Economic Research Southern Africa

Labour Policy in South Africa

From 1994 to now

A long-run review of the South African Labour Market: Employment and Earnings by Race and Gender

Policy Paper 36
March 2025

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This paper is one of nine papers prepared for the 1994 to Now Policy Paper Series, prepared for the SALDRU, South Africa at 30 Years of Democracy Conference scheduled for 2-4 April 2025. The papers will be (were) presented at the conference with the aim of contributing to discussions and debates and fostering informed and constructive economic dialogue.

Fouché Venter

Executive Director

Labour Policy in South Africa: From 1994 to now.
A long-run review of the South African Labour Market: Employment and Earnings by Race and Gender

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Abstract

What are the key developments in the South African labour market since the end of apartheid? We use data spanning from 1993 to 2019 and estimate trends in employment, earnings, and educational attainment. We do this for the overall population and then compare how things have changed for groups defined by race and gender. We then perform Oaxaca-Blinder decompositions to better understand the racial and gender gaps in employment and earnings. Finally, we summarise the key legal changes and policies that are likely to have shaped the labour market and reflect on their likely roles in the temporal changes that we observe. Our empirical results show that there was a sustained improvement in employment and earnings outcomes in the early 2000s and that this was experienced broadly across all segments of the workforce. This pattern changed following the global financial crisis. When analysing the gaps in outcomes between men and women, there has been clear progress in the reduction of both employment and earnings gaps over time, although substantial gaps remain. In contrast, there has never been a meaningful reduction in the racial employment and earnings gaps. This is true despite substantial increases in educational attainment among African and Coloured people. Our results suggest that this lack of convergence could be explained by two other developments. First, White people also increased their education levels, although in this group, the increases are mostly at the tertiary education level. Second, the rates of return to tertiary qualifications are very high and have increased over time. These two factors combine in the labour market and result in the depressingly large and stable racial employment and earnings gaps.

Keywords: Labour, wages, gender, race, discrimination, education, South Africa

JEL classification: J08, J71, J31

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Executive Summary

Since South Africa's democratic transition in 1994, labour market dynamics have been shaped by a combination of policy interventions, macroeconomic shifts, and structural inequalities. This policy paper provides a long-term review of employment and earnings trends over the past three decades, with a particular focus on racial and gender disparities. Using data spanning from 1993 to 2019, we assess employment and earnings gaps, examine policy interventions, and evaluate their effectiveness in shaping labour market outcomes.

The analysis finds that while the early 2000s saw improvements in employment and earnings, the global financial crisis marked a turning point, leading to stagnation and, in some cases, reversals in these gains. Gender disparities in employment and earnings have narrowed, albeit slowly, whereas racial gaps remain persistent despite rising educational attainment among historically disadvantaged groups. These findings raise concerns about the effectiveness of existing labour policies and point to structural constraints limiting economic inclusion.

Labour Market Policy Over the Past 30 Years

The post-apartheid government introduced a range of labour policies aimed at promoting equity, enhancing worker rights, and addressing unemployment. Key interventions include:

- **Labour Relations Act (1995)** – Strengthened collective bargaining rights and established the Commission for Conciliation, Mediation and Arbitration (CCMA) to resolve disputes.
- **Basic Conditions of Employment Act (1997)** – Set minimum standards for working hours, leave, and termination.
- **Employment Equity Act (1998) & Broad-Based Black Economic Empowerment Act (2003)** – Introduced affirmative action measures to redress historical disadvantages.
- **Employment Tax Incentive (2014)** – Encouraged youth employment through tax incentives for businesses hiring young workers.
- **National Minimum Wage Act (2018)** – Established a national minimum wage to protect low-income workers.

Despite these efforts, South Africa's unemployment rate has remained stubbornly high, never dropping below 20% and exceeding 30% in recent years. The youth unemployment crisis remains a pressing concern, with targeted initiatives such as the Presidential Employment Stimulus and Harambee Youth Employment Accelerator attempting to address this challenge. However, persistent structural issues suggest that labour market policy alone may be insufficient to resolve South Africa's employment crisis.

Key Findings

1. **Employment Trends**: Employment-to-population ratios improved from 54% in 2002 to 60% in 2008 due to strong economic growth and increased labour market participation. However, after the global financial crisis, employment fell to 55% in 2009 and stagnated at 55-56% from 2011 to 2019. Youth unemployment remains critically high at over 50% in 2024.

2. **Earnings and Wage Inequality**: Median real earnings increased from approximately R4,500 in 2002 to nearly R6,000 in 2012 but declined to below R5,500 in 2019. Mean earnings followed a similar pattern, peaking around R12,000 before stabilising. The wage gap between White and African workers has remained at approximately 140-160%.

3. **Educational Attainment and Labour Market Outcomes**: The share of the population with matric increased from 12% in 1993 to 31% in 2019, while the share with tertiary education grew from 9% to 16%. Despite these improvements, racial employment gaps persist, with White workers still having disproportionately higher employment rates.

4. **Persistent Racial and Gender Gaps**: The employment gap between White and African workers has remained stable at 20-30 percentage points over the past 30 years. While gender disparities have narrowed, with the employment gap decreasing from 30 to 15 percentage points and the earnings gap from 50% to 40%, significant inequalities remain.

