid to these employees, then clearly the excessiveness in the wage bill would not only be at the bottom-end.

Furthermore, it would be useful to look at increases in the wage bill over time, and to determine which skills categories have been driving the growth in the wage bill. In this way it will be possible to link wage hikes and employment consequences according to skill levels. It may be possible for example, that a growth in the wage rates of skilled individuals was the primary cause for higher labour costs, and it was this factor that resulted in employment losses. The basic point here is that a rise in labour costs cannot and should not always be seen as originating with wages associated purely with unskilled workers[15].

[15] The difficulty with undertaking such an analysis is that we do not, at present, have a good data set that maps wage trends by skills groupings over time. One data set, produced by WEFA, is available, but early indications are that the data set is of a poor quality.

Ultimately though, the above, has tried to provide, in a very preliminary and sketchy manner, some of the issues that need to be confronted when examining the linkages between wage increases and employment losses. It is clear though that the relevant elasticity, while useful, is only a point of departure for what is clearly a very complex debate. Indeed, as we try and explain job losses in the economy, resorting to the wage rate or even worse the wages only of unskilled workers as the dominant explanation, is to ignore a host of other factors that together play an important role in understanding how and why jobs have been lost in this economy.

3.2. Measures of wage indexation

An additional corollary to both the understanding of wages in the South African economy, and the extent of union power in the labour market, is to try and ascertain the relationship between wages and inflation. Indeed, much attention has been focused on the fact that inflation results from cost increases as social groups engage in conflict over the relative shares of output reflected in their incomes (in other words, over the real wage and the profit margin).

Sustained conflict-based inflation leads to indexation of incomes to past inflation rates, as groups with sufficient bargaining power try to protect their real incomes. Indexation may be formal (via COLA clauses in wage or other contracts), or informal (past inflation shapes wage bargaining targets), and profit margins or interest rates may also be indexed. If groups try to anticipate future real income losses from inflation by "over-indexing" – raising current increases well above the inflation rate – inflation is likely to accelerate, as in the hyperinflation episodes in Latin America during the 1960s and 1980s.

As indexation becomes more pervasive, it produces inflationary *inertia*, reflecting strong resistance by social groups to real income cuts. Inertia makes it more costly to lower inflation by contractionary policies. The relatively stable level of inflation over two decades, the stubborn resistance of inflation to very restrictive policies during the early 1990s, and the vigorous increase of inflation during 1996-97, is *prima facie* evidence of a high degree of inflationary inertia in South Africa. This section will look at wage indexation over the past two decades, as a first step towards examining the cost-push dynamics in more detail. In doing so, we may arrive at a more nuanced understanding of the role of unions in inducing greater wage rigidity in the labour market.

3.2.1 Wage indexation and price formation

Drawing on Amadeo (1994), wage indexation can be conceived of as a function of the negotiation between unions and employers around annual wage increases. Classically, these negotiations involve unions trying to ensure that their memberships' income levels are protected from rises in the prices of goods consumed. However, it is also true that wage increases will be dependent on their relationship to labour productivity, where higher wages will be correlated with higher levels of labour productivity[16]. This productivity-wage relationship is particularly important when unions have a monopolistic power within the sector. Unions will then negotiate around real wage losses from price increases and real wage gains emanating from productivity changes. Following from Amadeo (1994), we assume that desired wage formation takes place according to the following equation:

[16] This is in the spirit of much of the efficiency wage models, where wages and 'effort' are seen to be positively related. For a more detailed analysis of efficiency wage models, see Lindbeck & Snower (1988)

$$W_{tj}^{d} = W_{t-1j}\left[1 + l_{tj}^{d}\left(p_{t-1} + z_{t-1j}\right)\right] \qquad (1)$$

where W_{tj}^{d} is the desired nominal wage at time *t* and sector *j*, while l_{tj}^{d} is the desired indexation factor, that is dependent on the previous period's inflation rate (p_{t-1}) and level of labour productivity (z_{t-1j}). Hence, unions will try and make wage gains on the basis of incorporating the previous period's inflation and labour productivity changes to the wage rate from the previous period.

The actual indexation factor is at most equal to the desired indexation factor, and therefore $l_{tj}^{d} \geq l_{tj}$. This value will depend of the level of the union's bargaining power. In addition, the actual variation of the wage rate between periods *t-1* and *t* is given by:

$$w_{t-1j} = \left(\frac{W_{tj}}{W_{t-1j}}\right) - 1 = l_{tj}\left(p_{t-1} + z_{t-1j}\right) \qquad (2)$$

Note then that we can calculate the wage indexation factor as the absolute value of the rate of change of money wages divided by the sum of the change in the CPI and labour productivity. If money wages rise faster than this sum, then l_{tj} is greater than one, implying an overindexation of wages. Alternatively if l_{tj} is less than one, then there has been an underindexation of wages.

In essence unions will negotiate around the value of l_{tj}, the indexation factor. There are a host of other factors though that will both influence the value of l_{tj} as well as simultaneously determine the nature and outcome of the wage negotiation between unions and firms. These are dealt with below. Given the above theoretical discussion, it is important to try and estimate values for l_{tj} for the South African labour market. The indexation factor is clearly a key variable in trying to understand the wage-inflation nexus, in that it provides evidence on the degree to which wage hikes have been induced through the bargaining process. The indexation factor will be calculated below at the main sector level, and by select Manufacturing sub-sector.

3.2.2 Empirical results

The first three tables below provide estimates of the value of the indexation factor and the degree of overindexation by main sector. The degree of overindexation is simply the sum of the indexation factors in each year less one. Hence a value greater (less) than zero indicates that there has been overindexation (underindexation) of wages for any given sector. The figures cover the period 1971 to 1995, on an annual basis. This is an acceptable frequency for the data, given that in South Africa most wage contracts are negotiated once a year. Note that these estimates ignore all other factors impacting on nominal wage demands.

Table 14 below calculates wage indexation factors and the degree of overindexation at the main sector level over the 24 year period. The two sectors where wages were underindexed were Agriculture and Transport. The underindexation in Agriculture has been driven by sporadic but large increases in labour productivity, shown in part by the increased capital intensity of Agriculture over the period. The underindexation also reflects an industry that has unorganised workers, with low mean skill levels, and hence minimal bargaining power. The overindexation for agriculture in the first period represents negative growth rates in labour productivity of 12.5 per cent and high nominal wage growth of 16 per cent in 1973.

Table 14: Wage indexation factors, by main sector: 1971-95

Year	1971-1975	1976-1980	1981-1985	1986-1990	1991-1995	Median	Over-indexation
Total	1.20	1.02	1.10	1.06	1.00	1.09	1.94
Agriculture	2.11	0.94	0.99	0.89	0.92	0.85	4.12
Mining	6.50	1.86	1.05	1.16	1.00	1.20	32.90
Manufacturing	1.13	0.92	1.15	1.05	0.94	1.01	0.92
Electricity	1.13	1.04	1.44	0.98	0.77	0.90	1.81
Construction	1.09	1.03	1.47	1.03	1.58	1.06	5.41
Trade,Cater,Acco.	0.92	1.82	0.95	1.33	1.01	1.04	5.18
Trprt,Stor,Comm.	0.79	0.81	1.08	0.80	0.91	0.88	-3.04
Fin,Bus serv	1.31	0.97	1.06	1.09	1.11	1.08	2.71

Source: Statistics South Africa, various years and authors own computations

The underindexation in the Transport, Storage & Communication sector has been driven variously by low nominal wage increases relative to inflation, as well as increases in labour productivity, particularly since the mid-1980s. Remembering that the Transport sector covers those workers employed in parastatals such as Telkom, Transnet and the SA Post Office, it is possible that the repression of representative unions in these industries, may have contributed to real wages rising slower than productivity increases.

The overall evidence though points to a very marginal degree of overindexation of wages relative to inflation and labour productivity for the main sectors covered. This degree of indexation is probably better illustrated by reference to the last column of the table, where the overindexation factors are presented.

The high value for the Mining industry is due to the huge wage increases offered to mine workers in the early 1970s, as a result of past wage policy on the mines of maintaining constant real wages for African miners. Despite the redressing of wages, the highest wage indexation factor in mining actually occurred in 1973, when nominal wages had only begun to rise[17]. The reason for this was the decline in labour productivity in this year by 8.8 per cent - the biggest drop in the twenty-five year period. It is true however that the nominal wage demands of the 1970s, a period of ‘catch-up’ for the mining workforce, was the dominant contributor to overindexation witnessed in the mining industry.

The overindexation in the manufacturing industry is far more evenly distributed. While the sub-sectoral analysis provided below, will uncover more detail in the industry, the trend seems to have been either a larger than inflation increase in nominal wages or declines in labour productivity or a combination of the two. The growth rates in both these variables though have been at sufficiently low levels, not to generate high levels of overindexation in the aggregate.

The overindexation in Trade, Catering and Accommodation has been a function primarily of large nominal wage increases over the entire period. Combined with unpredicted negative labour productivity figures in the mid-1970s, the result has been that nominal wages have outstripped the joint growth in consumer inflation and labour productivity. Financial and business services also overindexed at a rate of 2.71 over the period. This has been brought about

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[17] Nominal wages rose by 14.83 per cent in 1973, but then by 32,9 per cent, 35.3 per cent and 45.8 per cent in the years 1974-76, an average of 38 per cent over these three years.

by declines in labour productivity from the 1970s until the mid-1980s, in an environment of tepid nominal wage growth. Since the mid-1980s, when the industry began to grow rapidly, high nominal wage growth rates are reported, reflecting an increased demand for skilled people into a new industry. It is these high wage increases that have driven overindexation in this sector until the present.

It has to be remembered though that the table above represents results that are *arithmetically* interpreted as overindexation or underindexation of wages. The overwhelming evidence here though, when comparing the indexation values for other economies, is that of a very close relationship between nominal wage demands on the one hand and inflation and labour productivity levels on the other. That is to say, nominal wage demands have in the main replicated the growth rates of inflation and labour productivity. In the context of cost-push inflation for South Africa, the evidence at the main sector level is that nominal wage demands cannot be viewed as a key source of national output price increases. In addition, the evidence does suggest that high wage demands, relative to output price increases, through the bargaining process cannot be held to be a representative of the experience in the South African labour market.

3.2.3 Indexation factors within manufacturing

The table below reveals that the median indexation factor is 1.01 for manufacturing as a whole, while the figures are greater than one for 4 of the 6 sub-sectors here. The high rate in Motor Vehicles is due primarily to an indexation factor in 1985 of 26.25, brought on simultaneously by high inflation (16.4 per cent), a large drop in labour productivity (-17.3 per cent) and high nominal wage advances (26.3 per cent).

