

Unemployment in South Africa Descriptors & Determinants



PRESENTATION TO THE COMMISSION ON GROWTH AND
DEVELOPMENT

WORLD BANK, WASHINGTON DC,
OCTOBER 15TH

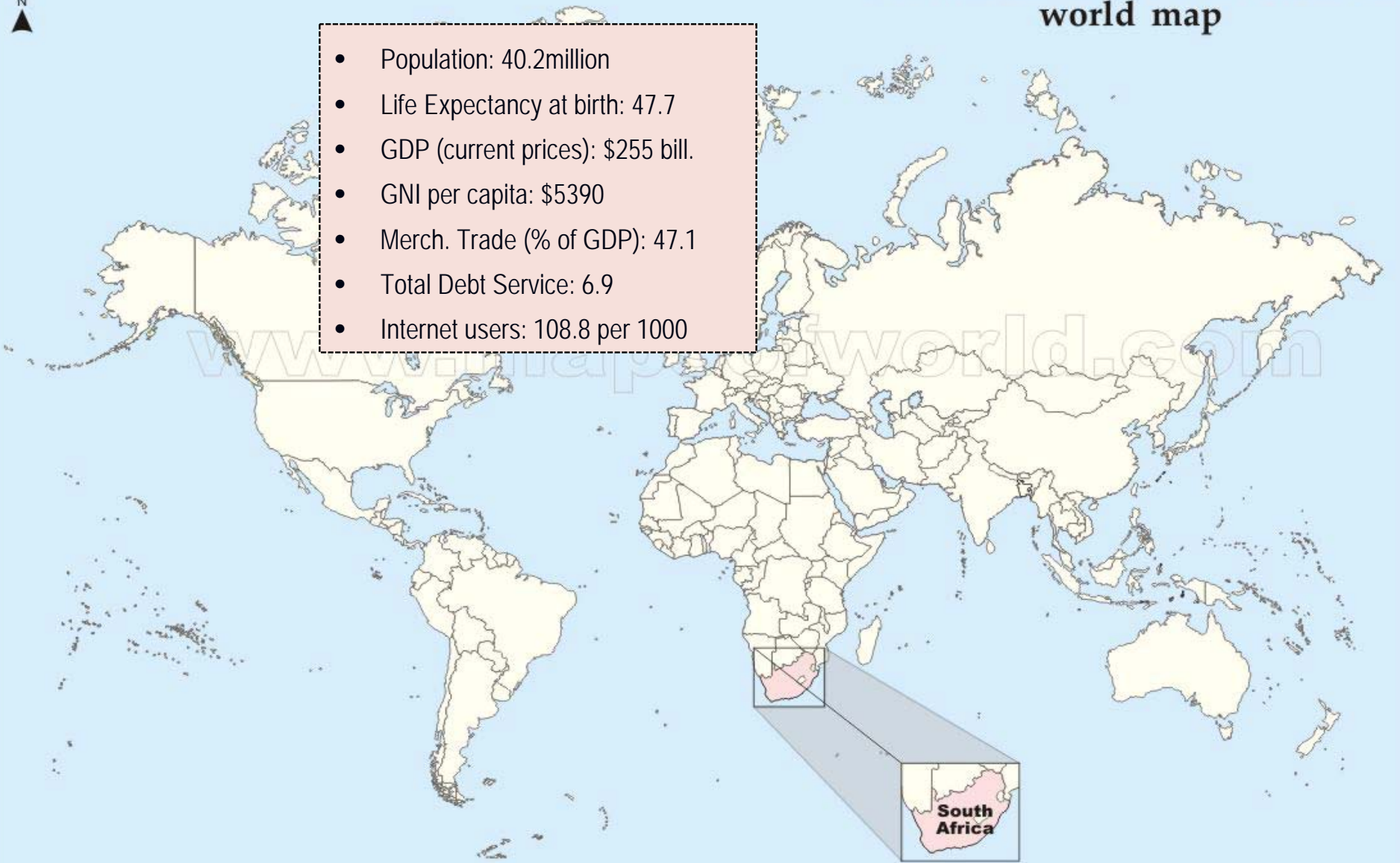
HAROON BHORAT

School of Economics &
Development Policy Research Unit,
University of Cape Town
E-mail: haroon.bhorat@uct.ac.za
Website: www.commerce.uct.ac.za/dpru

Location of SOUTH AFRICA in world map



- Population: 40.2million
- Life Expectancy at birth: 47.7
- GDP (current prices): \$255 bill.
- GNI per capita: \$5390
- Merch. Trade (% of GDP): 47.1
- Total Debt Service: 6.9
- Internet users: 108.8 per 1000



Map not to Scale

Copyright © 2006 Compare Infobase Limited

OVERVIEW



- A Descriptive and Econometric Overview
- Causes of Unemployment in South Africa: A Line-Up of the Usual Suspects
- A Menu of Possible Interventions