5. **Sectoral and Occupational Shifts**: Employment in the finance sector grew from 6% in 1995 to 15% in 2019, while manufacturing employment declined from 16% to 11% and agriculture from 12% to 5%. The share of high-skill occupations has increased, contributing to higher earnings for educated workers.

Policy Insights and Recommendations

1. **Addressing Structural Barriers to Employment**

   - Labour market policies should be complemented by broader economic interventions, including resolving the electricity crisis, improving infrastructure, and fostering private sector investment.
   - Enhancing support for Small, Medium, and Micro-Enterprises (SMMEs) to boost job creation.

2. **Reforming Youth Employment Initiatives**

   - Strengthen the effectiveness of the Employment Tax Incentive (ETI) by ensuring that benefits reach intended job seekers.
   - Expand and refine targeted youth employment programs such as the Presidential Employment Stimulus.

3. **Enhancing Educational and Skills Development**

   - Improve the quality and accessibility of vocational training and tertiary education to align with labour market needs.
   - Strengthen Sector Education and Training Authorities (SETAs) to enhance job readiness among graduates.

4. **Labour Market Regulation and Compliance**

   - Address regulatory inefficiencies that may deter hiring while ensuring worker protections remain intact.
   - Improve enforcement mechanisms to enhance compliance with minimum wage laws and employment equity regulations, while simultaneously and periodically updating these rules to ensure that they are not overly restrictive.

5. **Reducing Racial and Gender Disparities**

   - Address occupational and sectoral segregation that contributes to wage gaps.
   - Strengthen affirmative action and diversity initiatives while ensuring implementation transparency and effectiveness.

Conclusion

While South Africa has made progress in certain labour market dimensions, persistent unemployment, deep racial wage gaps, and slow gender convergence underscore the need for more comprehensive policy interventions. Addressing these challenges requires a multi-faceted approach that extends beyond traditional labour policy, incorporating macroeconomic stability, education reform, and targeted employment programs. Without decisive action, South Africa risks continued economic exclusion for large segments of the population, undermining long-term social and economic stability.

1 Introduction

In this paper, we review what has happened in the South African labour market in the 30 years since the transition to democracy in 1994. Given the country's history of institutionalised racial discrimination and inequality, a big part of this review focuses on the extent to which unequal outcomes between groups have been addressed by labour policy and in labour outcomes. The inability of job creation to keep up with increases in labour supply, causing high and often rising unemployment, means that a focus of this paper is on changes in employment-to-population ratios over time.

Thirty years since the advent of democracy represents a symbolic landmark for the country, and a natural point to take stock and reflect. But it is also a meaningful period of time in more substantive ways: it spans a full generation of people that have aged, grown up, and been educated in the democratic era. It is also a long enough period of time for changes that have been implemented, e.g. in increasing enrolment in schooling for previously disadvantaged groups, to have started to affect the labour market. There is now a generation of people who have benefitted from the new regime's education policies and have subsequently entered the labour market. But whether these developments have (already) led to positive changes in people's labour market outcomes is an empirical question.

A broad overview of what has happened is also meaningful from an academic perspective, as a longer-term view can help to frame debates around the labour market. It also has an instrumental purpose, by helping to anticipate and plan for future developments in the labour market.

This paper will be organised as follows: Section 2 provides some background on some of the salient characteristics, developments and debates around the South African labour market, based on the substantial body of research that has been produced over the last 30 years. Section 3 reviews the key labour policy measures implemented in the democratic era, assessing what government has done to try and shape labour market outcomes. Section 4 discusses sources of data and issues of data quality. It contains our empirical findings related to trends in employment and earnings outcomes, in the aggregate and for particular groups, and includes decompositions of gaps between groups into explained and unexplained components. Finally, Section 5 discusses and concludes.

2 Background and context

This section reviews some key characteristics of the South African labour market, including how our understanding of the labour market has been informed by research and some important debates in the field.

South Africa has levels of income and earnings inequality that are among the highest in the world, according to several measures. A general consensus that earnings inequality has been increasing (e.g. Wittenberg, 2017; Finn & Leibbrandt, 2018) is challenged by new research which finds that it has been stable or even declined since the early 2000s once data issues are accounted for (Kerr, forthcoming).[4] Within the broader literature on earnings inequalities, some authors have looked specifically at racial earnings inequalities. This research has found very high earnings inequality between races, but also that the persistently high (or increasing) level of overall inequality has been driven by a large increase of within-group inequality among Africans (Leibbrandt et al., 2012). In Section 4 we discuss one key field addressing racial inequalities: the decomposition of literature.

Beyond race, the gender dimension of the labour market is also important both for the clear presence of gaps in outcomes between genders, and because there have been dramatic increases in female labour force participation and employment attainment over the period (Casale, 2004).

Despite this 'feminisation of the labour force', women continue to shoulder a disproportionate burden of childcare, which affects the scope of their labour force participation. This was observed acutely over the Covid-19 period, when institutions that normally assist with childcare (including schools) were temporarily closed (Casale & Shepherd, 2022). The intersection of race and gender is also important, with African women consistently found to be the worst off in terms of employment and earnings outcomes (Posel & Casale, 2019).