Table 15: Indexation factors by select manufacturing sub-sector

Year	1971-75	1976-80	1981-85	1986-90	1991-95	Median	*OverIndexat* $\Sigma(\lambda_t - 1)$
Clothing	1.95	0.49	1.39	1.04	1.46	0.82	6.67
Paper	1.29	1.12	0.98	3.39	1.00	1.05	13.90
Other Chem.	0.96	2.12	1.31	1.30	0.84	1.16	7.67
Metal products	1.68	1.08	1.09	1.92	1.00	1.48	8.88
Motor vehicles	2.04	0.60	8.04	1.33	0.66	0.98	38.32
Manufacturing	1.13	0.92	1.15	1.05	0.94	1.01	0.92

Source: Statistics South Africa, various years and authors own computations

The wage overindexation in Food was a function of high nominal wage increases from the early 1970s through to the 1990s. Labour productivity, while generally poor in this sector, declined consistently in the period 1985 to 1988, and so also contributing to overall overindexation. Indeed the general trend for all the other sub-sectors covered here is that a combination, in fairly equal strength, of both nominal wage increases greater than consumer inflation and poor or negative labour productivity have generated the results illustrated. Put differently, the wage overindexation seen here is a product both of high nominal wage demands and poor labour productivity growth.

Again however, the indexation factors as well as the accumulated measure of overindexation reveal a fair degree of wage discipline within the manufacturing industry. This applies to the inflation-sensitive analysis as well. Where overindexation did technically occur, it was modest in value and hence reflects an economy whose inflation pattern cannot readily be ascribed to the demands of organised labour in the manufacturing sector. In addition, where significant overindexation did occur, this was more a statistical artefact resulting from an anomaly in any one or two years in the data series.

3.2.4 Relative bargaining power

An interesting concept borne out of the indexation analysis is that of the relative bargaining power (RBP) of a particular sub-sector within its main sector. Essentially it measures the indexation factor of the different manufacturing sub-sectors, relative to the manufacturing or national median. These two ratios have been estimated below, using the analysis of Amadeo (1994).

We have included RBP measures relative to the manufacturing sector (RBP_m) and to the national economy as a whole (RBP_n). A value greater than zero reflects a certain degree of bargaining power. The results show that none of the sectors reveal neutral bargaining power. The specific estimates in turn reflect the wage indexation patterns – that sectors with wage overindexation tend to have higher levels of relative bargaining compared to others either within manufacturing or even the economy in general. Note that relative to all other sectors in the economy, except Motor Vehicles, the bargaining power of these unions here is diluted[18].

Table 16: Relative bargaining power by manufacturing sub-sector

Sector	RBP_m	RBP_n
Food	6.66	4.54
Clothing	4.01	3.54
Paper	11.15	9.92
Other Chem.	7.52	6.24
Metal Products	7.08	5.85
Motor Vehicles	40.44	41.81

Source: Statistics South Africa, various years and authors own computations

Hence the RBP values for all sectors are lower nationally than they are within manufacturing. It is true though, that the robustness of the estimates, as one moves from within the main sector to the entire economy, reflects the fact that the largest and most powerful unions are by and large represented in these sectors. Some of the unions covering these sectors include the South African Clothing & Textile Workers Union (SACTWU), the National Union of Metalworkers of South Africa (NUMSA) and the Food and Allied Workers Union (FAWU). The SACTWU had a membership of 160 000 in 1995, reflecting a coverage of 65.4 per cent. The NUMSA's 169 00 strong constituency, represented a smaller share of 34.4 per cent within the industry. The FAWU though has a high membership of 139 810, and a coverage of 63.7 per cent. Clearly then this high level of unionisation in these sectors will translate into high levels of bargaining power.

The above estimates of wage indexation and relative bargaining power have attempted to add some empirical detail to the debates around the influence of wages on inflation in the South African economy. The overarching evidence is of nominal wage demands that were fairly congruent with inflation and labour productivity growth rates. This evidence is robust for both the main sectors as well as within manufacturing where the greatest degree of union density exists.

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[18] This may be a distortion of the figures for 1985 in Motor Vehicles again. Indeed, if we exclude the 1985 data, RBP_m is 11.31 and RBP_n is 9.17. These results support the fact that relative to the national economy, bargaining power of the union in this sector will be reduced.

The major implication of these results for our purposes here, is that the nominal wage demands of the union movement cannot be viewed as a major contributory factor to South Africa's pattern of inflation between 1971 and 1995. This is particularly important in the context of understanding the extent to which the union movement may be inducing rigidities in the labour market. This analysis suggests that in terms of wage demands, the union movement has not been inordinately irresponsible. Hence, overlaying the wage- employment elasticity results are the statistics here, which in turn suggest that organised labour cannot be held singularly responsible for making large claims on employers through the formal bargaining process. The results of course say nothing about the extent to which rigidities may be induced by unions through for example, strike activity, conditions of employment and other non-wage demands. These issues will be examined later in the following sections.

4. Employment flexibility

While the above section dealt with wage flexibility, this fourth section examines some aspects of employment flexibility focusing on functional flexibility rather than on numerical flexibility (retrenchments). Data from the South African Labour Force Survey in 1996 suggested that South African firms have been moving in the same direction as counterparts on most parts of the world, turning toward greater use of *flexiworkers*, through casual labour, sub-contracting to smaller firms, homeworkers and other 'outworkers' and agency workers (Standing, 1997). Since then, new surveys have been conducted and this section relies on them to give a broad idea of the current state of several types of labour flexibility. We first provide information on the extent of sub-contracting, using mostly the results of the World Bank Large Firm Survey (1999) and the outsourcing survey conducted by Levy & associates between 1994 and 1998. Secondly, we analyse the different types of employment contracts using the results of the 1999 OHS.

4.1 Outsourcing statistics

4.1.1 The large firms survey (LFS)[19]

Sub-contracting of various activities from one firm to another firm is popular among a large proportion of LFS firms. The data suggest that a large number of firms responded to the new labour market environment by subcontracting certain activities as the proportion of firms sub-contracting varies from 62 per cent in 'small' firms [50-99 employees] to almost 90 per cent in 'large' firms [200 employees and above].

LFS firms out-source a variety of activities form managerial to production but the three most common ones are general services, transport and training. Since the manufacturing sector is the subject of the LFS, one of the main activities that one would expect to occur in-house by permanent workers is production. Nevertheless, about 45 per cent of firms listed production as one of the activities outsourced and mostly explain their action by the fact that it gives "flexibility to respond to surges in the workload" and that it "responds to temporary need for specific skills". Most of the time, firms perceive sub-contracting as a mean of saving resource costs of dealing directly with workers.

[19] Survey conducted in 1999 in the Greater Johannesburg metropolitan area, which covers 8 manufacturing sub-sectors and more than 2000 firms with more than 50 employees. (Source: World Bank Survey Report, 2000)

4.1.2 The outsourcing survey: 1994-1998[20]

Although the results of this survey can't be interpreted on a national basis, they give interesting information on a few areas not covered by the LFS. Of the 101 companies who responded, 68 per cent had outsourced over the previous 5 years and this affected about 5.7 per cent of the workforce covered. Of the number of employees retrenched, the majority were blue-collar workers (90.6 per cent) followed by staff/administration (7.8 per cent), managerial (1.4 per cent) and executive (0.2 per cent). However, 40.5 per cent of companies stated that retrenched employees had been absorbed by the outsourcing company (it involves about 27 per cent of them) but, most of the time, with less favourable conditions of employment and wage.

Thus it is worth noted that for the workforce, outsourcing implies more employment insecurity, as subcontracted workers may not be protected by legislation[21] and collective bargaining and usually receive lower wages than permanent workers.

4.2 The nature of employment contracts

According to the LFS, about 63 per cent of 'small' firms compared to 83 per cent of 'large' firms employ temporary workers in 1999, these proportions being large by any standards. The main reason why LFS firms employ temporary as opposed to permanent workers is that it "provides flexibility and allows to expand workforce without hiring permanent workers". It then helps the firms to respond quickly to change in the demand for their products.

If we turn to the workers' side, 1999 OHS provides some statistics on the repartition of the workforce by type of contracts (table 17 below). About 77 per cent of the employed are permanent workers at the same time however, only 50 per cent report they have signed a written contract with their employer (table 18 below)[22]. Table 16 also shows that female workers are more likely to suffer from employment insecurity than males, as only 75 per cent of them are permanent. We also find that Africans and Coloureds are on average less employed on a permanent basis than the two other racial groups.

Table 17. Repartition of the employed by type of contract, by gender and by race, 1999, % row total

	Permanent	F. period contract	Temporary	Casual	Seasonal	Unspecified
Total	77.4%	2.6%	9.5%	7.0%	1.2%	2.4%
Male	79.0%	2.7%	9.0%	6.3%	0.8%	2.3%
Female	75.1%	2.5%	10.2%	7.9%	1.8%	2.5%
African	74.5%	2.4%	11.9%	7.2%	1.2%	2.7%
Coloured	75.6%	3.6%	5.2%	10.3%	3.3%	1.9%
Asian	79.5%	2.4%	7.3%	8.1%	0.0%	2.6%
White	88.4%	2.5%	4.6%	3.3%	0.0%	1.3%

Source: Own computations from OHS 1999

[20] Survey conducted in 1998 by Levy and Associates and based on a (non-randomly selected) sample of 101 companies covering approximately 120 000 employees. (Source: The Wage Settlement Survey, quarterly report, march 1999)

[21] For example, an independent contractor won't be covered by any labour legislation.

[22] However, labour legislation stipulates that the contract of employment need not be in writing.

Table 18. Percent of the employed with a written contract, by gender and by race, 1999

Population group	% of employed with a written contract
Total	50.7%
Male	54.1%
Female	46.1%
African	46.1%
Coloured	45.4%
Asian	44.4%
White	72.2%

Source: Own computations from OHS 1999

It should be noted that even if the labour legislation covers most of the non-permanent workers, there is a tendency to pay them less than regular workers. And because they are often not organised collectively, employers are able to avoid the formal bargaining process with the relevant trade union.

Ultimately, the above analysis, while not being always being able to pick up trends since 1995, suggests that there is a significant degree of outsourcing amongst small and large firms. In addition, both large and small firms, revealed a tendency to induce greater flexibility in the production process. Both these trends, outsourcing and non-permanence, are suggestive of the growing demands of globalization as firms attempt to become more competitive in the face of increasing openness to trade.

5. Evolution of hours of work, benefits and union activity

5.1. Employment conditions

This section attempts to give a brief description of the state of conditions of work and social protection observed nowadays in the South African labour market. It is likely that conditions of employment and worker security have been affected by the increasing flexibility responding to globalization. The lack of relevant data in this area for both 1995 and 1999 compelled us to restrict our analysis to a few available variables. The large gender and racial inequality captured in many aspects of the labour trends incited us to focus on the differences in conditions of employment observed between populations groups.

Table 19 below displays the evolution of working time between 1995 and 1999. First, it should be noted that the average working week increased by 5 per cent between 1995 and 1999 to reach 45.6 hours in 1999. Despite this rise, the average working time nearly satisfies the requirements of the BCEA that establishes a work week of 45 hours. However, this global figure hides some discrepancies between the different population groups as males work on average 4.5 hours more than females. Africans work longer than the other racial groups owing to an increase of 7 per cent in their working time between 1995 and 1999.

