

ARCHIVE

Look after the low-end jobs

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A structural shift has occurred in the productive base of the South African economy over the past 25 years. The share of agriculture in the gross domestic product (GDP) fell by about 4% since 1970, while mining's contribution declined by 3%.

The decline of these two primary sectors, though, has been matched by a significant growth in the service sectors, most predominantly financial and business services, and wholesale and retail trade.

The service sectors' growing contribution to the GDP is best reflected in financial and business services, where the share of GDP rose by more than 6% between 1970 and 1995.

A second major shift in the domestic economy has been the rapid rise across all sectors of capital:labour ratios. The search for productivity gains has seen an increasing reliance on machinery rather than labour in this 25-year period.

In the primary sectors, capital:labour ratios increased by more than 150% since 1970. In the service sectors, the rise in capital intensity is manifest in increasing computerisation, brought on by the information technology revolution - a process which has intensified over the past decade.

Given the shift away from the primary toward the service sectors on the one hand, and the rising capital intensity in the economy on the other, it is important to determine what effects these factors have had on employment levels and trends.

In terms purely of quantity, there were huge employment losses in agriculture and mining, amounting to 1,5-million jobs over 25 years. In contrast, the service sectors gained more than two million jobs.

Did these changes mean certain skills groups benefited while others lost out? Statistics indicate skilled workers made substantial gains since 1970, while the proportion of workers in unskilled occupations was steadily eroded.

Unskilled workers' share of employment fell by between 4% and 54% since 1970, while the share of skilled occupations has grown, in some cases, by as much as 250%.

Clearly the structural shift in the economy, combined with the rising capital:labour ratios, has meant a preference for skilled over unskilled labour.

It is expected that the twin trends of rising capital intensity and the growth in services, coupled with the decline in agriculture and mining, will continue in the future. This means these employment patterns will also remain the same, if not intensify.

In the process of long-run economic growth, employment will benefit skilled and semi-skilled workers to the detriment of unskilled individuals. The winners in the next decade,

all things held constant, will be those at the top end of the job ladder and the losers invariably those at the bottom end.

In an environment of declining or stagnant demand for low-skilled workers it is relevant to raise the issue of labour market flexibility, a labour market policy intervention that is targeted essentially at unskilled workers.

The proponents of labour market flexibility argue that the wages of those at the bottom end are too high. Given the large pool of unemployed, it is argued, a manner in which to create more employment would be to lower the wages of those in unskilled jobs.

This argument has often been captured as the wage restraint component of the labour market flexibility argument. But it is a discrete and separate argument from one which says higher wages will mean greater employment losses for those at the bottom end.

No significant number of new jobs are going to be created at the bottom end of the job ladder. Reducing the wage for those in unskilled positions will not increase the quantity of unskilled workers hired, as the demand for these skills simply does not exist. Firms will not simply hire more unskilled workers if they become cheaper, as their preferences are primarily for skilled workers.

The arguments for the job-creating possibilities of a wage restraint policy are not tenable if they are tied to the employment needs of firms. Making unskilled workers cheaper may simply see firms using the surplus funds from the lower wage bill to hire (already employed) skilled workers. The unemployed are unlikely to see their job prospects improved by such a wage restraint policy.

The wage flexibility debate in South Africa thus far has not taken cognisance of this, and has effectively rested on the assumption that all workers in the economy possess the same quantum of skills and are all in equal demand by employers. As soon as this assumption is broken and one introduces the notion of differentially skilled workers, the argument that lowering the price of labour will create more employment for lower-skilled workers is simply wrong.

Labour demand trends make it clear that wage policies need to be designed to ensure that those at the bottom end are protected, given that they are likely to be in very short demand over the medium to long term. The most important policy instrument is the Basic Conditions of Employment Act, administered by the newly formed Employment Conditions Commission - the successor to the Wage Board.

The Act, in setting out the basic minimums for all workers, runs the danger of setting unduly high baselines, in the form of wage determinations, for firms to adhere to - and in so doing could feed into wage hikes or employment losses. However, it appears this problem has been avoided as the Act is not at odds with the basic conditions already prevailing in most industries in the economy.

The Employment Conditions Commission has the power to set new wage determinations for workers not covered by the Act. It would need to be mindful of the

trade-offs outlined above.

Wage determinations for the unskilled need not be swayed by the wage restraint argument, as no new jobs will be created for these workers. However, the commission would need to ensure it does not generate unduly high minimum wages for firms to adhere to, as this would invariably result in significant employment losses.

Given that the most vulnerable workers are targeted through these determinations, the welfare and poverty consequences of wage hikes could be dire.

The commission needs to take care its wage determinations are not too high as these will mean job losses, but at the same time it should not be tempted into offering too low wages in the hope that this will create jobs.

Ultimately, then, it will be the ability of the commission to effectively balance these two countervailing forces that may determine its success or failure.

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