The scale of unemployment and its persistence has been one of the main stories of the post-democratic era. Tackling high unemployment rates, for youth in particular, has proven to be very challenging, and unemployment has at times been rising during the last 30 years. In 2024 the broad unemployment rate (including discouraged work seekers) stood at 43% (Stats SA, 2024). However, research on employment dynamics has revealed that despite the stability of aggregate employment and unemployment rates, there is substantial churning of people into and out of employment (Kerr, 2018).

As documented by Casale et al. (2004) there were significant debates around the extent of employment growth in the 1990s and early 2000s. The authors evaluate the ANC government's claim (in 2004) that two million jobs had been created in the preceding decade (at the same time that unemployment was increasing). They and other authors found that changes in labour surveys' data collection and the capturing of informal kinds of work (from 2000 onwards) were responsible for a substantial part of the observed increase in employment. It is likely that some share of the observed employment growth was real, but that this was coincident with relatively larger increases in labour supply, declining real average earnings, and increases in the prevalence of the working poor (especially among Africans) (Casale et al., 2004).

Related to this is the question of informality of employment in South Africa. One enduring question is why the informal sector (as measured in surveys) is so small relative to other comparable developing countries. An influential paper in this vein is by Kingdon and Knight (2004), who speculated that high crime rates and limited access to credit are partly responsible for low informality rates (and that unemployment is largely not

[4] According to the author, surveys were less comparable so it is hard to analyse trends before the early 2000s (Kerr, forthcoming). See Section 4 for more detail on the QLFS earnings data underlying estimates of inequality.

'voluntary'). This was followed by other research and has evolved into a focus on constraints to the growth of SMMEs (Fourie, 2018; Bhorat et al., 2018). Other literature has found there to be substantial heterogeneity in terms of earnings within the informal sector, suggesting that some of the work in the sector in fact has high barriers to entry (Heintz & Posel, 2008; Danquah et al., 2019).

Many authors have thought about the contribution of limited information to South Africa's unemployment problem, and a small literature provides experimental evidence on the effect of interventions targeting better information and job search. Carranza et al. (2022) found that assessments help work seekers to form more accurate beliefs about their skills and better target their search for jobs, but only found positive employment effects when assessments were easily shareable with potential employers. Similarly, Abel et al. (2020) found that the use of a reference letter when applying for jobs increased the probability of attaining an interview and of getting the job, especially for women. Abel et al. (2019) found that a prompt to make a detailed job search plan led to an increase in the quantity and effectiveness of individuals' job applications.

Job search and information are also shaped by the degree of spatial mismatch between jobs and job-seekers (Shilpi et al., 2018). High transport costs in the country will affect both those looking for work and those already in work, who typically spend close to a third of their hourly earnings on public transport (Kerr, 2017). Banerjee and Sequeira (2023) study the effect of transport subsidies on individuals' job search in Johannesburg, finding that more intensive job search leads people to adjust their beliefs and reservation wages more in line with employment opportunities. This is consistent with a study of job search and reservation wages by Burger et al. (2017) that argues that a lack of exposure to jobs (e.g. in rural areas) may contribute to reservation wages being unrealistically high.

3 Labour Market Policy in South Africa over the past 30 years

The first thirty years of democracy in South Africa brought many changes, and this includes policy and legislation pertaining to the labour market. By the early 1990s, most of the discriminatory laws from the apartheid era had been repealed, and the process of building a new society and economy that worked for the betterment of all South Africans was one of the key challenges facing the new government.

As we show in our empirical section, the labour market in 1994 was characterised by stark differences in both employment and wages, between groups defined by race, as well as by gender. Addressing these inequities, and in particular the high unemployment rate, were a key part of the early policy imperatives.

We thus observe a number of statutory and regulatory changes in the labour market that occur in the first decade of our democracy. These include the Labour Relations Act of 1995, the Basic Conditions of Employment Act of 1997, the Employment Equity Act of 1998, and the Broad-based Black Economic Empowerment Act of 2003. There were also the introduction of minimum wages for domestic workers and agricultural workers, through sectoral determinations in 2003 and 2004 respectively.

Following the global financial crisis of 2007, South Africa's long and sustained growth phase ended and the country entered into a period marked by recession followed by very moderate growth. Two major labour market policies were implemented after 2007 and before the COVID-19 pandemic, namely the introduction of the Employment Tax Incentive (ETI) in 2014 and the replacement of the sectoral determinations with a single[5] National Minimum Wage (NMW) in 2019.

Throughout the past thirty years, South Africa's unemployment rate has never dropped below 20%, and it has risen considerably (off a very high base) since the COVID-19 pandemic. In addition to the ETI, South Africa has also implemented other policies that attempted to address the stubborn unemployment problem. The Expanded Public Works Program (EPWP) and the Community Works Program (CWP) directly create short-term employment opportunities. Other interventions, which are less direct, would include the creation of Sector Education and Training Authorities (SETAs) in 1998, the introduction of the Skills Development Levy (1999), support for Small, Medium, and Micro-Enterprises (SMMEs), and the creation of the Jobs Fund (2011).