Table 19. Number of hours of work[a], by gender and by race, 1995 & 1999

Hours of work	1995[b]	1999[c]	Change	% of change
Total	43.4	45.63	2.22	5.10
Male	44.99	47.55	2.56	5.68
Female	41.03	42.95	1.92	4.68
African	43.02	46.1	3.08	7.16
Coloured	42.96	44.29	1.33	3.10
Asian	44.1	43.78	-0.32	-0.73
White	44.77	45.26	0.49	1.09

Source: Own computations from OHS 1995 and OHS 1999

Notes: [a] Hours are reported for the total number of workers (employee, self-employed and both status). (Overtime is included.)

[b] Number of hours worked during the last 7 days.

[c] Average number of hours worked per week.

Unfortunately, the evolution of working time is the only indication of the development of conditions of employment in this five-year period. However, it should be observed that this increase in working time contributes to the erosion of conditions of work.

Table 20 below provides indication on the coverage of paid-leave, medical aid and pension for employees in 1999. It shows that less than a half of employees are on average covered by the three specified benefits. Paid leaves are provided to 56 per cent of the employees whereas medical aid is given to 32 per cent of the workforce. These observations are quite different from the statistics issued from the South African Labour Flexibility Survey (SALFS) in 1996. From a sample of 234 manufacturing firms, Standing (1997) reports that 93.2 per cent of employees receive paid vacation, 82 per cent obtain medical aid and 69.2 per cent benefit from participation to a pension fund. It is obvious that since the OHS 99 covers some sectors as agriculture and domestic, benefits coverage would be much lower.

Table 20. Percent of the employed receiving specified benefits, by gender and by race, 1999

	Paid leave	Medical aid	Pension
Total	55.8%	32.1%	48.7%
Male	58.8%	33.8%	52.9%
Female	51.7%	29.8%	42.8%
African	48.5%	23.2%	44.1%
Coloured	56.7%	29.4%	43.3%
Asian	58.3%	35.9%	48.2%
White	80.4%	65.0%	69.0%

Source: Own computations from OHS 1999

Table 20 also highlights the large differences in the provision of welfare benefits between population groups. The proportion of employees receiving benefits is higher among males than females and Africans are likely to have a lower degree of work security than the other racial groups. These observations suggest that the gender and racial wage inequalities previously observed are reinforced by an unequal access to welfare benefits.

5.2. Unionization

The last issue underlined in this section is concerned with unionisation and strikes. It is worth mentioning these points, as South African trade unions are often perceived as obstacles to greater wage and employment flexibility.

In South Africa, collective bargaining takes place at three levels: at industry level through the Bargaining Councils, at plant level and at times, through direct bargaining with the management of major conglomerates (especially in the mining sector). Some studies (Moll, 1993, Mwabu and Schultz, 1998, Rospabe, 2000) have demonstrated one feature of union power in attempting to estimate the extent of the union/non-union wage differential. It appears to be particularly important among African workers.

It is also known that unions play an important role in the distribution of benefits. In relation to this issue and in order to complete table 20, we first compute a table of the repartition of specified benefits considering separately the unionised and the non-unionised workers (table 21 below). As expected, unionised workers are much better covered by benefits than non-unionised workers: the percentage of unionised workers receiving paid leave, medical aid and pension is usually twice as high as for non-unionised workers.

Table 21. Percent of the employed receiving specified benefits, by union status, by gender and by race, 1999

	Paid leave		Medical aid		Pension	
	Unionised	Non-unionised	Unionised	Non-unionised	Unionised	Non-unionised
Total	82.7%	41.5%	52.8%	21.0%	80.2%	31.5%
Male	84.7%	42.4%	52.3%	22.0%	81.5%	34.7%
Female	79.2%	40.3%	53.8%	19.8%	77.9%	27.8%
African	80.0%	29.1%	44.8%	10.0%	78.3%	22.8%
Coloured	85.8%	44.0%	58.9%	16.7%	78.2%	27.7%
Asian	82.5%	49.9%	54.4%	26.9%	79.7%	33.5%
White	92.5%	76.5%	82.7%	57.3%	89.9%	60.6%

Source: Own computations from OHS 1999

Table 22 below presents the evolution of unionisation between 1995 and 1999 and disaggregates it by gender and racial groups. The unionisation rate is almost 34 per cent, placing South Africa among the highest unionised “developing countries”. According to Salmon (1999), the average unionization rate for developing countries is about 18 per cent whereas it increases up to 43 per cent for the OECD countries. This global figure conceals some differences between population groups. In particular, unionization is higher among males than females and the percent of African workers being union members exceeds that of the other racial groups. A strong culture of unionism prevails among African workers, as during the apartheid regime, the union voice remained one of the few legal organs for popular protest.

Though the number of unionised workers increased by more than 273000 between 1995 and 1999, because the total number of employees also rose, the aggregate rate of unionisation remained constant. However, White workers are the ones who increased the most their union membership during this five-year period, as their unionisation rate raised by 6 per cent. One element of explanation of this trend could be that Whites feel a further need of protection in face of the introduction of affirmative action in the enterprises (Employment Equity Act, 1998).

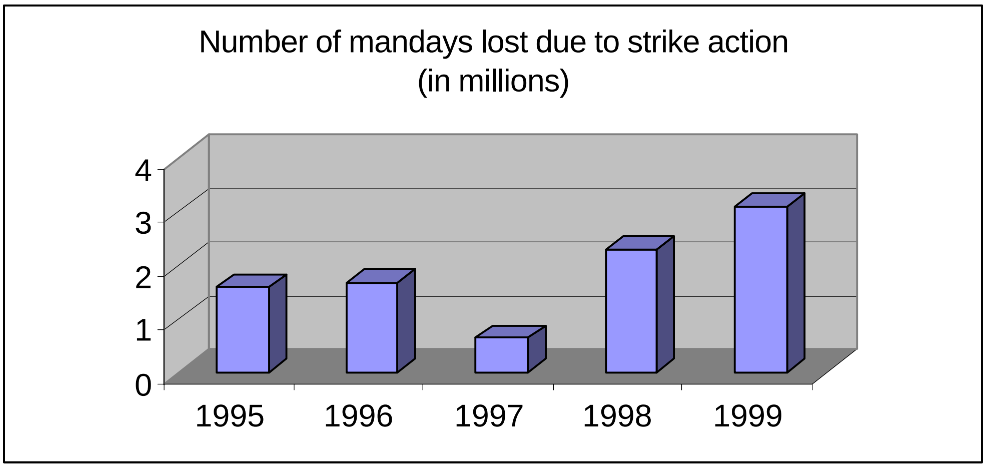
Table 22. Evolution of unionisation between 1995 and 1999, by gender and by race

	1995		1999		1995-99 change	
	Number of unionised	Rate of unionisation[a]	Number of unionised	Rate of unionisation	Number of unionised	Rate of unionisation
Total	2740664	33.6%	3014441	33.7%	273777	0.04%
Male	1878354	35.6%	1934246	37.4%	55892	1.8%
Female	862310	30.0%	1078352	28.6%	216042	-1.4%
African	1969040	38.2%	2073735	36.0%	104695	-2.2%
Coloured	296924	28.6%	355861	29.1%	58937	0.5%
Asian	91219	29.9%	101617	30.9%	10398	1.0%
White	383481	23.2%	480584	29.5%	97103	6.3%

Source: Own computations from OHS 1995 and OHS 1999
Note: [a] Defined as the number of unionised / Total employed (excluding self-employment)

Finally, perhaps a more significant predictor of strong union activity than the number of workers in membership is the development of strikes. Figure 5 displays the evolution of the number of mandays lost due to strike action between 1995 and 1999. Except the low number of mandays lost in 1997, strike action has been increasing from 1995 to reach a high level of 3.1 million in 1999. One reason for this rise has been that employers have been spurred into taking a tougher stance during wage negotiations, mainly as a result of the declining economy and the effects of globalization.

Figure 5. Number of mandays lost due to strike action, 1995-1999



Source: Levy and Associates (2000).

Hence, the wage trigger always dominates. Unions invariably use the strike weapon, or other forms of industrial action short of a strike (such as overtime bans and go slows) to pressure employers to accede to their demands during the wage round. In 1999, wages accounted for about 97 per cent of the total number of mandays lost (Levy and Associates, 2000).

This third section attempted to describe the evolution of some labour market outcomes during the post-liberalization period after 1994. A few main results help to understand how the labour market responded to globalization. Firstly, in contradiction with the commonly spread idea of "jobless growth", we showed that employment grew by almost 10 per cent between 1995 and 1999. This increase in labour demand mostly benefited skilled workers and seems to have been higher for Black workers than for Whites. This job creation however hasn't been high enough to affect the rate of unemployment that rose from 29 per cent in 1995 to 36 per cent in 1999. Secondly, our analysis of wage trends underlined that there was an increase in poverty among workers with a redistribution of wage earners from high-income categories towards low-income categories. As far as employment flexibility is concerned, several evidences indicate that there has been a growing use of outsourcing and temporary workers in order to reduce the costs of demand instability. Finally, we found that conditions of work and social protection are quite different among specified groups of workers without however being able to analyse rigorously their evolution during the last five-year period.

This evolution of the South African labour market though essentially guided by purely economic factors has also been greatly influenced by the existing government labour policy as well as the regulatory framework, both deeply modified during the past five-years. Section IV below examines these two issues

IV. A review of existing labour policy and the regulatory framework

1. Introduction and context

The onset of democracy in South Africa at the beginning of the 1990s set the conditions and the parameters for a fundamental transformation in the character and functioning of governing institutions. The realisation that this victory would be expressed through popular representation as depicted in the first democratic elections in 1994 was a major political victory. The process of realignment in expectations and outcomes was started through a radical review of existing labour market legislation. In instances where the existing legal frameworks and protocols was inadequate to initiate the process of institutional renewal and transformation, completely new guidelines and frameworks were introduced to carry the process further. The previous labour market policy framework that existed until 1994, embodied numerous sets of rights and conditions which had been established through resistance from dominated classes and groups in society. These were accelerated by the convergence of two forces. From the side of the previous regime, liberalizing and modernising forces that were intent on improving systems of government by incorporating dominated groups into the system. This strategy was derided by critics of the regime as one of involving the 'co-optation and emasculation' of its oppressed opponents. From the side of the dominated, new institutional and legal spaces began to be used internally to strengthen the resistance to racial domination. The first step in this direction had begun with the Wiehahn and Riekert Commissions in 1979. Labour legislation in particular exhibited the most fundamental progress to create a tolerable labour market regime in which the three social partners were mutually bound before the onset of democracy in South Africa. The period after 1994 signified the second phase in the transition and reconfiguration of labour legislation and the restructuring of labour market institutions. The object in the second phase was to establish the conditions and frameworks for a democratic system of industrial relations between the three social interests: state, business and labour.

