



Demographic, employment, and wage trends in South Africa

FINDINGS

While South Africa's democratic transition precipitated a period of growth, this growth was not inclusive and both poverty and inequality remain high

A significant trend in the South African labour market has been the rising share of workers in the public sector

High levels of demand for skilled labour highlight the importance of addressing ongoing challenges in improving access to, and the quality of, secondary and higher education

A new form of segmentation in the South African labour market has emerged between the higher-earning unionized public sector worker and the rest of the labour market

Though its democratic transition saw the revival of South Africa's economy, two decades of variable growth have turned sluggish, with GDP per capita rising at an annual average of just 0.56% in the past half-decade. Further, while the post-apartheid social welfare system reduced inequalities in access to public services and housing, poverty has remained stagnant. As its unemployment rate sits at 25%, South Africa is clearly in a labour market crisis. To set itself up for long-term economic growth and development, and maximize the poverty-reducing power of its economic growth, the country needs not only to create jobs but to address trends in the structure of its workforce.



Guguleto township © Daniel Bobadilla

Harnessing the demographic dividend

South Africa is already quite some way along in its demographic transition with the average fertility rate having fallen from 6.4 births per woman in the 1950s to 2.4 births by 2005-10. Due to such a reduction in the fertility rate, combined with the preceding decline in mortality rates, the first demographic dividend would expect to yield a lowering of the dependency on working-age adults, as they would make up a larger proportion of the population. With fewer people to support relative to those who are working, a country can yield a 'demographic dividend' of rapid economic growth if the right social and economic policies are adopted and the needed investments are made. This sets the stage to allow growing rates of capital formation and an increase in the amount of capital entering the economy relative to the amount of labour.

However, South Africa's high level of unemployment and resulting low labour income—particularly for young workers—has significantly constrained its ability to reap the potential benefits of its demographic change. While addressing these challenges is critically important, altering South Africa's consumption pattern is also key. Lowering the level of consumption of prime age adults relative to peak labour income

to levels that are in line with international trends, while raising per capita consumption amongst the elderly, would have the greatest positive impact on the demographic dividend.

Mismatched labour demand and supply

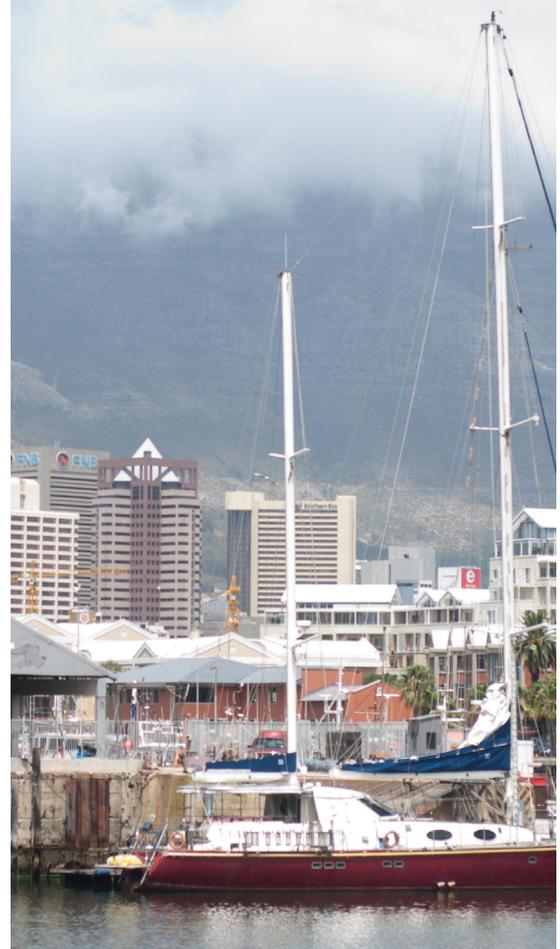
Although employment growth was able to keep pace with growth in the working-age population caused by demographic change, job creation was unable to keep up with the number of people joining the labour force when apartheid ended and its various statutory restrictions were eliminated.

Additionally, while the last 20 years have seen great strides in providing access to education, quality schooling remains a critical challenge due to an increasing demand for skilled labour. South Africa has seen job destruction in primary sectors such as mining, a manufacturing sector unable to generate large-scale jobs, and a services sector that has stepped in to fill the vacuum. Between 2001 and 2012, the services sector added 2.7 million workers and over 70% of these came in high- and medium-skilled employment.

However, the biggest driver of job creation has been the public sector, which has added more than half a million jobs since 2008. Public sector workers have a significantly higher average educational level, with this average rising faster in the public sector than the private over the last five years. The public sector has also been able to transform its workforce more rapidly than the private sector, having higher representations of previously disadvantaged groups, including women.

Wage segmentation

The data shows that wage levels in the public sector are on average significantly higher than the private sector. However, further analysis reveals that simply working in the public sector does not guarantee higher earnings, but the wage premium is closely tied to the worker's union status. Indeed, non-unionized government employees experience a significant wage penalty compared to their private sector non-unionized counterparts, particularly at the lower end of the wage distribution.



Cape Town, South Africa © Megan Trace

Conversely, belonging to a union when you work in the public sector will put your wage 20.7% higher relative to unionized private sector workers. In particular, employment in government—compared to state-owned enterprises—is associated with significantly higher returns than private sector employment. This government-union wage premium holds true across the wage distribution.

IMPLICATIONS

A long-run employment trajectory built on the public sector requires critical reassessment as part of a broader revitalising of the economy's growth and development strategy

To ensure the benefits of growth and employment creation are more equitably distributed, any development plan needs to place the growth of labour-intensive sectors at its core

Within South Africa's high unemployment environment, wide-scale provision of social grants would help to offset the effects of less than optimal consumption levels and a low incentive for investment