The youth have received particular attention from policy makers, as their unemployment rate is close to double the aggregate unemployment rate, and sits above 50% at present. In addition, unemployed youth take a very long time to find their first jobs, and this can leave 'scarring' effects that can have persistent implications for these youth. In addition to the ETI, which explicitly targets youth, the Presidential Employment Stimulus (2020) was introduced as a response to the COVID-19 pandemic and remains one of the most prominent programs that covers youth employment. In the 2024 State of the Nation Address, it was reported that the program had supported 1.5 million work and livelihood opportunities, with 83% of these going to youth.[6] Other well-known youth employment organisations include the Harambee Youth Employment Accelerator, and the Youth Employment Service (YES), both of which are non-governmental.

In the remainder of this section, we present more details on the key labour market policies, which we will reflect on in our concluding section.

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[5] The idea was to have a single national minimum wage, but the law was originally passed with lower minima for two sectors, namely domestic workers and agricultural workers. These lower minima have now been phased out.

[6] https://www.stateofthenation.gov.za/priorities/growing-the-economy-and-jobs/presidential-employment-stimulus. Accessed on 4th November 2024.

The Labour Relations Act of 1995

The key contributions of this Act are to govern the rights of workers. This includes the rights of trade unions, to promote collective bargaining in the workplace, recognition of the right to strike, and to promote employee participation in decision-making. It also provides for a process for dispute resolution, namely through the establishment of the Commission for Conciliation, Mediation and Arbitration (CCMA). The Act also led to the establishment of the Labour Court and Labour Appeal Court, to adjudicate on matters arising from the Act. In addition, the LRA was amended in 2015, with the key changes affecting workers from temporary employment services (TES). In particular, if a TES worker was assigned to the same client for more than three months, they would generally be considered an employee of the client of the TES.

The Basic Conditions of Employment Act of 1997

The Basic Conditions of Employment Act (BCEA) provides regulations for several different aspects of the work environment. These include working hours and overtime pay, provisions for various types of leave, remuneration and deductions, processes and restrictions relating to the termination of employment, and the prohibition of child labour.

The Employment Equity Act of 1998 and the Broad-based Black Economic Empowerment Act of 2003.

The purpose of the EEA was to achieve equity in the workplace by eliminating unfair discrimination and implementing affirmative action measures to redress disadvantages in employment experienced by black people, women, and persons with disabilities. The Act applies to firms with either 50 or more employees, or firms with greater than a sector-specific annual turnover.

The B-BBEE Act introduced policy to accelerate economic transformation and increase the economic participation of Black people. It involves reporting on transformation in multiple dimensions, including ownership, management, and employment equity. The extent of B-BBEE compliance is a consideration in government procurements.

The Employment Tax Incentive (ETI)

The ETI is a tax incentive for employers to provide jobs for new youth employees. It was introduced in 2014 and has been extended repeatedly, with its current expiration date set at February 2029. The ETI works as a tax credit for employers, who get to offset a share of the wages of new youth employees against the employer's tax obligations to SARS. Youth aged 18 to 29 who earn up to R6 500 per month qualify for the incentive. The value of the ETI varies with the level of wages of the employee. It also decreases in value after twelve months, and expires at the end of the second year of employment. For example, for eligible employees earning between R2000 and R4500 per month, the value in 2024 was R1500 per month for the first year of employment, and R750 per month for the second year of employment.[7]

The National Minimum Wage Act of 2018

The National Minimum Wage (NMW) was introduced with effect from 2019, and established a minimum wage for all workers in South Africa (with few exceptions). It also established the NMW Commission, whose

[7] A useful description and summary is available at https://www.sars.gov.za/types-of-tax/pay-as-you-earn/employment-tax-incentive-eti/. (Accessed on 12th November 2024).

task it is to review and adjust the NMW levels annually. In 2024, the NMW was set at R27,58 per hour, which equates to approximately R4,800 per month for a 40-hour work week.

4 Empirical Analysis

4.1 Data and data quality issues

In this section, we document several data quality issues related to earnings and employment that are relevant for any analysis of the post-Apartheid labour market. These issues have influenced which post-Apartheid surveys we use in this paper.

Employment

The first broad issue is that the capturing of employment has varied in different ways throughout the period since nationally representative household surveys were first conducted in 1993. Casale et al. (2004) identified a number of concerns around the inconsistent capturing of marginal forms of work in the Statistics South Africa household surveys from 1994 onwards. They emphasise the differences between the October Household Surveys (OHSs) and the Labour Force Surveys (LFSs). The LFSs included a much more detailed explanation of what constitutes a job, including that a job could be only one hour per week. But they also note that there were differences between the different OHSs. For example, there was no prompt at all about what constituted work before OHS 1996.

The authors show further that these differences matter. Specifically, the early OHSs pick up much less self-employment, and seem to have missed mostly small-scale, informal self-employment. They show that between OHS 1995 and LFS September 2001 self-employment increased by a factor of 2.4, and informal self-employment by a factor of 2.75, yet wage employment was lower by September 2001 than it had been in OHS 1995.