The system of governance that the ANC and its allies advocated was built on the principles of consensus and co-operative governance. Co-operative governance also underpinned the constitution. As the majority party in parliamentary and the dominant partner in the government of national unity, the ANC 'in' government increasingly began to occupy the role of deadlock breaker and mediator between contending social forces using the leverage of the state power that it controlled. This differentiated it from large sections of its alliance partners, which represented organised labour as well as emerging groups in business. Despite beginning the systematic process of public sector reform, which pitted it against electoral allies and adversaries alike, the role of state power was nonetheless pivotal to guide the process of negotiation and consensus. Nowhere was this role more prominent than with respect to a labour market and regulatory framework. The framework accommodated the social interests of three social partners in society and used it to facilitate sectoral and enterprise level bargaining and agreement as a practical basis for action[23]. The National Economic Development and Labour Council (NEDLAC), which was established in 1995, was a central institution through which the philosophy of co-operative governance was conveyed and the system of trilateral participation exercised particularly with respect to the forging of new labour market legislation. Within the South African legal system, NEDLAC has the power to regulate equality at the workplace.

The agenda of reform which began in 1994 was not however limited to the labour market and its regulation. It encompassed the entire public sector and many of the simultaneous initiatives around public sector reform had ripple effects on the labour market. As well as spearheading equality and justice for historically excluded social groups, involving black people and women by increasing their representation and incorporating these into the new structures of the public sector, the agenda of reform also required rationalising and consolidating the state apparatus for greater effectiveness and efficiency. To this end, a host of framework documents, policy documents and discussion documents were popularised through the internet and published on the government web site[24].

It needs to be stated categorically that South Africa is a pluralist social democracy. It is a social democracy by way of its constitution but also in the system in which its economic, political and cultural affairs are governed. Unlike Western Europe, where concerns about social security dictated the character of the social democracy that evolved, social democracy in South Africa has been shaped and expressed through a culture of rights and a quest about exercising these rights through transparent mechanisms. The culture of rights in South Africa has led to democratic rights being equilibrated with human rights. Again, contrary to Western European social democracy, South Africa has a lean social democracy. The social security net that exists compensates very inadequately for the loss or potential loss of earnings generated through economic activities. However, in comparison to similar developing countries internationally, welfare transfers to vulnerable members of society such as pensioners, disabled persons and children requiring income support for maintenance and medical care is more generous.

The social security system in has been designed to deal with frictional and short term unemployment. It is only workers who have recently lost their jobs who are eligible for benefits under the South African unemployment insurance fund (UIF). The UIF benefits amount to 45 per cent of the last wage that an unemployed worker obtained and one weeks benefits is paid for every six weeks worked. However benefits are only paid for a maximum of 26 weeks. This means that once workers have exhausted the benefits obtained from the UIF, and are unable to obtain a job within the period for which benefits are obtained, they fall outside formal social

[23] See Discussion Document on A Framework for Social Partnership and Agreement Making in NEDLAC. Also obtainable at: http://www.polity.org.za/govdocs/discuss/nedlac.html.

[24] The web address is: http://www.polity.govdocs.za

security nets. The unemployment security system in South Africa is therefore inadequate to cope with structural and long-term unemployment. So despite the relatively rudimentary character of the social security net compared to the Western European social democracies, the emphasis on rights which pervades the interstices of the society where the former oppressed population is generally located, compensates for these inadequacies. It is very unlikely that the erosion of rights, which have been won and come to be enjoyed by the majority only recently, will be conceded without causing massive social disequilibrium and instability in the economic and political institutions of the country. It can therefore be argued that the preservation of certain essential rights imbues the system with a degree of flexibility in ameliorating conflict and instability.

The management of the tripartite alliance involving the ANC, SACP and COSATU demonstrates that the advocacy and defence of a broad range of rights is what gives this alliance cohesion and coherence. It is affirmed and consolidated within different tiers and sites of social interaction: nationally, provincially, at a local authority level through the workplace and the home. It is therefore not ironic that what has been achieved politically in South Africa is mirrored and cultivated further often as an automatic convention, through a spectrum of non-state institutions. As a result, consensual governance practices have become established and adversarial tendencies are abrogated and deployed only as a tool of last resort to negotiate in good faith or obtain firm agreement on matters of contention between the social partners (state, labour and business).

The initial conception of a non-adversarial industrial relations climate was perceived to be an essential ingredient for the establishment of flexibility between labour and business and the idea was that it would operate in tandem with the independent function of mediation and arbitration. Recognition was thus given to the private collective bargaining and mediation arrangements with litigation and conflict being last resorts in the settlement of disputes. The purpose of this arrangement was to reduce the need for industrial action and the costs associated with it. Institutions that had previously formed part of the industrial relations scenario (industrial councils, the labour court, the Wage Board etc.) were therefore identified for renewal and systematic overall. The starting point for this process was the replacement of the Labour Relations Act of 1956 and its variegated amendments accumulated since 1979, with a new Labour Relations Act of 1995. The idea was to consolidate corresponding but disparate labour legislation such as the Basic Conditions of Employment Act of 1983 and the Wage Act of 1957 into a new Basic Conditions of Employment Act. While the new Labour Relations Act became associated with the streamlining of dispute resolution, it should not be forgotten that conditions of employment and the reduction in working hours formed the basis of the reforming agenda of the Basic Conditions of Employment Act.

For the first time in South Africa’s legal history, the content and passage of labour legislation was negotiated through the chambers of the National Economic Development and Labour Council (NEDLAC) involving business, labour and the state. The passage of the Labour Relations Act through NEDLAC illustrated a torturous but successful process in which numerous deadlocks and stumbling blocks had to be overcome. One of the most contentious issues in the negotiations concerned centralised bargaining at an industry or sectoral level as well as the conduct of industrial action. While it enshrined the right of employees to strike and protected them against dismissals and the right to picket during a strike, it also gave allowed employers to use replacement labour after a specified period during a strike. The passage of accompanying labour market legislation was also negotiated through NEDLAC before it was referred to the Department of Labour for drafting and thereafter to parliament for promulgation.

2. Basic ingredients of labour market policy

The orientation to labour market policy in South Africa tends to operate in a highly consultative milieu. While much of the labour market interventions can be characterised as activist in orientation, these interventions are never imposed on the labour market without undergoing a process of negotiation and clarification with the range of interest groups that occupy and are linked to particular institutions on the labour market. Each organisation in turn maintains a vigorous system of report backs with constituent representatives occupying grass-root bodies. The disadvantage of this process is that the consultative process can be time consuming but once policies are adopted these are supported by a highly knowledgeable membership which is probably the most unique characteristic of the democratic and co-operative governance anywhere in the world.

2.1 Consultation and brokerage

Labour market policy in South Africa has evolved gradually since 1994. The initial ingredients of the policy are to decriminalise conflict and channel these through institutions through which it could be constructively managed and regulated. Much of these were directed toward protective measures. Consequently the interventions, particularly by the Department of Labour, and the remaining statutory labour market institutions focussed on impacts at the workplace. Labour market ingredients tended to avoid passive interventions exterior to direct employment support. While recognised as important, the constitution of a social security regime within the labour market was not a priority. Unlike the strengthening of Social Democracy in Western Europe after the second world war, Social Democracy within the South African labour market has tended to encompass the constitutional and legal rights of employees at the expense of direct transfers of income and security benefits. The result is that benefit obligations on employer and employee payrolls is relatively small and so are contributions from the state for this purpose (e.g. unemployment insurance). With respect to the unemployment insurance fund, 1 per cent is levied on payrolls, an additional 1 per cent is levied on the income of employees and the state contributes a maximum of R7 million per annum to the fund. Benefits amount to approximately 45 per cent of the normal wage and can only be derived for a fixed period that is calculated as a ratio of the length of time an incumbent was fully employed. Those excluded from benefit payments include some categories of civil servants, domestic workers, casual and seasonal workers and persons earning salaries that are above a predetermined ceiling. In a perverse way, the rudimentary character of unemployment insurance in itself prevents workers shirking work in order to draw a benefit and therefore contributes to the supply flexibility of labour.

2.2 Commissions and Green Papers

Following the first democratic elections in 1994 a phase of policy formulation rapidly emerged about the best trajectories for the restructuring of public sectors. Recommendations on the formulation of policy were presented by agents outside the state. The discussions focussed on the nature and extent of the state’s involvement on the labour market. Since the discussion had moved beyond the debate about the state having the right to intervene as a property holder of economic assets, there was virtual unanimity from radicals and conservatives alike that the role which the Ministry of Labour was required to play required clear and active interventions. These were essential to overcome existing rigidities around industrial strategy, wage determination, productivity enhancement and employment equity. The degree of inequalities and levels of poverty associated with labour market location and participation required these measures. The minister and the new civil servants who worked under his direction shared similar sentiments and the focus of the Ministry’s intervention was strongly slanted towards extending the democratic gains already achieved as well as attaining economic well-being. This implied that economic participation, productivity improvement and redress for past discriminatory practices would draw the most attention. In 1995, the new Labour Ministry instituted a comprehensive policy review that was to guide its work over the first 5 years. A commission to investigate labour market policy was appointed in May 1995 and it presented its findings to the South African President in June in 1996[25]. The framework of the Labour Market Commission has guided and still guides state interventions on the labour market and labour market policies. The consensual approach adopted between labour, government and business contributed to the success of the Presidential Job Summit in 1999.

2.3 Policy discussion: from Green Papers to legislation

It has become the norm in South Africa for proposals from the government to be made public in the form of discussion documents and Green Papers. Green Papers usually represent a more clearly defined government position. A Green Paper normally provides the rationale for government thinking on areas identified for reform by outlining the framework and institutional landscape that that it wishes to attain so that these intentions can be realised. While Green Papers are ultimately concerned with bridging the divide between the proposals of a commission and the implementation guidelines of a White Paper, they too are underpinned by broader social objectives to achieve equity and abolish all forms of discrimination and reflect national constitutional principles. Once a Green Paper is endorsed by the social partners it becomes the quickest shorthand of a government’s policy intentions on a particular matter. In the last resort these resonate as the mandate that the government derives from the electorate and the party congress of the leading government political party in government.

Either as part of the process to present its own position on matters of legislative importance or to spearhead discussion between the social partners and initiate inputs from a broader audience, the government often appoints a team of experts to draft a Green Paper for this purpose. These teams are usually drawn from the ranks of senior civil servants and prominent academic and policy experts in the field. Once a Green Paper has been released, extensive commentary is usually elicited for consideration. With respect to the labour market, the discussions are carried within NEDLAC where the proposals are refined to accommodate the concerns of the social partners. For example, the *Green Paper: Policy Proposals for a New Employment Standards Statute*, which was published in 1996 proposed consolidating and replacing the Basic Conditions of Employment Act (1983) and the Wage Act (1957). Areas covered in the proposals included working time, maternity rights, child labour, sick and annual leave and the protection of part-time and contract workers. The proposal was also made for the Wage Board to be reconstituted as an employment standards commission and its functions extended. A central feature of the proposals was for greater regulated flexibility, which would operate through the improvement of employment standards and the criteria for making it possible. A fine balance was struck between creating flexible working arrangements that would not increase the administrative burden of employers yet be compatible with job creation and introduce effective enforcement mechanisms for employment standards. Similar processes were enacted for Green Papers which dealt with *Policy Proposals for a New Employment and Occupational Equity Statute* (1996) and (1997).