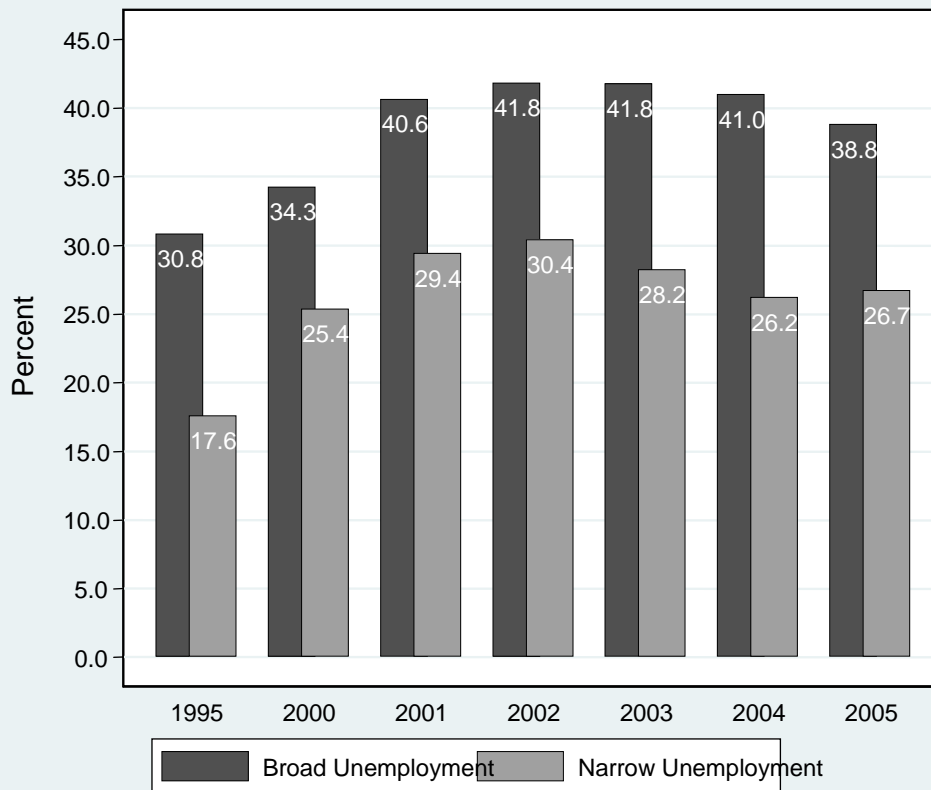
Unemployment Rates Around the World



Source: ILO (2007)

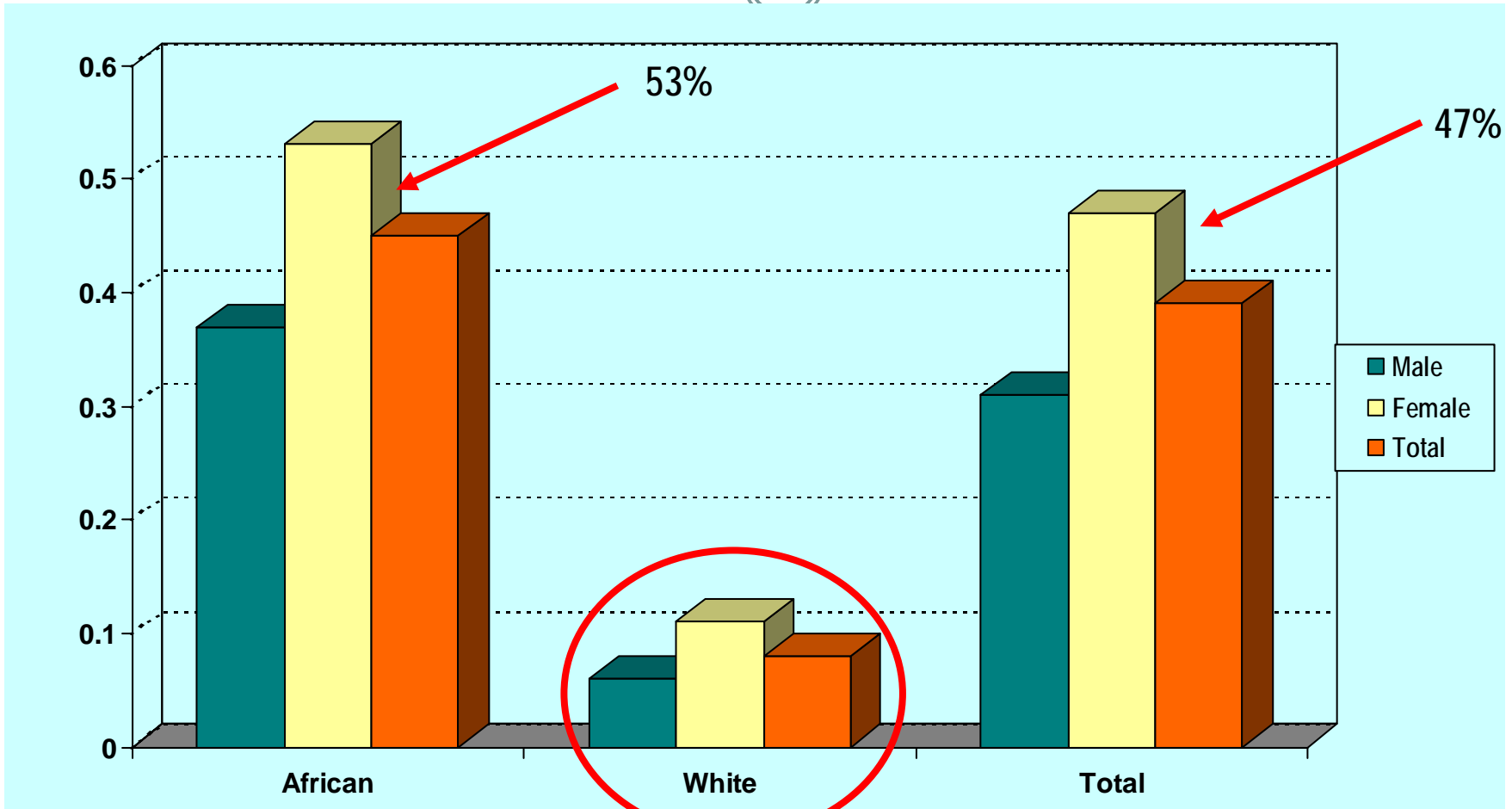
Unemployment In South Africa: The First Decade of Democracy

