

## **The Labour Market in Post-Apartheid South Africa: A Brief Overview <sup>1</sup>**

### **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 has been, and indeed continues to be, 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. Nowhere is this challenge more acute than within the arena of the labour market. The ability, or lack thereof, of the domestic economy to generate a sufficient quantum of jobs has constantly come under the scrutiny of policymakers. The focus of this brief input is to attempt to document and identify the key trends in the labour market. In an effort to understand the factors that may be driving the performance of this factor market.

### **Post-Apartheid Trends in the Labour Market**

The democratic government inherited a labour market that had been subject to the long-run effects of both structural shifts and technological change in the domestic economy. The former was represented by the shift in output away from the primary sectors, toward the services sectors, while the latter has been manifest in the onset of the microelectronics revolution as well as significant increases in capital-labour ratios. The labour market consequences of these changes have been to increase the demand for highly-skilled workers, combined with large-scale attrition at the bottom-end of the labour market. The post-*apartheid* period has also been marked by the addition of one crucial causal variable – the relatively poor performance in economic growth. There can be no doubt that this low level of output

1 A longer version of these issues is available in the paper entitled 'Employment and Unemployment Trends in post-*apartheid* South Africa', which was prepared for the Presidency as part of their 10-Year Cabinet Review Process.

expansion has impacted negatively on the propensity of the economy to create employment. Against the backdrop of these tepid growth levels, we consider some of the labour market shifts in greater detail.

Table 1 presents a snapshot of the key labour market statistics for the period 1995-2002. Focussing on the labour force data according to the expanded definition of unemployment (the 'unofficial' definition), it is evident that over this period, the economy created about 1.6 million jobs. While the sectoral and skills detail of this growth did of course vary, it is clear 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.

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 2002. The data indicates that between 1995 and 2002, the number of new entrants increased by about 5 million individuals. This has meant therefore that about 3.4 million individuals – some of whom were first-time entrants into the labour market – have been rendered or have remained jobless since 1995. As a result of this employment performance, unemployment levels increased to over 7 million individuals in 2002.

**Table 1: A Snapshot of Key Labour Market Trends: 1995-2002**

Category	1995	2002	Change	% Change	Target Growth Rate	Employment Absorption Rate
Employment	9 557 185	11 157 818	1 600 633	16.75		
Unemployment (expanded definition)	3 883 819	7 288 833	3 405 014	87.67		
Labour Force	13 441 004	18 446 651	5 005 647	37.24	52.38	31.98
<b>Official Definition Estimates</b>						
Employment	9 557 185	11 157 818	1 600 633	16.75		
Unemployment (strict definition)	1 909 468	4 271 302	2 361 834	123.69		
Labour Force	11 466 653	15 429 120	3 962 467	34.56	41.46	40.39

**Sources:** October Household Survey, 1995 & Labour Force Survey, February 2002

**Notes:**

1. The Official Definition Estimates are based on the assumption of the strict definition of unemployment, and hence conceive of a labour market that excludes the discouraged workseeker.
2. The 1995 data have been re-weighted with the 1996 Census weights to ensure comparability across the two time periods.

Much of the debate around employment trends in the post-apartheid period have become anchored around the notion of 'jobless growth' – that in combination with unspectacular economic growth, jobs have been simultaneously shed across most sectors in the economy. The initial data, here, makes it plain that the economy did not experience an absolute decline in employment. Put differently, the notion of 'jobless growth' to characterize post-1995 employment trends is simply wrong. However, it is important to note that while we did not have jobless growth in this period, we have clearly had employment growth that was insufficient relative to the growth in the labour force. In order to provide a basic litmus test for these labour market trends, we have used two very simple performance indicators, shown in Table 1. These are the '*target growth rate*' and the '*employment absorption gap*'. The '*target growth rate*' summarises the desired employment growth rate for the economy as a whole, measured by simply allowing employment to

grow from 1995 onwards by the full change in the labour force over the 1995-2002 period.<sup>2</sup>

Note that because this target growth rate captures the growth required to provide employment to only the new entrants since 1995, it is essentially the rate of growth required to absorb all net new entrants, independent of the unemployment numbers existent in the base year, namely 1995. The employment absorption rate is the ratio between the actual employment growth and the desired (or 'target') rate, and is expressed as a percentage. The closer the employment absorption rate is to 100, the better the actual relative to the desired employment performance. These figures are critical as they are predictors of relative employment performance – something that the standard growth rates do not yield.

