

How to reduce SA's wage gaps

Date: 11 Aug 2000

Haroon Borat A second look As the employment equity commission (EEC) of the Department of Labour begins to assess discrimination and inequality in the labour market, it is important to inject a series of numbers and facts early on into this debate. This is to ensure that the EEC makes proclamations and decisions based on empirical evidence representing the nature and extent of inequity in the labour market. The most obvious markers of wage inequality are race and gender - namely that significant wage differentials exist among race groups and between males and females. The evidence shows though that while white workers earn on average 70% more than their African and coloured counterparts, they only earn about 43% more than Asian employees. This immediately suggests that in terms of race-based differences, it is African and coloured workers in particular who are low earners in the labour market. The gender differences indicate that the gap between males and females is not as stark as the racial wage gap. The average female wage is close to 80% of the male wage, mainly due to the fact that many Asian and white females are earning more than African and coloured males. The racial wage gap is at present more stark than the pure gender-based wage differences. The importance of this data is that the EEC needs to be mindful of carefully and simultaneously dissecting the race and gender components of the wage gap. One of the key drivers of the wage earned is the level of education of an individual. The data supports this notion, as we find that employees with higher levels of education are likely to earn a higher average wage. Those with a tertiary degree earn the highest average wage - which is what one would expect. More interesting is the importance of attaining a matric certificate: those with matric earn about 70% of the average wage of a degreed person, while those with some secondary schooling can expect to earn only about 35% of the wage of a university graduate. The lesson is starkly evident: individuals are severely disadvantaged in the labour market if they fail, at a minimum, to obtain a matric certificate. The EEC needs to be cognisant of the fact that wage gaps and wage discrimination are strongly influenced by the levels of education and schooling acquired by individuals and employees in the labour market. This could mean, although more evidence is required, that the race and gender wage differences observed are in fact partly because certain race groups (for historical reasons) have acquired more education than others. This allows them to attain higher levels of earnings. With this reasoning, the most important element in an employment-equity strategy becomes equalising access to and the quality of all educational provision in the society. A tall order, no doubt, but this intervention needs to be seen as a key component of any extensive employment-equity strategy.

Perhaps the strongest evidence for the importance of education in determining South

Africa's wage gaps is provided when examining wages by occupation and race. In general, highly skilled workers earn significantly more than unskilled employees. The average wage of a manager is approximately 93% higher than the average wage of a domestic or farm worker. However, the data delivers an intriguing puzzle: skilled or semi-skilled African workers earn consistently less than their white counterparts at the same skill levels. An African professional will earn a median monthly wage of R2E646, while a white professional will earn more than twice as much at R7E500 per month. In other words, two individuals are both formally classified as professionals or managers, yet their wage differs markedly because of their race. Is this a case of widespread discrimination in the workplace? To some extent, yes, unofficial discrimination has got to be a part of the story. And this relates to the fact that employers are probably viewing a degree from a historically black university as inferior to that from a historically white university.

But this is only part of the explanation for the difference in the skilled wages for Africans and whites. Perhaps a more important reason lies in the fact that the tertiary degree is a heterogenous product. Individuals may all go to a university or a technikon, but will obtain different degrees and qualifications. Not all certificates and degrees are the same: they can't be expected to fetch the same value. This difference in degrees and postgraduate qualifications between African and white employees goes a long way towards explaining the skilled wage gap observed.

So does the data support the evidence of lower skilled African wages relative to white workers? There is clear evidence that skilled white employees are primarily in occupations that fetch the highest price in the job market. Specifically, skilled white workers are predominantly employed as general managers, finance professionals and engineering technicians. In contrast, African individuals are mainly employed in skilled occupations, as primary and secondary school teachers and in the nursing occupations. Of all skilled African workers, 42% are found in these occupations, while more than 35% of whites are found in the three listed occupations. There can be no doubt that both sets of occupations are essential to the labour market and the economy in general. However, the wages these occupations fetch depends crucially on the demand for their services. Hence, employment patterns in South Africa indicate a very high demand for individuals with skills in financial and business services, information technology and science and engineering. There remains an extreme shortage of these skills in the labour market, and thus these workers will be paid a premium if they are hired. In contrast, the need for individuals with teaching and nursing degrees, with some exceptions like mathematics and science teachers, has not increased dramatically and is unlikely to do so. The result of course, is that their wages are consequently lower. What the above suggests is that the inequality in wages among skilled African and white workers can be ascribed essentially to the differing

occupations they find themselves in, and more importantly the different needs the economy places on these skills. Ultimately, ascribing skilled wage gaps between the race groups as a function solely of unofficial discrimination is too simplistic. The differing degrees and qualifications obtained by the two race groups and their contrasting needs in the labour market are a key factor in explaining wage inequality. The lesson is clear: the EEC needs to be aware of the sometimes complex and subtle reasons that underlie the observed wage gaps. All is a function of race and gender, given our history, but in terms of policy intervention, the role of appropriate skills development and formal educational provision is central to reducing the extreme wage gaps that exist in our economy.

Haroon **Bhorat** is the director of the Development Policy Research Unit