National Unemployment Rate: 1995-2005

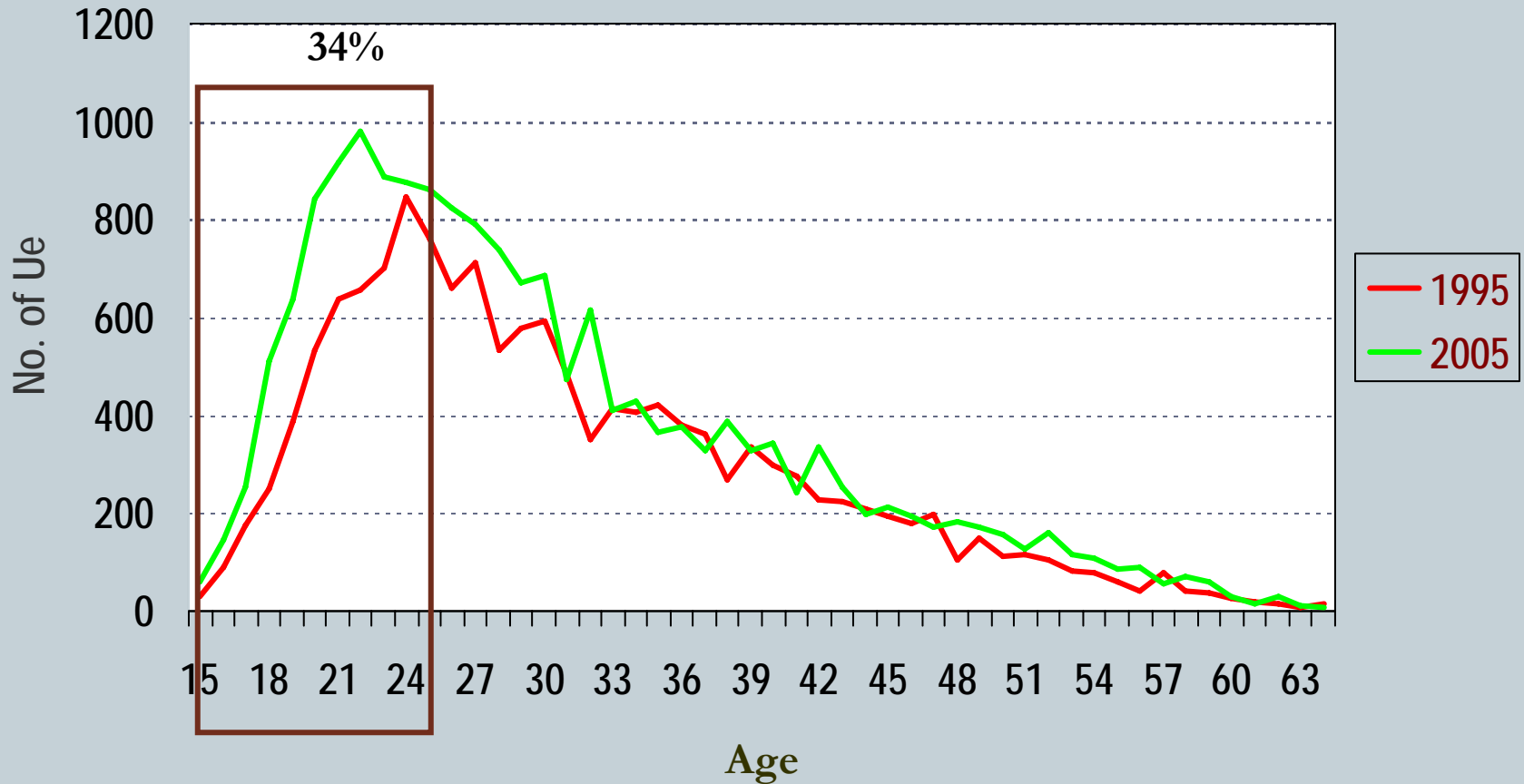


- Unemployed numbered approximately 7.8 million individuals in 2005
- Discouraged work seekers constitute 42% of broadly unemployed
- Data Quality & Reliability.

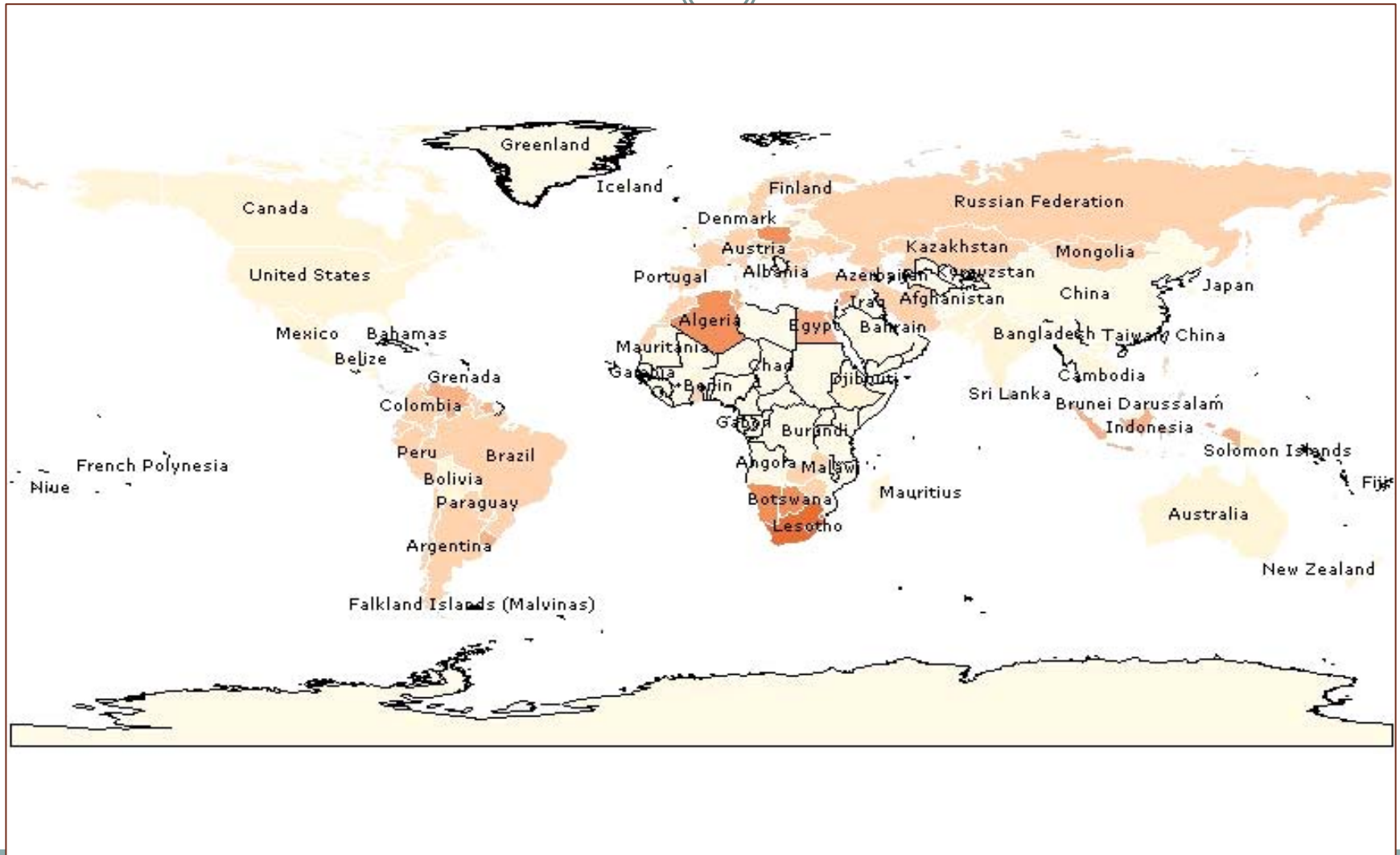
Unemployment Rates In South Africa: Race & Gender