The data from Table 1 thus suggest that while employment grew at 17 percent over the period, if all the new entrants were to have been placed into employment since 1995, employment would have needed to have grown by 52 percent over the period. In other words, in order to maintain unemployment at its 1995 levels, employment should have risen by just over three times the existing rate. In terms of the employment absorption rate, the data suggests that over the period *the economy has been able to provide 32 jobs for every 100 economically active individuals in the labour market*. Even by the strict definition of unemployment, which is government's official representation of the labour market, the economy has created only 40 jobs for every 100 members of the labour force.

2 Specifically the target growth rate is measured by: 
$$\frac{EAP_{kt} - EAP_{kt-1}}{L_{kt-1}}$$

where EAP refers to the economically active population for group  $k$  and  $L$  is the number of employed individuals, by any given covariate.

## How Poor Has Employment Growth Been?

The above figures clearly point to the growing numbers of unemployed individuals, as a result of employment growth not keeping pace with the growth in the labour force. It is important however to note that ultimately the demand for labour is a derived demand for labour – namely that growth in jobs is inextricably linked to the growth in output. Poor economic growth will ultimately (controlling for factor ratios) deliver a poor growth in employment. Indeed, this line of reasoning falls empirically within the terrain of output-employment elasticities. Whilst not generating these elasticities here, what we do attempt to undertake here is indicative assessment of how poor employment growth has really been in the domestic economy since 1995. An important point of departure in this regard is to examine national economic growth rates over this period. Data reveals that over the 1995-2002 period economic growth rates hovered in a band between 0.8 percent and 4.3 percent, with an annualized mean of 2.8 percent over the period. Employment growth over this period grew, as indicated above, by 16.75 percent - which is a mean rate of about 2.1 percent per annum. In very simplistic terms this comparison indicates that *for the level of output growth recorded*, employment expansion has not been as dismal as often indicated. The argument around generating higher *absolute levels of growth* to ensure larger magnitudes of job creation, remains of course consistent with this evidence.

The critical caveats to the above representation are four-fold. Firstly, that the relationship between output and employment will, and indeed does, vary across sectors. Hence, we may find that sectoral output growth in some sectors results, through changing factor proportions, in a relatively inelastic employment response. A sectoral division of the employment-output relationship may therefore reveal 'jobless growth' in some sectors. It therefore remains important to keep in mind that while in the aggregate, the employment performance of the economy has not been as abysmal as often indicated. The sectoral details may in some cases reject this notion. Secondly, we cannot be sure if the growth in employment is primarily a function of informal sector expansion. Therefore, output growth may in fact be associated with growing informal employment, but aggregate contraction of formal sector

employment.<sup>3</sup> Thirdly, the growth in employment recorded is for all workers, irrespective of their supply characteristics. Consequently, the nature of employment growth may be biased towards skilled and semi-skilled workers, with unskilled workers still losing their jobs over this period. Put differently, the basic output-employment relationship referred to above may mask specific skills preferences in the labour demand trajectory of the economy. Finally, the above estimates does not reveal anything about possible changes in the quality of employment. Quality of employment may be affected through for example, the increased prevalence of part-time work, reduction in benefits offered to the workforce, greater outsourcing and so on.

## Conclusion

Ultimately though, the aggregate data suggests that while employment expansion has been recorded since the first majority government, we need to be mindful that in terms of the economically active population and its growth over time, this job performance has been far from adequate. In the lexicon of this document, what this suggests is that the current level and trajectory of economic growth, whilst certainly creating employment at the level expected, has not been high enough in absolute terms to result in employment expansion at the rate yielded by the target growth rate noted above. Put differently, the economy's low and single-digit growth rates have been consistently unable to act as a generator of a sufficient quantum of employment in the domestic economy. It needs to be remembered though, that there do continue to exist, in addition to the problem of low growth inhibiting labour demand expansion, significant labour supply-side constraints that also inhibit employment. These are manifest in the form of inadequate

3 The poor coverage of the informal sector in OHS for 1995, makes this comparison of formal versus informal sector employment growth very difficult to determine. However, there would seem to be indicative evidence that both organic growth in informal employment and better capturing by Statistics South Africa, have yielded a rapid expansion in informal employment.

supply characteristics amongst a large number of the unemployed in the face of what has now been well documented for South Africa as skills-biased employment growth.

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