Branson and Wittenberg (2007) note that OHS 1995 seemed to capture more male employment than subsequent OHSs, and thus that using OHS 1995 as a base for comparison to later years, as we do below in our decomposition analysis, may not be sensible (although they point out that many other researchers have done this). In defense of using OHS 1995 in our analysis, we note that OHS 1994 had a very similar employment rate (45%), the 1993 PSLSD had a much higher one (50%) (and this survey was not included in Branson and Wittenberg's analysis) and that there are good reasons to think that the OHS 1996-1997 under-captured employment relative to OHS 1995 because mining hostels were not well covered in 1996 and 1997 (Kerr and Wittenberg, 2015).

There were also several issues in the first three LFSs that rule out these surveys for use in most analyses. The first two Labour Force Surveys found very large numbers of workers in subsistence agriculture but this was not repeated in subsequent years. Around 1.5 million workers in the February 2000 LFS and 950 000 in September 2000 were estimated to be working in subsistence agriculture (Kerr and Wittenberg 2019), but in the subsequent LFSs the average was only around 400 000. In the 3rd LFS (February 2001) the Survey of Employers and Self-employed (SESE) was undertaken by 'piggy-backing' on the LFS. Those individuals found to be operating non-VAT registered businesses were re-interviewed for the SESE and enumerators were paid for each extra interview done (Kerr and Wittenberg, 2015). The result was roughly an extra 1.5 million non-VAT registered self-employed individuals compared to subsequent LFSs. As a result, we do not use these surveys in our regression analysis.

Earnings

In this section we discuss data quality issues related to earnings, which we use in our analysis. The issues we focus on are an increase in item non-response rates and the questionable quality of QLFS earnings imputations undertaken by Stats SA. Other issues that have been investigated are changes in the

questionnaires, extreme values, and zero earners (Wittenberg, 2017). If, as discussed in the previous section, Stats SA became better at capturing marginal employment (Casale et al., 2004), then this will impact estimates of changes in earnings over time.

Individuals who agree to be surveyed may choose not to give their earnings if they deem this to be too sensitive. This is known as item non-response. Several authors have examined the magnitude of item non-response to earnings in the OHSs and LFSs. Daniels (2022) found that OHS non-response rates were 4-10%. LFS non-response rates were between 5 and 10% (von Fintel (2007), Vermaak (2012), Daniels (2022)).

A solution to non-random item non-response is to impute earnings, assigning plausible earnings values to those who did not give responses by using the earnings values of those who did respond. This could be done using non-parametric (e.g. hot deck) or parametric (e.g. linear regression) methods. However, if one's aim is to run regressions, as in the decomposition analysis in the current paper, one should not use imputation - running a regression to impute earnings and then running a regression using the observations that were just imputed is circular and thus non-sensical.

Stats SA began a Quarterly Labour Force survey in 2008 after the biannual LFSs ran from 2000-2007. No earnings data were released in 2008 and 2009[8], but from 2010 to 2021, earnings data was collected and released publicly in a separate data release called the "Labour Market Dynamics". Kerr (Forthcoming) provides a critique of the QLFS earnings data and of the imputation methods used, building on work by Kerr and Wittenberg (2017, 2021). We briefly discuss the concerns and issues here. The summary is that the publicly available QLFS earnings data is of very poor quality.

In the 2010, 2011, 2012:Q1 and 2012:Q2 QLFSs, public earnings data was fully imputed, and there is no way to tell whose earnings were imputed. Kerr and Wittenberg (2017, 2021) used unimputed earnings data provided by Stats SA to show that the 2011 public data resulted in public sector and union wage premia that were substantially attenuated compared to the results using the non-public unimputed data; the quantile regression results in the public data suggested union premia were highest at the top of the earnings distribution and lowest at the bottom, while the unimputed data, and all the surveys prior to the QLFS, show the opposite pattern. In addition, the variance of log wages in the union and non-union sectors looked very similar in the public data, whereas in the non-public data and in all surveys before the QLFS, the variance is much lower in the union sector than the non-union sector, as expected.

Kerr (Forthcoming) used non-public unimputed earnings data for 2011, 2012 and 2018-2020 to show that the trends in earnings in the public data are highly implausible. He argued that the imputation method used by Stats SA seems to have simply been incorrect- for example, some bracket responders and 'don't know' responses in the non-public data were classified as refusals in the public data. But Kerr (Forthcoming) also shows that the non-public data seems reasonable, and that the trends, when undertaking his own imputations, are similar to those in the SARS tax data, even if the surveys seem to miss high earners.

Reflection

Researchers using post-Apartheid household surveys have shown there are several issues with the labour market data collected. We have focused here on those relating to employment and earnings. There are clearly some surveys to avoid when investigating employment outcomes in the post-Apartheid period. These

[8] Earnings was not asked about in 2008 or the first two quarters of 2009, on the advice of the IMF (Yu, 2009, Wittenberg, 2017)). In the 3rd and 4th quarter of 2009 earnings was asked about but never released (Wittenberg, 2017).

include the February and September 2000 LFS, as well as the February 2001 survey. There is nothing that can be done about the under-capturing of marginal employment in the 1990s. The PSLSD does appear to tell a substantially different story than the subsequent OHSs- as we noted above, the employment rate is 5 percentage points higher than the 1995 and 1994 OHS, and earnings appear higher across the earnings distribution (Kerr, Forthcoming).

The QLFS earnings issues are more serious, but there is also a more obvious and almost costless solution- retract the public imputed data and release the unimputed data that appears to be of reasonable quality.