Unemployment Rates In South Africa: Age Distribution

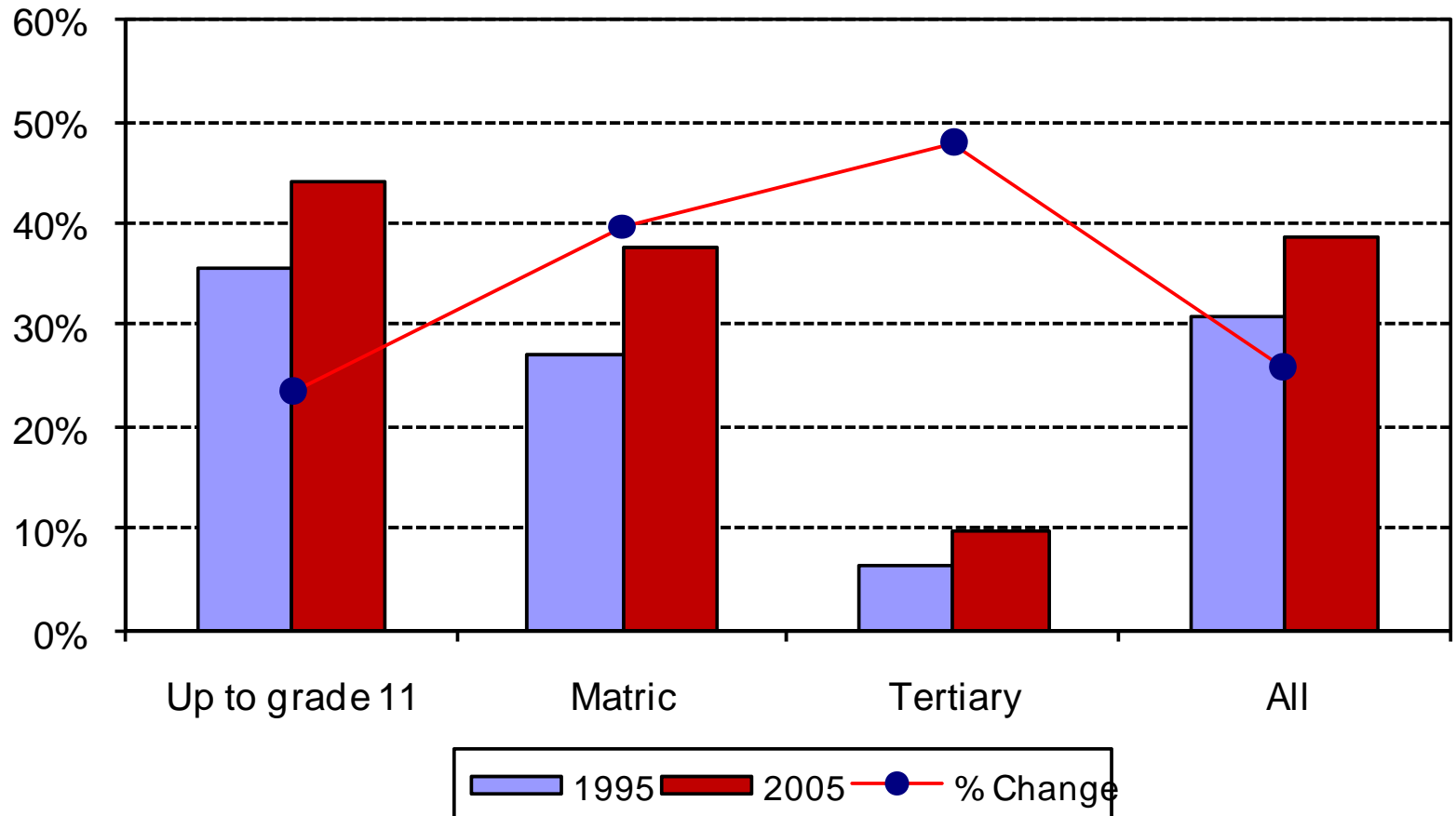


Youth Unemployment Rates: The Global Context



Source: KILM, 2007

Unemployment Rates by Education Level



Independent Variable	dF/dx	Std. Err.	z
Coloured	0.082	0.013748	5.70
Asian	0.220	0.0167439	9.76
White	0.304	0.0102678	18.26
Female	-0.114	0.0080705	-14.06
25-34 years	-0.007	0.0249169	-0.26
35-44 years	0.129	0.0224165	5.42
45-54 years	0.232	0.016194	11.81
55-65 years	0.341	0.0060921	28.91
No education to Incomplete GET	-0.003	0.0018769	-1.61
Complete GET	-0.011	0.0042696	-2.59
Complete High School	0.017	0.0130646	1.28
Diploma	0.212	0.0126801	13.62
University Degree	0.065	0.0200266	3.21
Metro	-0.016	0.0090603	-1.77
Lambda	-0.345	0.0356939	-9.67

The Markers of Unemployment in South Africa



- Race, Gender, Age, Location & Schooling serve as the key attributes defining and explaining broad and narrow unemployment rates in South Africa.
- The failure of the schooling system & in part, the further education & training System (FET) is particularly important for policy formulation.
- Differentiating between the unemployed and the unemployable.

