



South Africa's Conundrum: Employment Quantity versus Quality in a Globalized World

Over the last 20 years, South Africa has not only been reintroduced into the global economy; achieved macroeconomic stability with low inflation and low interest rates, but has also gone through various progressive labour legislation reforms to address inequality in the labour market. Together these changes have formed the environment in which firms have decided on their production and employment strategies as they had to navigate a new set of labour regulations whilst at the same time face increased global competition. Not only has import competition reduced revenues, more restrictive labour legislation and falling cost of capital have increased the relative cost of labour. Research suggests that firms, particularly smaller firms, found these labour regulations onerous and growth constraining; and that the costs of these new regulations fell most heavily on the unskilled. However, too little is known about the interplay of these trends on firm behaviour and the subsequent employment outcomes.

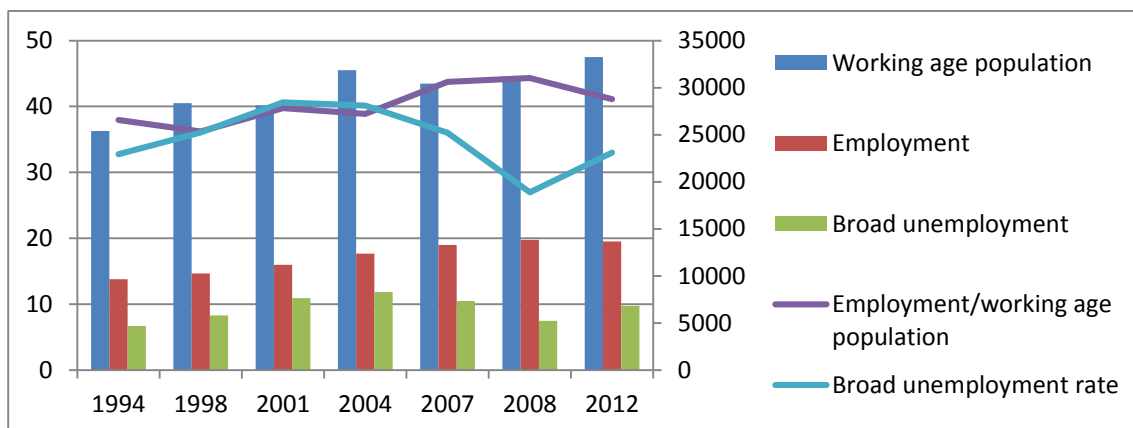
Within the South African labour market there has been a definite shift away from unskilled and semi-skilled labour towards more skilled labour, and capital. This trend points towards a skill-biased technological change within South Africa. These structural changes have reduced the capacity of the South African economy to absorb unskilled labour – not only between sectors but also within sectors - which in turn has contributed towards sustained high levels of unemployment in the post-1994 period.

In order to combat the unemployment issue in South Africa in the long run there needs to be an increase of the productivity of labour. This can be achieved by a complete overhaul of the South African skills, training, and education system. However, this is a long run solution, and will take time to achieve its desired impact. In the meantime, there are several policies that could be used to increase employment chances for the currently unemployed, namely; a targeted wage subsidy, a review of labour regulations, and immigration reform. Basically, these policies need to address the relatively high cost of employing unskilled labour to slow down or even reverse the gradual switch away from unskilled and semi-skilled workers to skilled workers in South Africa.





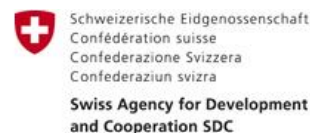
Graph 1: Employment and the South African working aged population. 1994-2012



Source: Post-Apartheid Labour Market Series (Kerr et al, 2013); Note: working age population, employment and unemployment are measured in 1000s on the right-hand axis; employment/ working age population ratio and unemployment rate are measured in percentage on the left-hand axis.

In order to make more conclusive policy recommendations, especially surrounding firms and their strategies to productivity and employment, more rigorous research is required. The effects of firm outcomes on the quantity and quality of employment are equally likely to differ across sectors and skill levels. It is for that reason that any discussion trying to align labour market reform and economic growth policy needs to be based on a thorough understanding of such firm and employment dynamics.

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