In May 2024, Stats SA released a report providing an updated earnings series from an adjusted imputation process with some data for 2010-2022. The report showed dramatically increased earnings at the 10th, 25th, 50th, 75th and 90th percentiles in 2017 compared to the previously released public data, bringing the QLFS into line with the GHS and with the QLFS estimates of Kerr (Forthcoming) using non-public data and the imputation methods included in PALMS. Unfortunately, the microdata underlying this new series has not yet been released publicly, and the imputation methods are not explained in the report. Of even more concern is that the report notes that unimputed data will not be released, meaning that any new microdata will almost certainly be fully imputed without any way for researchers to know which observations are imputed or to be able to undertake different earnings imputations. This sends researchers back to square one.

It is likely that fully imputed earnings data will still generate unreliable results, even if the earnings distribution looks more reasonable. We make this conclusion based on the findings of Kerr and Wittenberg (2021) and Kerr (Forthcoming) that even in 2011 when the public and non-public earnings distributions were very similar, regression analysis and differences in earnings across sectors looked incorrect using the public data. It is still possible for Stats SA to impute but to include imputation flags in the data. This is undertaken in the US Current Population Survey, for example.

Our conclusion is that analysts should not use the public QLFS earnings data.

Data used for this paper

The data for this analysis come from the Post-Apartheid Labour Market Series (PALMS), which spans the period from 1993 to 2019, including the PSLSD (1993), OHS (1994-1999), LFS (2000-2007) and QLFS (2008-2021).

The issues and differences in the way that employment was measured and captured in the OHSs and first LFSs (discussed in Section 4) mean that we do not discuss trends and changes in employment prior to 2002 (although these data points are plotted). This point also applies to any characteristic of employment (such as occupational level or remuneration) that will be affected by the composition of the employed that are captured. In contrast, we believe that the employment trends from 2002 onwards are reliable enough to be interpreted as real changes. Although PALMS extends into 2021, we only present descriptive statistics up to 2019 due to the large changes in data collection and unreliability of the Covid-era QLFSs.

The issues with imputed earnings discussed above mean that from 2010 onwards we only present earnings estimates for years where we have access to (non-public) unimputed earnings data (2011, 2012 Q3, 2018 and 2019). We impute earnings ourselves using the same methods as used in PALMS (see Kerr and

Wittenberg (2019) for details). The Covid period is similarly omitted, which means that our earnings series only goes up to 2019 due to a lack of unimputed QLFS data for post-Covid years.[9]

Finally, we present decompositions of employment and earnings for four time points across the period: 1995, 2003, 2011 and 2019. These time points were selected to be fairly evenly spaced, presenting a picture of gaps and the extent to which they are explained over time. We also restricted our choice to years for which we have unimputed earnings data available, which is important as decompositions are based on regressions predicting employment and earnings.

We restrict our analyses to the population between the ages of 25 and 59 in order to minimise the effect of educational training and labour market exit on our estimates. Stats SA 'pweights' are used for all descriptive estimates, with the exception of the decompositions which are weighted using 'bracketweight' (which omits imputed values).

4.2 Descriptive statistics

Textbox 1: Stylised facts

- Employment and earnings outcomes (at the mean and median) improved from 2002 until 2008, decreased sharply in 2009 and then drifted with no clear trend until 2019.
- Rates of educational attainment increased steadily between 1993 and 2019. This was true for all groups, but discrepancies in educational attainment by race remain due to White people disproportionately attaining higher education.
- Gaps between White and African people in employment (20-30 percentage points) and earnings (140-160%) are extremely high (at the mean) and have remained stable between 1995 and 2019.
- Gaps between men and women remain substantial but have declined somewhat over the period, going from around 30 percentage points to 15 percentage points for employment, and 50% to 40% for earnings.
- Gender gaps cannot be explained by differences in covariates, whereas around two-thirds of racial gaps can be explained by differences in covariates (when accounting for occupational and sectoral sorting).
- Returns to tertiary education have increased over time, while median earnings for those with matric or less than matric have stagnated.
- Higher-skill occupations have increased as a share of employment. Concurrently, the finance sector's contribution to employment has grown a lot.

Figure 5.1 contains graphs depicting how aggregate employment outcomes have changed over the period between 1993 and 2019.