Two Worrying Footnotes: 1



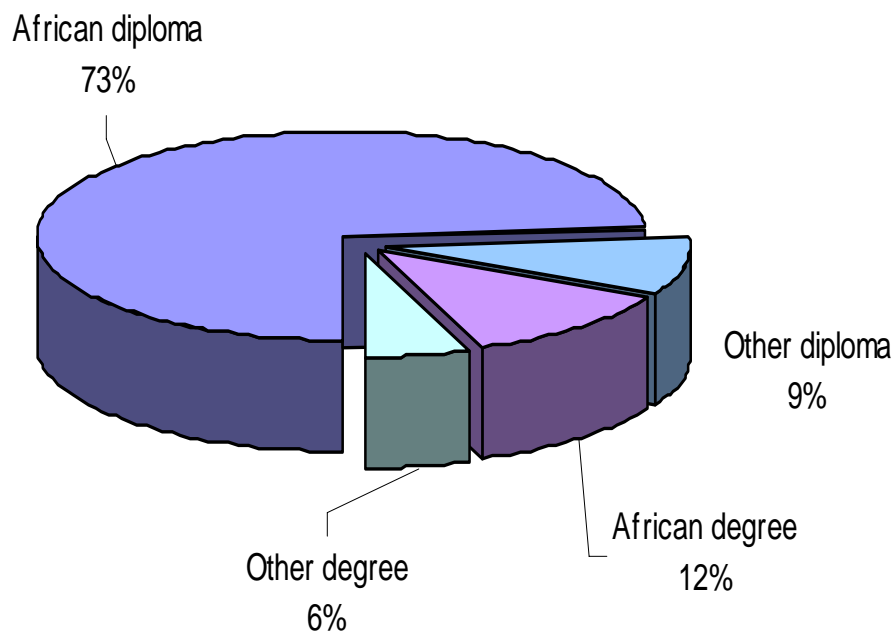
The Legacy of Apartheid Schooling

Variable/Former Department	African	White
High School Pass Rate	48.39	95.14
Pupil-Teacher Ratio	31.04	23.72
Schools with User Fees	0.20	0.92

- A bifurcated schooling system, where disadvantage is still located within former African Schools
- Management of schools; knowledge infrastructure; Teacher Quality

Two Worrying Footnotes: 2

The Composition of Graduate Unemployment



- 200,000 (3%) of all Ue are 'graduates' (up from 2% in 1995)
- Only 18% of unemployed graduates have degrees: Clearly the bulk of the problem is with diplomas and certificates

Possible Causes of Unemployment in South Africa



- Output & Employment
- LFP Growth Rates
- Labour Demand-Supply Mismatch
- Wages and Employment
- The Role of Trade Unions & Bargaining Councils
- Labour Regulation
- The Nature of Economic Growth

Output and Employment

Simple GDP Elasticity of Total Employment

	Annual Percentage Change in:		Elasticity
	Total Employment	GDP	
1990-1995	0.13	0.8	0.16
1995-2005	2.60	3.27	0.80

- No Evidence for Jobless Growth Thesis
- For Given Level of Growth, Employment Expansion Adequate
- The Nature of the Growth Path.....

Output-Employment Elasticity: Comparable Measures



Source: KILM, 2007

Post-Apartheid Labour Supply Trends



Category	1995 (Oct) ('000s)	2005 (Sep) ('000s)	Change		Target Growth Rate	Employment Absorption Rate
			Absolute ('000s)	Percent		
Broad Definition Estimates						
Employment	9 515	12301	2786	29.28	66.69	43.90
Unemployment (broad)	4 239	7800	3561	84.01		
Labour Force	13 754	20100	6346	46.14		

Skills-Biased Employment Growth: 1



- Skilled Employment: Share increased from 9 to 11%
- Semi-skilled Employment: Share increased from 59 to 61%
- Unskilled Employment: Share declined from 31 to 27%

Skills-Biased Employment Growth: 2

Industry-Based Relative Demand Shift Measured by Occupation, 1995-2005

	Between	Within	Total	Share of within in Total
Manager	1.28	18.24	19.52	93.46
Professional	1.42	7.50	8.92	84.08
Clerical	2.43	14.66	17.09	85.78
Service	2.24	14.34	16.58	86.50
Agric.	-0.17	-17.23	-17.40	99.00
Craft	2.39	14.68	17.08	85.99
Oper. & A	0.73	5.20	5.93	87.62
Elementary.	-0.13	-0.53	-0.66	80.37
Domestic Workers	1.48	10.16	11.64	87.26

- Between- and within-sector shifts estimates for 1995-2005: SBTC evident.
- The nature & trajectory of labour demand results in the co-existence of an excess supply of labour with a chronic skills shortage in the economy

Wages & Employment

Wage-Employment Elasticities by Main Sector, 1990-1998

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	-0.1	-0.22
Financial Services	0.20*	-0.01
Community, Social & Personal Services	0.05	-0.50*
Private Sector Total	-0.35**	-0.53**

- Elasticity value not unusual for developing country estimates
- Translate into, *ceteris parabus*, an argument for wage adjustments?