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[25] Republic of South Africa (1996) Restructuring the South African Labour Market: Report of the Commission to Investigate the Development of a Comprehensive Labour Market Policy. June 1996 (RP 83/1996).

3. The regulatory framework

There are a number of components to a regulatory framework but it bears mentioning that the enactment of effective legislation through which juridical contestations to exercise and implement the process has to be in place. These unambiguous laws have to be supported with the necessary authority to impose penalties and sanctions against transgressors. However, the law has to correspond with the circumstances over which oversight is required and therefore changes to these circumstances and conditions have to accommodated in amendments to the law. The philosophy of co-operative governance which guides the present South African government has equipped it with enormous sensitivity to dys-functionality and unintended consequences in policy formulation and when the effects of the policy prove either negative or counter-productive, there has been little hesitation about reviewing the process. Similar postulates are encouraged among the state's social partners and while not usually acknowledged explicitly, the capacity to broker a deal under high odds is proving to be an acknowledged South African trait. The governance philosophy of co-operative governance imbues negotiation and brokerage with its elements of success but more importantly the institutions through which co-operative governance is practiced is embedded with a degree of flexibility that is conducive to confronting change and renewal. This level of institutional flexibility resonates in turn as a capacity to maintain flexibility in the labour laws which are enacted. However the regulatory framework that directs the institutional fabric in which the laws are rooted is not merely a legalistic oasis that disappears further onwards. The laws that are enacted and the obligations and sanctions which they embody, are designed to adhere to particular measures of compliance. The standards of compliance chosen are rooted in a recognition of the capacities required to put them into effect. Laws which cannot be complied with, often have no more than a gestural and symbolic significance: they make an appeal to the politics of posture and bland rhetoric. Laws supported by effective compliance measures, contribute to a sense of trust and social achievement that is an essential ingredient for a dynamic industrial relations milieu. Finally, the proof to the claim in the flexibility to any regulatory framework is normally exhibited through the elicitation of grievances disaffected parties receive through the legal instruments of that are perpetuated through it. Within the organs of government there has developed an enormous sensitivity to the unintended consequences and dis-employment effects in the promulgation of new labour laws. Arguments supported by robust evidence that can be independently verified are encouraged because these give signals about the effect and perhaps the unintended consequences of regulated market interventions.

3.1 Labour legislation

Four significant items of labour legislation in South Africa have been passed since 1995. The most important of these have been the Labour Relations Act (1995) and the Basic Conditions of Employment Act (1997). Each item of legislation builds upon a coherent framework and as we have explained above these build on the principles of the national constitution and extends these to other sites of governance and regulation. The legislation concerning Skills and Equity are attempt to obtain greater momentum in the process of implementation and delivery according to the initial visions that have been mapped since 1994. This also explains why these subsequent Act have introduced new types of co-ordinating and implementing institutions to the areas identified for reconstruction and development.

Labour Relations Act

The Labour Relations Act is designed to enhance organisational rights for trade unions and entrenched the constitutional right to strike. Furthermore it is designed to simplify dispute resolution procedures, promote sectoral collective bargaining and also codify dismissal procedures. The Act is the bedrock for the promulgation of further labour legislation because it makes provision for the establishment of new institutions through which a stable labour relations system can be delivered. The key dispute resolution institutions which are established through the Act are bargaining councils and the Commission for Conciliation, Mediation and Arbitration. Bargaining Councils involved the bilateral participation and negotiation between employers and their organisations and trade unions. The Labour Relations Act also allows the collective agreement to establish a closed shop or agency shop at the workplace. Finally the Labour Relations Act provides the Labour Court with the equivalent status of the Supreme Court in any of the country's provinces. The decisions of the Labour Court establish the principles of precedent in all future judgements. With respect to the extension of rights, the Labour Relations Act protects employees against unfair dismissals and these are set out in more detail in the Act. It also confers the right of employees to strike under certain conditions: the right of employers to engage in a lock-out under certain conditions is also preserved.

Basic Conditions of Employment Act

The Basic Conditions of Employment Act No.75 of 1997 is designed to cover the conditions of employment of roughly 6 million workers. It is aimed at improving the working conditions of unorganised and vulnerable workers but it also attempts to address rigidities inherited from the old Act. While the new Act sets a new floor for standards, it also allows for the variation of conditions through collective bargaining, sectoral determinations (which replaces the old industry based and often geographically demarcated) wage determinations, individual contracts of employment and through determinations made by the Minister of Labour. So as well as extending labour standards to many sectors that had previously not been covered (state employees, farm and domestic workers) the Basic Conditions of Employment Act also removes exemptions from standards. These apply to workers in non-standard employment such as part-time workers, temporary workers, employees of contractors and so on. The Act also allows for limited variation in standards to exist across sectors. One of the key features of the Basic Conditions of Employment Act is been its endorsement for the introducing a variety of flexible working arrangement particularly with respect to working time. These include the compressed working week and the averaging of hours of work over a period of four months.

The working hours set for the normal working week was reduced from 46 hours to 45 hours a week, resulting in employees working for five days working no more than 9 hours per day. Prohibitions on the limits to the working of overtime was set at 3 hours per day and 10 hours per week, and the compensation for the working of overtime was increased from the customary 'time and a third' to 'time and a half'. For employees working more than five days a week, the maximum length of time per day was reduced to 8 hours. Exceptions prevailed in the case of security guards who are required to work a maximum of 60 hours per week. It also allowed for the compulsory double-time hourly rate for work on a Sunday.

In addition, more favourable conditions were provided for maternity leave, annual leave and the notice period that employees had to serve. It also tightened restrictions on the use of child labour through full adherence to ILO Convention 138 on the minimum working age of young people.

The Basic Conditions of Employment Act of 1997, granted the following concessions to employer who has ten or less employees:

- Limitations on the permissible overtime that could be worked per week was increased from 10 to 15 hours.
- The wage rate for overtime decreased from one and a half to one and a third the normal rate for the first 10 hours of overtime worked per week. If any amount of overtime worked that exceeded 10 hours, wages reverted to one and a half times the normal rate.
- The normal hours and the length of overtime of an employee could be determined by written agreement between the employer and the employee for a period of up to 4 months. However, an employee was not required to work more than 45 hours a week and was not obliged to work more than 15 hours overtime per week.
- The employer and the employee could agree in writing that the three days of annual family leave stipulated in section 27 of the Basic Conditions of Employment Act could be reduced or abolished.

It has been suggested by some academics such as Nattrass (2000:131) that the longer family and annual leave in the BCEA increases the direct cost of employing labour while the reduced hours of work increases their hourly fixed cost.

Employment Equity Act

The Employment Equity Act seeks to eliminate unfair discrimination in employment and makes provision for the corrective measures to compensate for the denial of past opportunities to South Africans who were disadvantaged by discrimination and oppression under apartheid. It targets the domain of employment training, opportunities for promotion and equitable remuneration as the site for the rectification of these imbalances, particularly with respect to black people, women and people with disabilities. The objective of this measure is to ensure that greater equity in all occupational categories and levels is achieved at the workplace. Employers who employ 50 or more workers are obliged to develop specific affirmative action plans, formulated in consultation with workers or their representatives. These plans have to contain voluntary targets, which are to be monitored through employment equity plans, which have to be submitted to the Director General of the Department of Labour (Department of Labour, 2000).

Skills Development Act

The Skills Development Act (1998)and the Skills Development Levies Act (1999) attempt to strengthen the link between the workplace education and training and economic growth and the creation of employment opportunities. The Skills Development Act seeks to establish a high quality workplace, education and training system that is cost effective and accountable, meets training needs and contributes to employment and economic growth. The Skills Development Levies Act seeks to put in place an incentive system to promote increase investments by firms in skills development and to ensure that funds are available for national skills priorities (Department of Labour, 2000). The combined legislation seeks to increase the levels of investment in education and training within the labour market in order to enhance the employment prospects of employees. By increasing the return on investment to education and training the strategy encourages employers to provide more opportunities for their employees to acquire new skills. The new legislation also provides for the establishment of a National Skills Authority to advice the Minister of Labour on the formulation and implementation of a skills development policy and strategy. Payroll taxes consolidated in the National Skills Fund are directed to finance the process. The Sector Education and Training Authorities (SETAs) which exist for every sector (27 in total) are required to develop sector skills plans within the framework of the national skills development strategy and to implement these plans.

The Skills Development Planning Unit in the Department of Labour is required to research and analyse the labour market in order to determine its skills development needs. It is also required to assist in the formulation of the skills development strategy and the sector skills development plans. The Skills Development Planning Unit is also tasked to provide the Minister as well as the National Skills Development Authority, the SETAs, education and training providers and organs of the state with information on skills. Implementation is to be through the establishment of practical learnerships with employers, education and training providers and workers with monitoring mechanisms for each sector. Membership to each SETA is to be derived from relevant stakeholders: organised labour, organised employers, including small businesses, relevant government departments, professional bodies with a stake in the process and bargaining councils.

3.2 Compliance

While each of the promulgated labour market legislation invokes the agreement between the different parties as the basis of achieving compliance, there are other measures to achieve this. The conciliation and arbitration machinery that the LRA unleashes is the starting point and the expectation is that litigation is the last resort to resolving disputes, even with respect to compliance. The Department of Labour through its inspectorate always plays an important role in monitoring and enforcing good codes of conduct with respect to the employment conditions that the law regulates.

Labour Relations Act

As a starting point the Labour Relations Act seeks to obtain compliance to the provisions of the Act through negotiation and consensus. Both procedural and substantive legal measures can be marshalled to obtain a resolution to disputes that arise between employers and employees. However, once these steps have been exhausted either of the parties to a dispute can submit for the settlement of a dispute to be heard before a judge of the Labour Court. The Labour Court has the juridical authority, power and standing relating to matters under its jurisdiction equal to that of the Supreme Court. A fundamental advance that the Labour Court has over the old industrial court that it replaced is that the rulings of the Labour Court is now subject to the rule of precedent. Any decision, judgement or order of the Labour Court may be served and executed as if it were a decision, decision judgement or order of the Supreme Court. If granted, appeals to judgements of the Labour Court may be brought before the Labour Appeals Court. The Labour Appeals Court has the inherent status, power and authority of the Appellate Division of the Supreme Court of South Africa concerning matters under its jurisdiction. Only the constitution of South Africa or further amendments to the Labour Relations Act can override its provisions. The organisations through which employee interests at the workplace are represented are also encouraged to monitor the employer’s compliance with workplace related provisions of the Act.