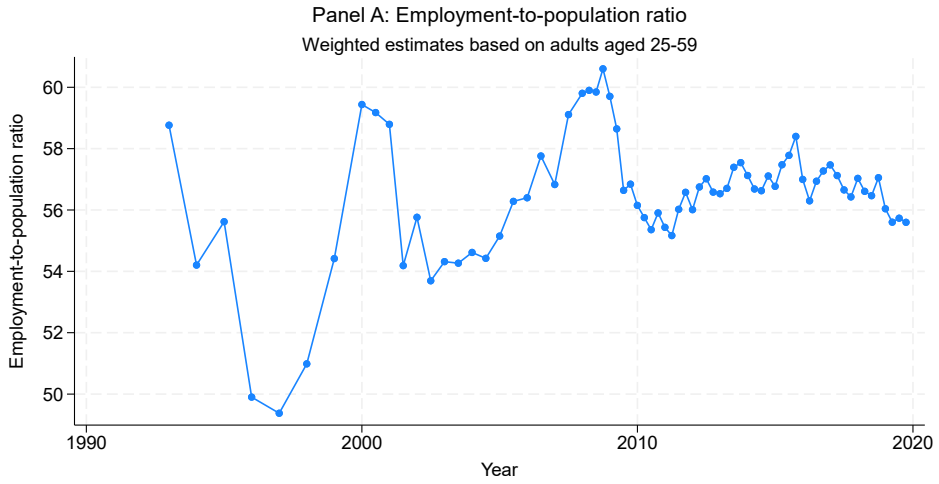
[9] We attempted to use the General Household Survey 2021 and 2022 as a measure of post-Covid earnings, but could not be sure whether large discrepancies between these and earlier estimates were real or driven by differences in the data sources. This issue deserves further investigation (to get an idea of what has happened to earnings since Covid-19), but this is out of scope for this paper.

Panel A shows that from 2002 until around 2009, there was a steady increase in the employment-to-population ratio from 54% to above 60%. Thereafter, coinciding with the financial crisis, there was a sharp drop in the share of people employed (back down to 55%), followed by a period with no clear upward or downward trend between 2011 and 2019.

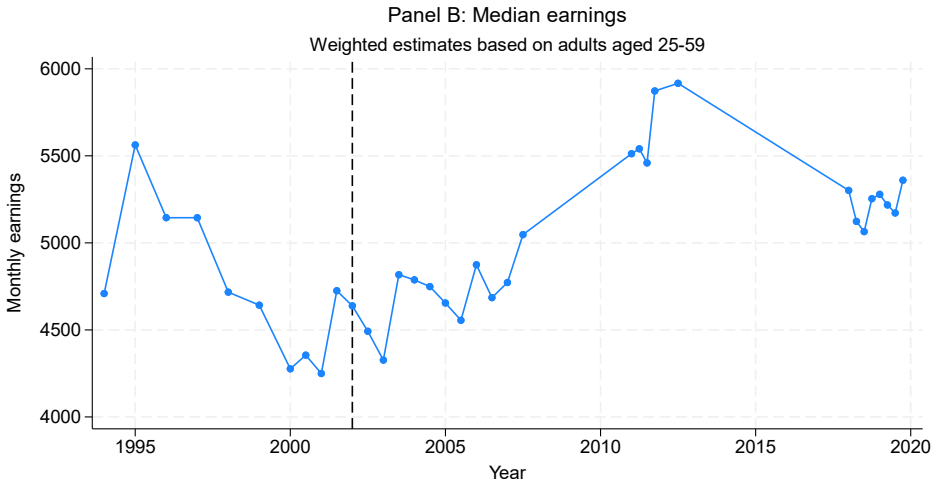
A related pattern is observed for median real earnings in panel B, with an increase from around R4 500 in 2002 to close to R6 000 in 2012.[10] The next data point, after several years without (unimputed) data, shows median real earnings down below R5 500 in 2018/19. This rise and then fall in real earnings over the period matches the trends in Kerr (Forthcoming), which is based on PALMS, General Household Surveys, and tax microdata.

[10] For all time trends and analyses earnings are deflated using the Stats SA consumer price index (CPI) with December 2017 as the base month to get comparable estimates of real earnings over time. This matches the 'realearnings' variable in PALMS.

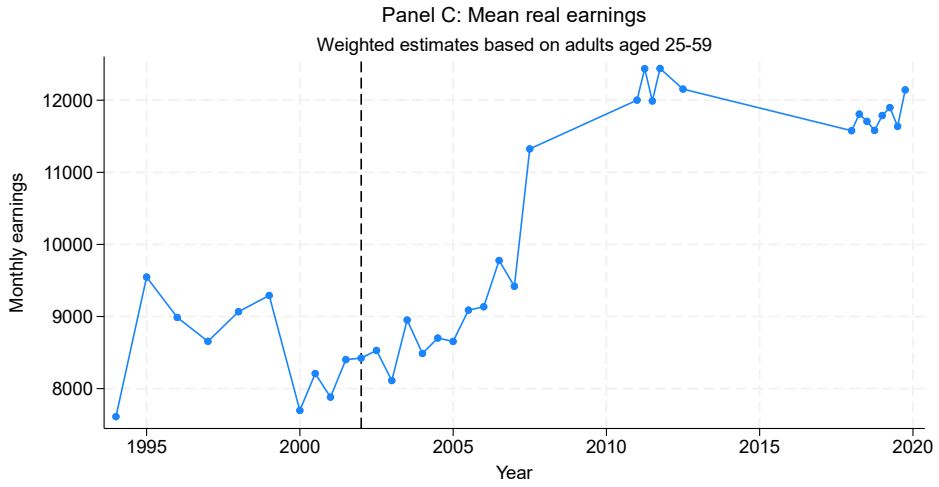
Figure 5.1: Aggregate employment outcomes in South Africa 1993-2019