Source: Fields *et al.* 1999

Trade Unions & Bargaining Councils



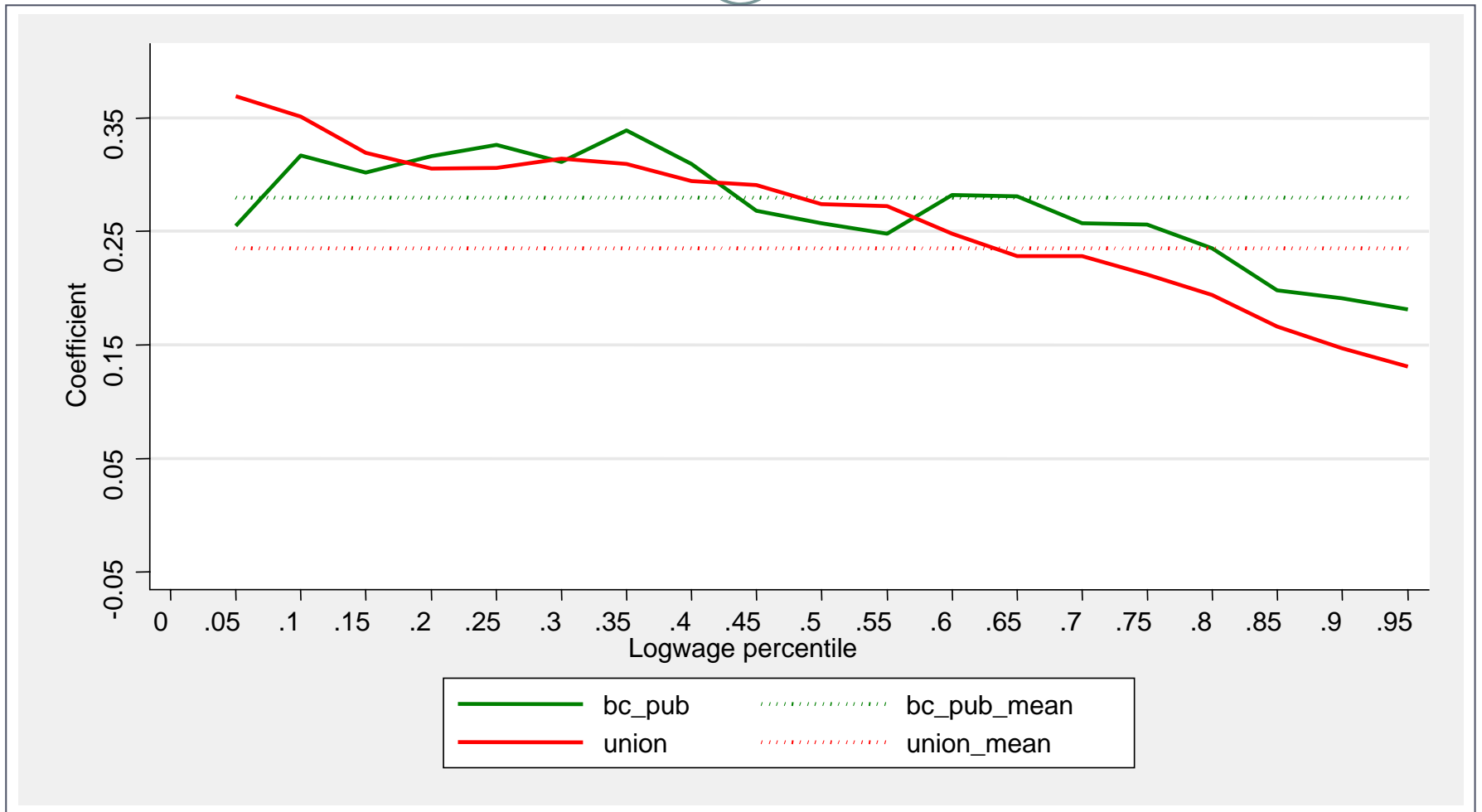
Union-Wage Premia in the SA Labour Market, 2005

Dependent Variable: Log of Monthly Earnings

	OLS	Quantile:				
		0.1	0.25	0.5	0.75	0.9
Private Sector BC Member	0.03	0.05	0.01	0.02	0.02	-0.01
Public Sector BC Member	0.28*	0.32*	0.33*	0.26*	0.26*	0.19*
Union	0.23*	0.35*	0.31*	0.27*	0.21*	0.15*

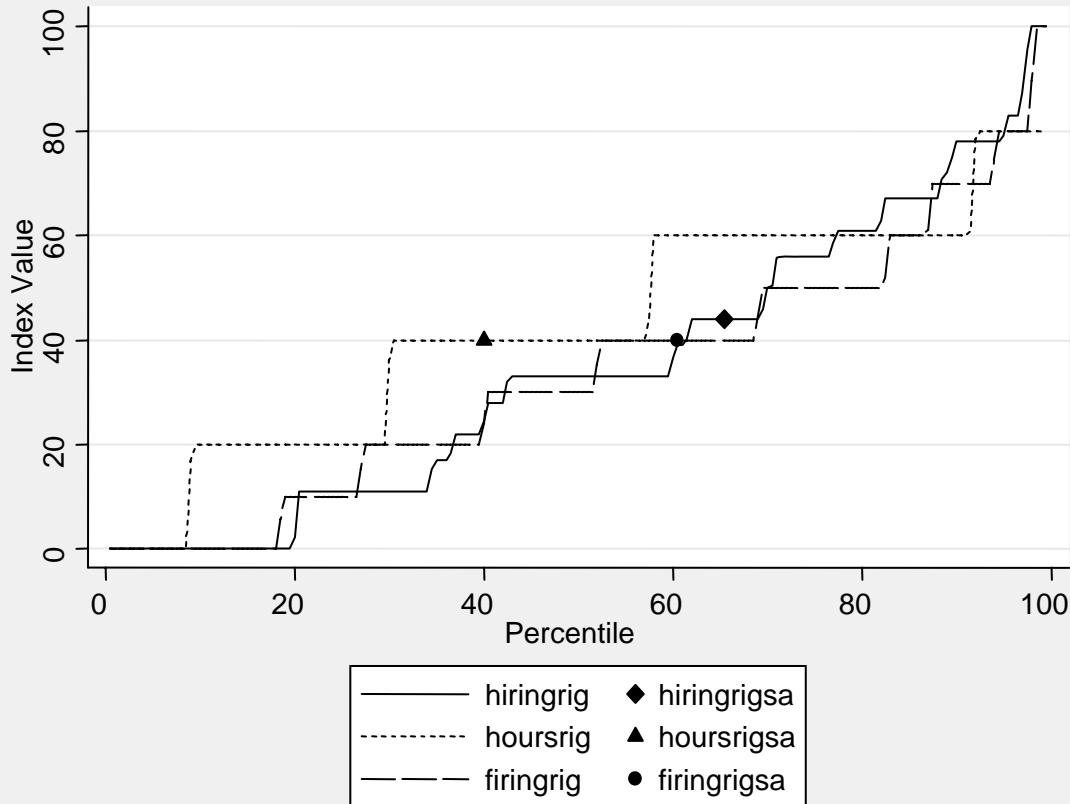
- Union-wage premia very high by international standards
- Role of bargaining councils (and renewed power of public sector BC) not to be underestimated