Basic Conditions of Employment Act

The BCEA provides for the Department of Labour to exercise the functions of monitoring and enforcement of the minima prescribed conditions. Labour inspectors who are based within the Department are ascribed to carry out this role. Inspectors are empowered rights of inspection and have the authority to investigate complaints. They do not require a warrant or a notice to carry out inspections at business premises. Where proof exists of an employer not complying to the conditions of the Act, the labour inspector has the power to issue an employer with a compliance order. A maximum fine may also be imposed on the employer to comply with the provisions of the Act. Under certain circumstances the Director-General of the Department of Labour can apply to the Labour Court in terms of clause 158(1)(c) of the Labour Relations Act of 1995, for the compliance order to be made an order of the Labour Court. An order from the Director-General can also be made an order of the Labour Court. Any magistrate’s court has the jurisdiction to impose penalties for violations of the Basic Conditions of Employment Act which can result in a fine or a maximum prison sentence of three years.

Skills Development Act

The Labour Court has exclusive jurisdiction in upholding the Skills Development Act. Exactly the same procedures apply to the monitoring and evaluation of the Skills Development Act to those specified in the Basic Conditions of Employment Act. Contravening the Skills Development Act can result in the convicted person being fined or being imprisoned for a period not exceeding one year. The Minister of Labour after consultation with the National Skills Authority can gazette notices relating to regulations prescribed under the Act.

Employment Equity Act

All employee and trade union representatives can report an alleged contravention to the Act to bodies and agents which are party to the Act. Labour inspectors hold the same monitoring and enforcement function with respect to the Employment Equity Act that they possess under the Basic Conditions of Employment Act. Employers are required to prepare an employment equity plan and demonstrate concrete steps to implement it. Labour inspectors can issue a compliance order against employers who refuses or failure to comply with the Act. Failure to comply with an order can result in the imposition of a maximum fine against an employer. In its review of the progress made by a designated employer in implementing employment equity, the Director-General has to take into account a number of contextual conditions concerning the representation of disadvantaged groups within particular occupational categories. The concern is with determining progress by which suitably qualified people from and amongst the different designated groups are equitably represented in each occupational category within an enterprise. These preconditions have to be considered in relations to the national and regional demographic profile of the economically active population and the expected steps in the promotion of suitably qualified people from designated groups. In terms of the demand driven nature of the legislative interventions these social targets are measured against economic and financial factors internal to the operation of an employer's business. Failure to comply with recommendations of the Director-General can result in the matter being referred to the Labour Court. In terms of its judgement, the Labour Court can make a compliance order an order. The Labour Court can award compensation or damages for contravention of the Act. It can also order compliance to any provision of the Act. A fine can also be imposed in accordance with the Schedule shown in Appendix 2.

3.3 Experience of firms

While welcoming the new regulatory frameworks, employers as a group cautioned that the cost implications of the new conditions would exert an effect on their capacity to expand employment. Many cautioned that it would affect the level of employment directly as employers in different sectors would begin to capitalised their industrial process further and engage in deploy greater levels of capital while substituting labour. The parliamentary opposition echoed these arguments about the unintended consequences of the new regulatory framework. New evidence to substantiate these claims were provided by the South African Institute of Race Relations and the World Bank. The Race Relations study showed that American companies felt that the industrial relations environment in South African was overburdened with labour legislation and this added further industrial relations costs to the operations of investors (SAIRR, 2001: 307). The World Bank Firm Survey[26] undertook to understand the structural factors contributing to a low growth rate and weak job creation capacity in the South African economy

[26] Local Firm Survey in the Greater Johannesburg Metropolitan Area, World Bank Survey Report, 2001.

during the 1990s. Three critical constraints were identified for South African firms: crime, labour regulations and the shortage of skills. Analysis of firm responses to labour legislation identified a number of real concerns. Apart from the costs to firms of compliance, the legal and procedural requirements with respect to the hiring and dismissal of employees, the extension of agreements and the number of trade unions with whom firms were required to do business with was identified as a ‘hassle factor’ for firms. The ‘hassle factor’ therefore was not confined to solely to meeting normal wage and benefit costs of employers: it was costly for firms to devote resources to managing this dimension of their operations since it added to their implicit fixed costs of doing business with labour. The World Bank Firm Survey showed that the average time required to retrench an entry level worker in large firms 1999 was 2.7 months at a cost ranging from R2160 to R2900. Overall, in 22 per cent of all firms more than 1 out of 10 workers was involved in a disciplinary enquiry. The cost to a large firm of hiring entry-level workers amounted to R9000, more than twice the costs to small firms. At least 40 per cent of firms surveyed were encouraged to resort to counter measures to avoid where possible scenarios of ‘hassle’ and these are really the unintended consequences of the law. These included: hiring fewer workers, substituting machinery for labour when expanding, hiring temporary workers than permanent workers and using sub-contractors. The employment of temporary labour was associated with providing flexibility and enabling firms to reduce the permanent work force. Subcontracting was seen to be cheaper, requiring less labour discipline. The unintended consequence of these responses has been a reduction in permanent formal employment in the manufacturing sector.

The evidence from the above survey was important to dispel a number of myths about the employment creating potential of small firms compared to large firms. Within the Greater Johannesburg Metropolitan Area where the survey was conducted, compared to small firms, large firms created more jobs per firm in every employment category. These results question the short to medium term rationale of labour market strategies that promote small firms at the expense of large firms. However they also show that the dichotomy between providing protective labour legislation on the one hand and still balance this with the effective generation of employment through private sector investment and firm expansion on the other hand gives rise to unintended effects that do the reverse. As it was argued in the World Bank Firm Survey, the hassle factor aggravated these tensions by giving rise to implicit costs to firms particularly around hiring and firing decisions, retrenchment and hiring costs and disciplinary inquiries.

4. Labour market institutions

This is not an exhaustive representation of the plethora of labour market institutions that are operative in South Africa. It merely provides a sketch of the broader scenario. A distinction is draw between trilateral institutions and bi-lateral institutions. Tri-lateral institutions either contain representation from all the social partners or at least elicit participation from them to some aspects of decision making. Bi-lateral institutions are defined to represent the negotiation and participation of business and labour around matters of common concern. The state tends to play a mediating role with respect to bi-lateral institutions, by providing the framework for participation and ensuring that the outcomes of the participation are permissible within the ambit of the law.

4.1 Trilateral institutions

NEDLAC

Tripartite institutions are important in contributing to an organised transformation process. The principle tripartite institution that is operative on the labour market is NEDLAC. It constitutes the statutory body tasked to reach consensus and reach binding agreements between the social partners on social and economic policy particularly relating to public finance and monetary policy, labour market and development policy. Among the functions it performs is the demarcation of sectors deemed appropriate in which a bargaining council should be registered. It plays a central role in preparing codes of conduct relating to labour relations at the workplace and these are published from time to time in the Government Gazette. It performs the role of facilitation between different government ministries on matters relating to the LRA. It also exercises influence in the nomination of members to the CCMA and advises the President of the country on the appointment of judges to the Labour Court and the Labour Appeals Court.

Employment Conditions Commission

The Basic Conditions of Employment Act provides for the Employment Conditions Commission (ECC) to replace the old Wage Board and to investigate wages and working conditions in trades and industries that fall outside the ambit of Bargaining Councils. Thus, workers who are outside the bargaining council system are covered by sectoral determinations issued by the Minister of Labour. It performs an advisory function to the minister of Labour on the most appropriate minimum wages that ought to be set.

The Commission for Conciliation, Mediation and Arbitration (CCMA)

The provision of the Labour Relations Act allows for the establishment of the CCMA to speed up and simplify the process of dispute resolution by means of mediation and where this fails, by means of arbitration. It invokes litigation as a last resort by compelling the parties to a dispute to attempt conciliation and mediation before resorting to industrial action.

4.2 Bilateral institutions

Bargaining Councils

Bargaining Councils are collective bargaining institutions that are that are voluntarily established between trade unions and employer organisations in specific industries. Wages, conditions of employment and disputes are negotiated between the different parties to a bargaining council. All existing industrial councils established under the previous Labour Relations Act were deemed to be bargaining councils under the new Act. Only the state as an individual employer can be a party to a bargaining council and not individual employers. Bargaining Councils are required to conclude collective agreements between employee organisations and employer organisations but these bodies also have the responsibility to enforce collective agreements as a first-step towards preventing and resolving labour disputes. In doing so, bargaining councils may confer on workplace forums additional matters for consultation. But as well as performing the functions of collective bargaining and facilitating dispute resolution, bargaining councils also establish and administer pension, provident and other welfare funds. Formal recognition of a bargaining council entails that both trade unions and employer organisations simultaneously represent and employ over 50 per cent of the workers in the industry or sector. Roughly two-thirds of workers in the manufacturing sector are covered by bargaining council agreements either directly or through the extension of agreements (Nattrass, 2000). If the parties constituting a bargaining council are sufficiently representative, the Minister of Labour is obliged to extend the agreement to non-parties in the sector or industry. The effect of accrediting bargaining councils with the power to resolve disputes as a first resort, shifts a significant part of the cost of dispute resolution from the CCMA to the bargaining or statutory council.

Statutory Councils

The Labour Relations Act also provides for the establishment of a new type of council known as statutory councils. Statutory councils are embryonic bargaining councils, but unlike bargaining councils can be established by either a trade union or an employer organisation if they represent or employ 30 per cent of employees in a sector. Statutory councils can only be registered if there is no bargaining council in the sector. Statutory councils have the power to carry out similar functions as those undertaken by industrial councils but they may not bargain over wages and working conditions without the agreement of all parties.

5. Labour policy and the informal sector

From the outside the juncture between the formal sector and the informal sector in South Africa appears to be extremely stark. This seems to be reaffirmed by the categorical nature by which firms are presented in labour market statistics: either as formal or informal. Both formal sector firms and informal sectors firms or businesses are further disaggregated through economic ownership. Table 23 shows that 25 per cent of total employment in the South African economy is based in the informal sector. As can be observed in Table 23 below, the degrees of ownership and participation in self-initiated or dependent economic activity which is the norm in the formal sector is replicated for establishments in the informal sector. In both employment by others and self employment occurs, although as is to be expected the preponderance towards self employment in the informal sector is greater: almost 41 per cent of individuals who work in the informal sector are self-employed, while 6.3 per cent of individuals engaged in the formal sector can be classified thus. So individuals who are formally engaged in the formal sector can straddle the informal sector and partially use these activities as a supplementary source of income to formal sector activities. It is also possible for economic activity which is largely based in the formal sector to veer partially towards more formal practices.

Table 23. The size of informal sector, as captured in the 1999 OHS

Employment category	Total	Formal[a]	Informal	Share of informal in the employment category	Share of informal in total employment
Employed by someone else	8753659	7279588	1474071	16.8%	14.1%
Self-employed	1578175	492028	1086147	68.8%	10.4%
Both employed and self-employed[b]	106515	15862	90653	85.11%	0.9%
Total	10438349	7787478	2650871	25.4%	25.4%

Source: Own computations from OHS 1999

Note: [a] Formal sector employment is where the employer (institution, business or private individual) is registered to perform the activity.

[b] These individuals report here the nature of their self-employed activity

Informal sector firms present a range of challenges concerning their measurement and participation in economic activity. As a rule, firms that do not form part of the formal sector are not bound by any legislation except that which is implicitly regarded to be acceptable, nor are they bound by adherence to legislated wage minima. Informal sector firms are not registered. So while they are not incorporated into the legal system by the provision of central economic and legal laws, as a result owners of such firms often choose to remain outside the taxation net. However as unregistered business entities they are not able to derive benefits which registration brings. Two examples illustrate the point. In the first instance, unregistered firms are not able to derive government subsidies around the promotion of small business activity. In the second instance, within the formal sector, established banks will not be able to grant lending and overdraft facilities to firms that specify their economic activities as informal. For this purpose the banks are prone to classify the owners of such establishments as unemployed. This is certainly a hassle factor for informal sector firms which would serve as an inducement for them to become registered as firms in the formal sector.

However the surveillance mechanisms which follows state legislation serves as a deterrent to firms which have long ceased their de facto operations as informal enterprises. Enterprises, which by default or by intention still remain unregistered, despite a change of status, are liable to punitive measures from state authorities whose task it is to achieve full compliance and eliminated unnecessary loopholes. At some stage, informal sector firms, which are able to exhibit a growth in the number of staff employed would have to show staff members why they are unable to receive basic benefits. These would be benefits for unpredictable eventualities such as an industrial accident or a forced retrenchment faces scrutiny from the authorities if complaints are launched by former or present staff members. Nobody who is not included in the formal loop through choice would one to be brought back as a result of a change in economic status because this implies mounting a defence against the sanctions being imposed against it. These can be costly to involve: unpaid taxes, unpaid levies and fees in favour of past and existing staff members as well as fines for evading the law. There is a level at which even small and struggling firms can endure the hassle of existing outside the law and outside the regulatory framework. Perhaps, this built in mechanism to participate in the formal economy is absent only in ‘flea’, survivalist and micro enterprises.

Our analysis therefore suggests that there is some haziness about the incorporation of informal sector firms into the formal industrial relations mechanisms defined through the Labour Relations Act and the Basic Conditions of Employment Act. Logically, informal sector firms that are not party to a bargaining council but which operate within sectors regulated by bargaining councils are incorporated into the Labour Relations Act and operate under the jurisdiction of a bargaining council merely through the fact of an extension to the agreement. Even though such firms fall outside the ambit of the Labour Relations Act, the employment conditions of employees in such firms would be regulated by the Basic Conditions of Employment. Formally therefore, such firms do not have the liberty to be outside the Labour Relations Act or the Basic Conditions of Employment Act. So they can operate as firms do in the scenario sketched for unregistered firms. However, both the Labour Relations Act and the Basic Conditions of Employment Acts provide extensive scope for firms to apply for exemptions from the requirements of either Act. The exemption clauses are specifically tailored for small, medium and micro-enterprises which can demonstrate that the scope and minimum standards of the legislation is harmful to their business. Exemptions from the conditions of the legislation are granted in most cases but they are reviewed if there is evidence that the particular firms can afford to comply and are not deriving an unfair advantage over firms that do comply. In the case of industrial councils, more than 80 per cent of applications for applications for exemptions to bargaining council regulations have been granted since 1993 (Stapelberg, 1999). Non members to a bargaining council are encouraged to apply directly to the relevant bargaining council for an exemption but they can refer the matter to an outside panel if they are unsuccessful in obtaining an exemption. Evidence reproduced in the Institute of Race Relations, South Africa Survey confirms that the growth in the applications for exemptions from bargaining council regulations illustrates the greater level of flexibility which industrial councils are taking with respect to minimum standards setting regulations:

> 'In 1998 bargaining councils granted 5493 exemptions from the provisions of bargaining council agreements to employers. By 1999 the number had grown to 5591 – by 2 per cent'. (SAIRR 2000/1 Survey, p.311). The fact that 188 out of 391 applications for exemptions from certain terms of the Basic Conditions of Employment Act of 1997 had been granted by June 2000, suggests that these were mainly for employers located in the lower wage sector of the economy. The exemptions covered 344 686 employees, including 203 975 mineworkers (Business Day, 12 June 2000).

6. Exemptions to labour legislation

With respect to the regulatory framework governing labour market activities, exemption clauses have tended to phase the effect of the statutes on small employers and those occupying low profit sectors. This applies particularly to the specification of minimum standards which have served as a protective floor for workers not covered by bargaining agreements between trade unions and employers. The exemptions have been granted in consideration of the disemployment effects which the immediate application on the standards can cause. Exemptions to agreements are thus an attempt to create flexibility for small and medium sized businesses from the provisions of industry-wide agreements. Exemptions have not been automatic. The onus of proof has always been required from those applying for an exemption from particular statutes or all statutes to an agreement. Exemptions do not operate into perpetuity either. Normally they have been granted for the period estimated by which an employer's business would be established and running profitably. The growth of small businesses and the role which these have played in generating employment as well as absorbing new entrants to the labour market in relation to their larger and erstwhile competitors, has encouraged legislators and policy makers generally to protect this sector of business enterprise. Some small firms may be classified as part of the formal sector of employment; others can be regarded as part of the informal economy. The granting of time-based exemptions to labour legislation may even encourage some firms to classify themselves permanently within the informal economy. Enterprises that remain small and are perpetually successful at obtaining exemptions from labour and other where minimum standards are enforced can end up being placed permanently in the informal economy. Exemptions are usually obtained by employers for release from the payment of minimum wages to employees and against strict adherence to basic conditions such as working hours, less stringent adherence to the length of overtime performed in a given cycle and less stringent adherence to benefits accorded to employees. The norm however is for exemptions to cover the payment of minimum wages but these can be derived for any item of labour legislation.

Exemptions which are a product of the flexible application of the conditions specified in labour law and are very different from the erosion and suspension of labour legislation. This is because exemptions are still concerned with achieving a balance between efficiency in the use of productive resources and the protection of human resources, while erosion represents the dismantling of labour legislation. Until recently, labour laws in South Africa did not cover employers or sub-contractors. In the clothing industry for example during the year 2000, intersectoral rivalry between the Kwa Zulu Clothing Manufacturers Association who participated in centralised bargaining and the Confederation of Employers of Southern Africa (COFESA) who have been attempting to resist the ambit of the Labour Relations Act came to the fore. COFESA encouraged its members to redefine the employment relationship in order to be free of the protective standards of the law. They did so by re-employing their workers as sub-contractors, which excluded them from labour legislation. The Kwa-Zulu Clothing Manufacturers indicated that they were going to challenge this in the Labour Court, but it would take three years for the case to be heard because of the court's caseload (SAIRR 2000/1 Survey, p.312).

While there is the general commitment by the Department of Labour to build an efficient and stable industrial relations system, these sentiments are not always shared by agencies in other government departments. As an illustration of the incomplete nature of regulation and harmonisation between state bodies with overlapping functions, the National Small Business Act of 1996 provides for the establishment of the Ntsika Enterprise promotion Agency (NEPA) as the statutory body empowered to assist small business. Among the functions of NEPA are the investigation of the effect of labour legislation on small business at the request of the director general of trade and industry (DTI, Annual Report, 1995). In March 1999 Ntsika produced a rather destructive paper on the hassles associated with labour reform by suggesting that the certain basic conditions of employment contained in the Basic Conditions of Employment Act should be eroded. In a review at the time, Roskam and Raffinetti (1999: 13) observed that the article 'targets the overtime rate; the minimum severance pay requirements; the minimum annual, sick and maternity leave provisions; the weekly maximum working hours; the minimum notice periods and the minimum wages'. This was despite the Employment Conditions Commission not having had the opportunity to set minimum wages. It is important to openly raise issues of labour market rigidities when they do occur. But when one agency of government advocates a position that is diametrically opposite to that which another is trying to do under resource constraints, it raises issues about inadequate co-ordination and the advocacy of sentiments that contradict government policies which is dangerous for the health of industrial relations.

The heated debate about the severity of unreasonable labour legislation which are strongly voiced sections of the local business community, often ignores the details of the legislation where flexibility around its application is maintained according to the requirements of the real world. A survey of the effect of the Basic Conditions of Employment on small business undertaken by Shane Godfrey and Jan Theron (1999) at the University of Cape Town, shows that many firms would have to make some adjustments to accommodate the new provisions of the law. Some of these involve increased labour costs that stem from reduced working hours as well as increments in the compensation of overtime and for night leave and maternity leave. Only employers with female workers of childbearing age, were affected by these costs and then only when such workers were pregnant. However they found that the adjustments were not of a magnitude that threatens the viability of small firms. In fact the businesses that risked being negatively affected the most, were those who had not yet complied with the 1983 Basic Conditions of Employment Act but who were required to comply with the new BCEA. Godfrey and Theron also found that many firms who stated they had not started to comply with any of the employment regulations in the BCEA were in fact providing conditions equal to or better than firms complying with such regulations and therefore also above the minimum standards contained in the Act.

Exemption from existing labour legislation is not the only intervention to stimulate the growth of small-scale enterprises. Just as a battery of interventions exists to enhance formal sector employment growth legislative provisions targeted the growth and consolidation of small-scale enterprises exist specifically around financial assistance, tendering conditions and taxation provisions. For example, the National Small Business Act provides for the establishment of the Ntsika Enterprise Promotions Agency (NEPA) as a statutory body to assist small business. One of the functions of the NEPA is to investigate at the request of the director general of Trade and Industry, the effect of labour legislation on small business (DTI, Annual Report 1995). In 1996, the Revenue Laws Amendment Act made provision for a tax holiday of between two and six years to by making provision for an accelerated depreciation for new and unused machinery and factories.

7. Revision and simplification of regulatory framework

One of the criticisms of centralised bargaining is that is that it unnecessarily introduces rigidities and bureaucratisation to the industrial relations scenario, despite its provisions for exemptions. The argument is that such rigidities in the bargaining system can harm the competitiveness of South African industries on global markets “at a time when the products of South African industries are already overpriced on world markets”(Innes, 1995: 10). Many of these sentiments were echoed in the debate about the appropriateness of labour legislation for the South African labour market. One argument was that there was insufficient labour market flexibility to link pay increases to increased productivity.

With the effects of labour legislation placed under such scrutiny by employers, the South African government has tended to adopt a flexible approach to reviewing these arguments. By the government’s own admission the process that led to the amendments to the some aspects of labour legislation began in 1999 at the Department of Labour particularly as it related to small and medium businesses.

> ‘It is the view of the Department that the problems of application have contributed considerably to the negative perception of our laws, particularly the perception that dismissal is onerous and expensive. Small businesses have often had to bear the brunt of these application problems’(Department of Labour, 2000, 3 of 7)

In July 2000 the minister of labour, Mr Membthisi Mdladlana, published a series of proposed amendments to the Labour Relations Act of 1995, the Basic Conditions of Employment Act of 1997, and the Insolvency Act of 1936. The result of these amendments would also give bargaining council agents more powers, streamline legal procedures, and make provision for the extension of basic conditions and other rights to ‘atyptical’ employees. It was indicated that other amendments would allow for greater flexibility in working hours, overtime, and overtime pay. Employees would also be given certain rights when the ownership of a business was transferred or when the business was closed. The amendments were designed to increase the sensitivity of the legal framework to the imperatives of creating jobs. The government was also concerned to address the unintended consequences of some provisions of the law and to ensure that effective alignment of the laws with the changing labour market environment was taking place. At the present time, a Draft Bill covering certain aspects of the Amendment of the Basic Conditions of Employment is due to be discussed in parliament during the 2001 parliamentary session. The point that is being emphasised is that despite being bound in an electoral alliance with SACP and COSATU, the ANC government has not been immune to pressures to review certain aspects of the legislative framework which have inhibited economic growth and job creation. These pressures generally stem from the forces of globalization and the quest to secure greater flexibility in the regulation of markets and governance of the actions of agents that are active in those markets.