Trade Unions & Bargaining Councils



Labour Regulation as a Cost of Doing Business

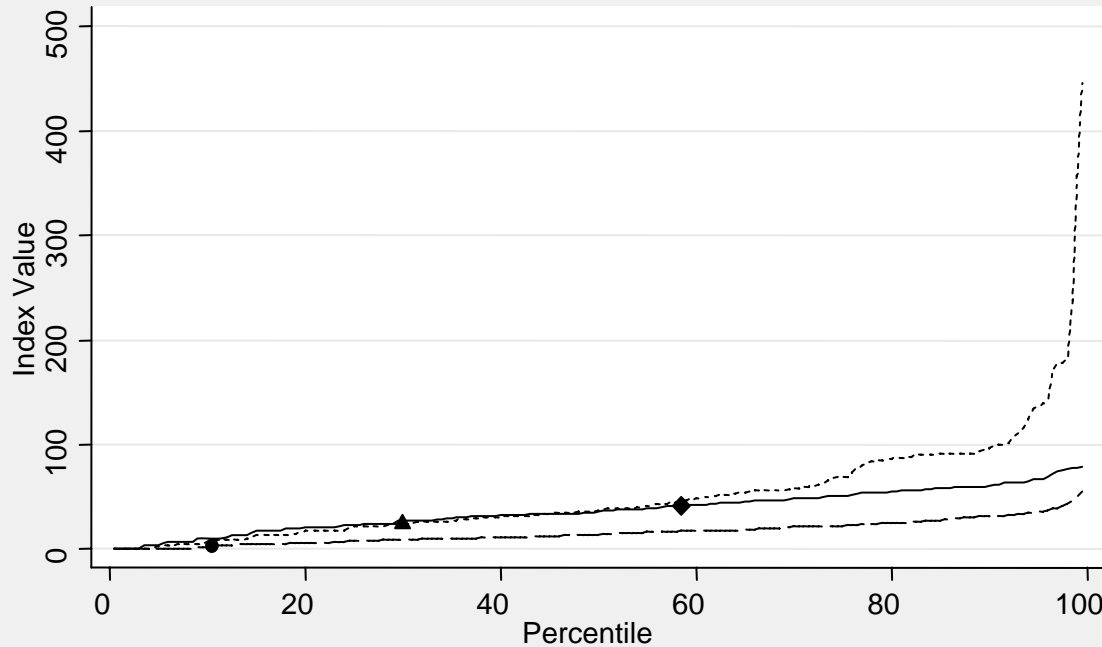
Hiring and Firing Rigidity



- At the 65th p. for hiring rigidity
- And the 60th p. for firing rigidity
- High ranking also for UMI sample only

Labour Regulation as a Cost of Doing Business

Hiring and Firing Costs & Employment Regulation



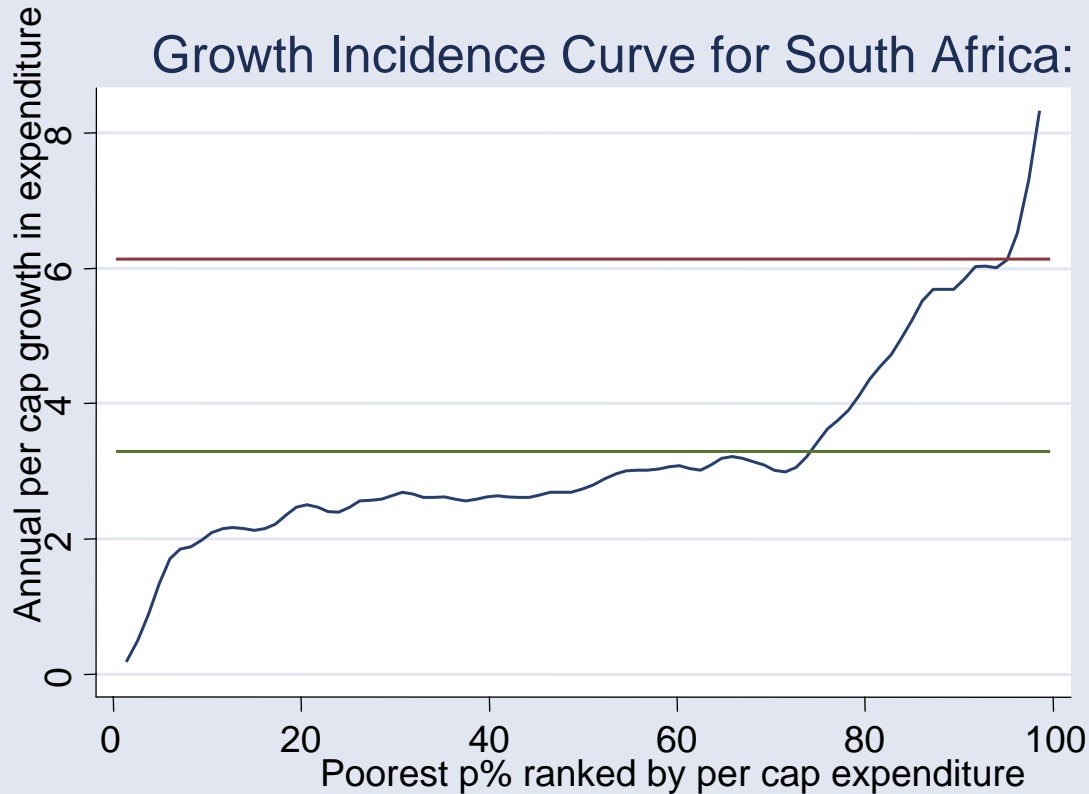
- Overall Employment Rigidity Index: 58th p.
- Driven though by high levels of hiring and firing rigidity
- Source of Rigidity: legislation on dismissals; unfair labour practices; fixed-term contracts etc.