8. Summary remarks

The discussion, which reviews the existing labour market policy and regulatory framework, shows that the regulatory framework over the past six years has witnessed substantial change and innovation. These changes and innovations are a function of the post-1994 legal framework. A battery of new legislation presently governs industrial relations in South Africa. Some of these address the mechanisms to enhance human resource development in South Africa. Importantly however, the entire industrial relations framework in South Africa addresses the issue of establishing basic floor of rights at the workplace for all participants in the economy.

Yet, the pervasive demands of incorporating an emerging developing economy such as South Africa into the national global economy is being understood as the most appropriate route towards obtaining sustainable economic growth. This has compelled the state and the institutions through which state power is exercised to devise more sophisticated strategies to the reform of its labour market. These include a demand driven skills strategy and flexibility in the application of labour regulation. But these interventions are also characterised by attempts to unshackle markets and limit onerous regulation that stifles economic activity. This gives us an indication why exemptions for small and emerging enterprises is given much greater attention than previously. Increasingly, the state has become less prescriptive and concentrated greater energies to advance the economic well-being of its citizens through facilitation and regulation of institutions through voluntary participation of stakeholders and social partners.

Taking evidence from international trade as a direct measure of globalization, the rapid reduction in tariffs which has been witnessed for the South African economy generally means that an inflexible adherence to rigid labour legislation can be onerous for local manufacturers. Unless similar compliance is required from companies operating from import competitors, a trade advantage is conceded because of the implicit costs of obtaining minimum standards. More importantly, the state has demonstrated an acute sensitivity to the disemployment impact which labour legislation is capable of having on the domestic market and this has been manifest in its preparedness to review the existing labour legislation which its alliance partners vociferously support. The dilemma which the government faces is to manage and maintain the balance between the achieving the rights that are conferred through equity and the imperatives of eliminating poverty and unemployment which require. The former is achieved by securing minimum standards in basic conditions of employment; the latter is achieved by targeting economic growth and job creation at the expense of minimum standards. It’s a dilemma, which cuts right through the ANC’s electoral allies in the SACP and COSATU and only time will provide indications of its management.

V. Conclusions

The above paper has traversed a wide intellectual terrain, albeit all concentrated within the arena of the labour market and the effects that globalization may be having on this factor market. It is clear that the policy makers in the country are faced with the initial dilemma of trying to reduce the existing levels of poverty and inequality on the back of what has essentially been a poor-performing economy since 1995.

The paper showed that these welfare challenges have only grown since 1995, as employment growth has firstly been relatively tepid and secondly has been biased toward skilled and semi-skilled workers. The result of this is to render many of the new work seekers that have streamed into the labour market annually since 1995, jobless. We, importantly, note that globalization alone cannot be viewed as the single cause of this poor employment performance, although it is clearly an important component in the explanation. The direct evidence we do present on the impact of trade and globalization more generally on the labour market, yields mixed results. On the one hand the evidence suggests that trade liberalization did not yield significant employment losses. On the other hand, estimates for the manufacturing industry suggest that employment losses were recorded for unskilled workers during the period of intensive liberalization.

In terms of wage data, again while not being able to ascribe the results purely to globalization, the data showed that wage levels for all race groups fell between 1995 and 1999. This result was most powerfully displayed in the headcount indices for the employed by race, between 1995 and 1999, where poverty levels amongst all groups increased substantially in the five year period. The notion of the wage-employment trade-off goes to the heart, in many senses, of the labour market debates in South Africa. Our overview suggested that the elasticity was negative and significant, although numerous sectoral variations were present. Of relevance here though, is the fact that this elasticity does show that employers are sensitive to wage hikes. In an era of fast liberalizing trade and greater cost pressures on employers as a result, the interpretation of these elasticities by policy makers becomes crucial. The action taken by policy makers on this trade-off has been minimal, given that the poverty consequences would have both social and, as the last section of this report has crisply shown, political costs in terms of the ANC, COSATU and SACP alliance. The extension of the wage discussion revealed that in terms of output price inflation, the union movement has been fairly disciplined in its wage demands. However, the regulatory environment, together with the strike statistics over the last five years, suggests that on the contrary, the union movement has used its significant power quite substantially over the last five years.

The final section of the paper laid out the legislative environment within which the South African labour market operates. It is evident that soon after 1994, the consensual approach to change in South Africa, had been co-opted into the labour legislative arena. As a result, the LRA was crafted around a long and at times tortuous process of dialogue and consultation. In addition, the period immediately after 1994 also saw the foundations being laid for further legislation, notably the EEA and the SDA, which both provided a signal of the state’s intentions in terms of correcting past human capital imbalances.

However, it is also evident that during this period and after the effects of the new legislation, particularly the LRA, were felt by firms, that changes to the legislation would be required. Specifically, firms indicated that less than concerns over the wage rate, it was the growing ‘hassle factor’ associated with hiring employees that induced significant rigidities in the labour market. The growing resistance, by both foreign and domestic firms to what was perceived to be a highly regulated labour market, has led to government, through the Department of Labour proposing amendments to the relevant legislation. In this series of developments, we probably have the most stark example of the effects of globalization. Firms, faced with increasing challenges to be internationally competitive, soon realised that labour hiring and firing costs were an impediment, amongst other variables, to expansion into foreign markets. Government furthermore, had to deal with foreign investors deciding not to enter the country and in almost each individual case, citing the labour relations environment as one the key reasons for their reluctance. Faced then with this twin pressure, from domestic employers and potential foreign investors, government began steadily to move toward modifying some of the more inhibitive aspects of the LRA and BCEA. Finally the section also noted the importance of legislation to the informal sector, and how the sensitivity to SMME support and job creation was reflected through the exemptions clause. It remains unclear however, whether this legislative provisions alone can act as a fillip to a sector that currently provides many individuals with a second-best alternative to formal employment.

It is hoped then that this paper has provided an overview of the general economic, labour market and legislative challenges that this country faces. The exogenous influence of trade liberalization and more generally, globalization, has ensured that despite the already significant welfare needs of the populace, that these are more than likely to grow as the effects of greater openness permeate more deeply into the society over the long-run.

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Appendix 1: Earnings functions

1) Data and methodology

- Sampling design

The data are derived from the 1995 and 1999 OHS. A two-stage sampling procedure was applied and the sample was stratified, clustered and selected to meet the requirements of probability sampling. The sampling procedure involved stratification by province in 1995, and by province and area type (rural/urban) in 1999. In both cases, independent samples of enumerator areas (EAs) were drawn for each stratum. In 1995 and 1999, 3000 Eas were drawn as primary sampling units (PSUs) and 10 households were selected in each EA by means of systematic sampling to give the 30000 households visited as ultimate sampling units in the surveys.

Observations are weighted to reflect estimates of population size using the 1996 Census. Including sampling weights in the analysis gives estimators that are approximately unbiased for whatever we are attempting to estimate in the full population. Clustering is accounted for, with the EA identified as the PSU, in order to obtain “honest” estimates of standard errors. However, we do not allow for the stratification of the sample, as the OHS data do not explicitly identify the stratum[27].

- Sample definition

Self-employed, workers with the double status of employed and self-employed as well as workers with non-positive or unspecified wages are omitted from the sample. Finally, observations with missing data on any variable included in the earnings functions were disregarded. Then, the samples for 1995 and 1999 respectively consist of 24 716 and 18 145 wage earnings employees.

- Methodology

In 1995, the earnings function is estimated as a normal mincerian regression including a correction for the self-selection bias. Hence, since people are self-selected into the category of wage earnings employees, the use of OLS in earnings regression yields biased and inconsistent parameter estimates[28].

In 1999, given that the observations on the dependent variable consist of a mixture of point and interval data, a generalised Tobit estimator (the interval regression command svyintreg in STATA) is used for estimation. In this case, the estimators are estimated using a pseudo-maximum-likelihood method that does not allow to take into account the self-selection bias.

[27] The econometric software we use, STATA, allows to take into account the sample design with the svy commands.

[28] The selection correction variable is computed from the estimation of a multinomial logit model where the outcome categories are unemployed, employed and self-employed.

2) The variables

- The dependent variable.

The earnings are the worker's gross wage. It includes overtime payment and bonus and is given before any deductions. In 1995, the dependant variable is the logarithm of monthly earnings. In 1999, the dependent variable is a mixture of logarithm of monthly earnings and logarithm of monthly earnings categories.

- The independent variable.

Variable	Determination
No education	=1 if received no schooling
Primary schooling [a]	=1 if the highest level of education completed is from sub A to grade 7
Secondary schooling	=1 if the highest level of education completed is from grade 8 to grade 12
Further education	=1 if holds a National Technical Certificate or a diploma/certificate with less than grade 12
Higher education	=1 if holds a diploma/certificate with grade 12 or a university diploma
Age	= age
Age square	= age square
Tenure	= number of years of tenure within the present firm
Tenure square	= tenure square
Race	= dummy variables: African, Coloured, Asian, White (reference category)
Male	= 1 if male
Urban	=1 if lives in a urban area
Married	=1 if married civilly or traditionally
Headship	= 1 if at the head of the household
Unionized	= 1 if member of a trade union
Formal sector	= 1 if works in the formal sector (fiscal registration of the employer)
Economic sector	= dummy variables : manufacturing (reference category), agriculture, mining, utilities, construction, trade, transport, finance, service, domestic.
Occupational status	= dummy variables: artisans (reference category), manager, professional, technician, clerks, sale person, skilled agric, operator, elementary, domestic workes.
Regions	= dummy variables : Western Cape (reference category), Northern Cape, Eastern Cape, Free State, Kwazulu Natal, North West, Gauteng, Mpumalanga, Northern Province
IMR	= correcting variable for the selection bias of participation

Appendix 2: Employment Equity Act

Schedule 1

MAXIMUM PERMISSIBLE FINES THAT MAY BE IMPOSED FOR SANCTIONS FOR CONTRAVENING EMPLOYMENT EQUITY ACT

This Schedule sets out the maximum fine that may be imposed in terms of this Act for the contravention of certain provisions of this Act.

Previous Contravention	*Contravention of any Provision of Sections 16, 19, 20, 21, 22 and 23*
No previous contravention	R500 000
A previous contravention in respect of the same provision	R600 000
A previous contravention within the previous 12 months or two previous contraventions in respect of the same provision within three years	R700 000
Three previous contraventions in respect of the same provision within three years	R800 000
Four previous contraventions in respect of the same provision within three years	R900 000