The Labour Regulatory Environment: 3 Caveats



- Above sub-indices measure legislative provisions, they do not measure the **interpretation of this legislation** by the relevant courts of law .
- **Institutional capabilities and efficiency:** Entirely possible that neutral legislation could be rendered rigid, by virtue of a malfunctioning institutional infrastructure.
- **Nature of the industrial relations environment,** specifically measured by the strength of employer and employee organisations can often shape the nature and extent of labour regulation, almost independent of the regulatory environment .

Looking Ahead: Pro-Poor Growth?



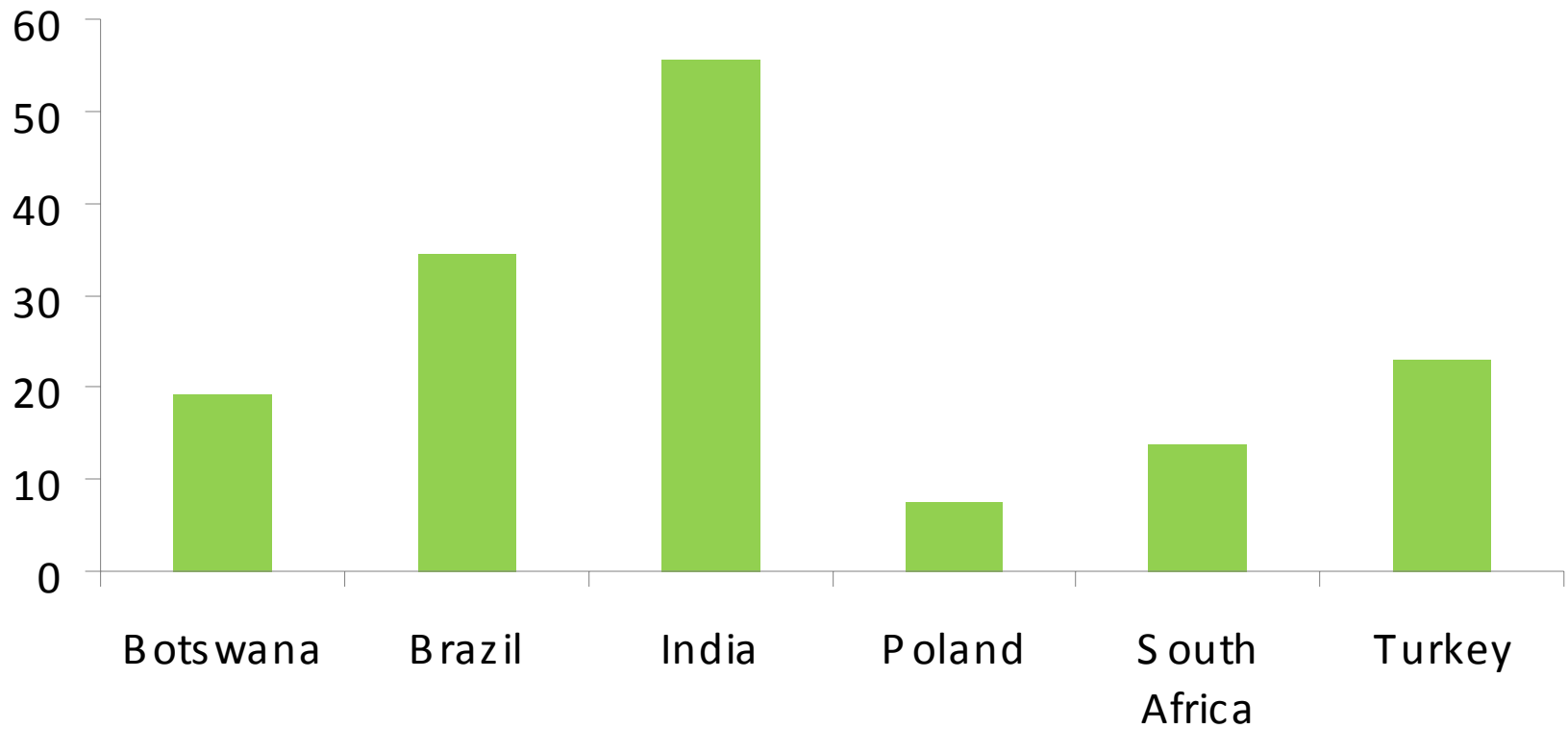
Source: Statistics South Africa, 1995 and 2000 & own calculations

- Growth path in the 1995-2000 period biased against the poor
- State Transfers in post-2000 period assist in spreading gains from growth

Pro-Poor Growth and the Informal Economy



Informal Employment : Share of Total Employment



Unemployment in South Africa: Possible Solutions



- Fix the Higher Education System to Focus on Narrowing Gap Between Supply & Demand
- Improve Employment Placement (Information Asymmetries)
- Labour Regulation and Regulatory Efficiency
- A dual (youth/non-youth) labour market
 - A Youth Cadet Service for the Public Sector
- Picking Winners in the Schooling System