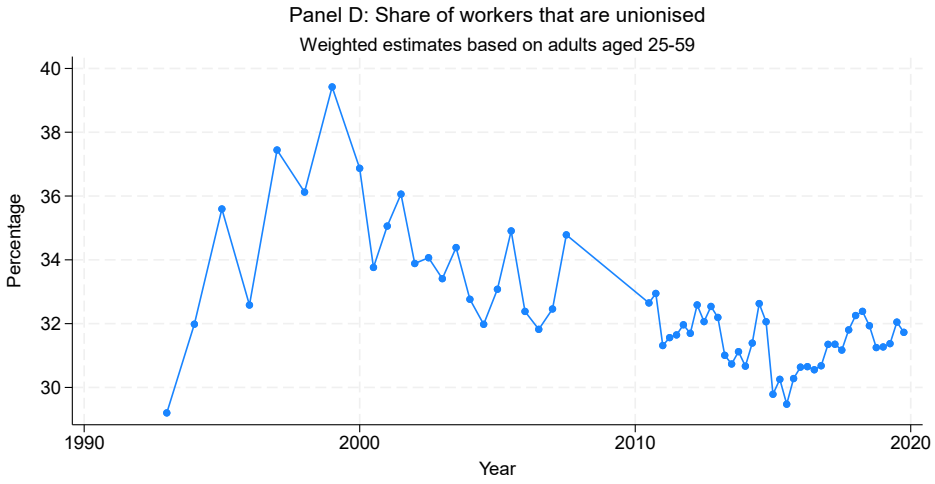
Source: Post-Apartheid Labour Market Series, 1993-2019.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.

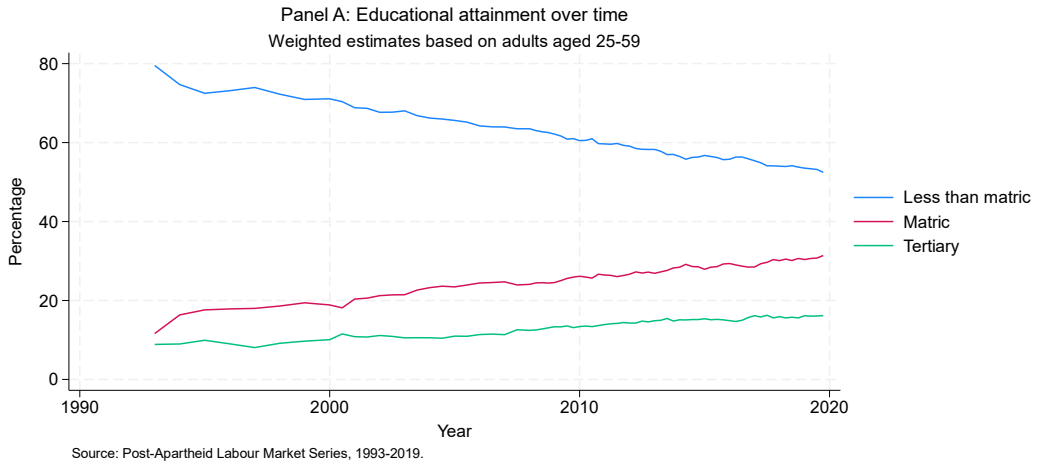


Source: Post-Apartheid Labour Market Series, 1993-2019. Estimates are weighted using Stats SA weights.

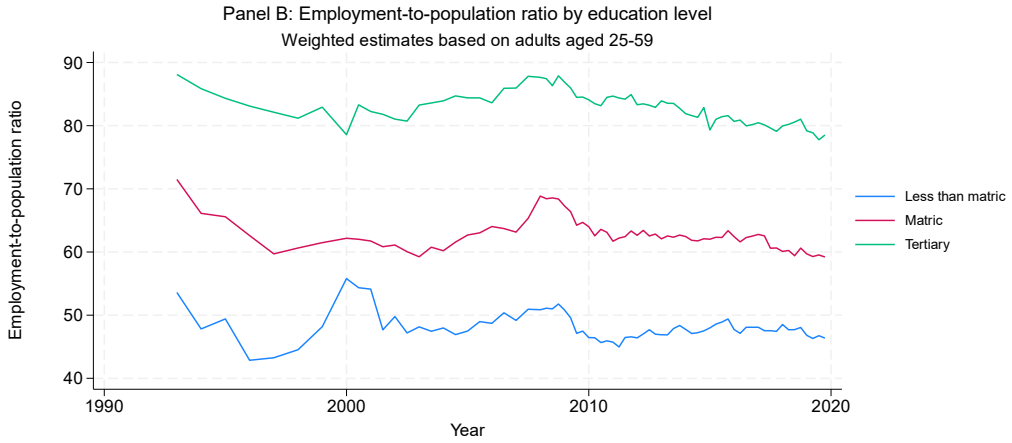
It is striking that median earnings and employment were rising at the same time. This suggests that either real earnings were generally increasing for existing workers (at the same time that employment was increasing) and/or that the new jobs being created were in the top half of the earnings distribution. Mean real earnings show a similar pattern (panel C), increasing by around R4 000 between 2002 and 2012 before decreasing slightly and hovering around R12 000 between 2012 and 2019.

Panel D shows the share of workers that were unionised in South Africa between 1993 and 2019. Again, by only interpreting trends from 2002 onwards, we find that there has been a steady but small decline in unionisation rates from around 34% in 2002 to around 32% in 2019.

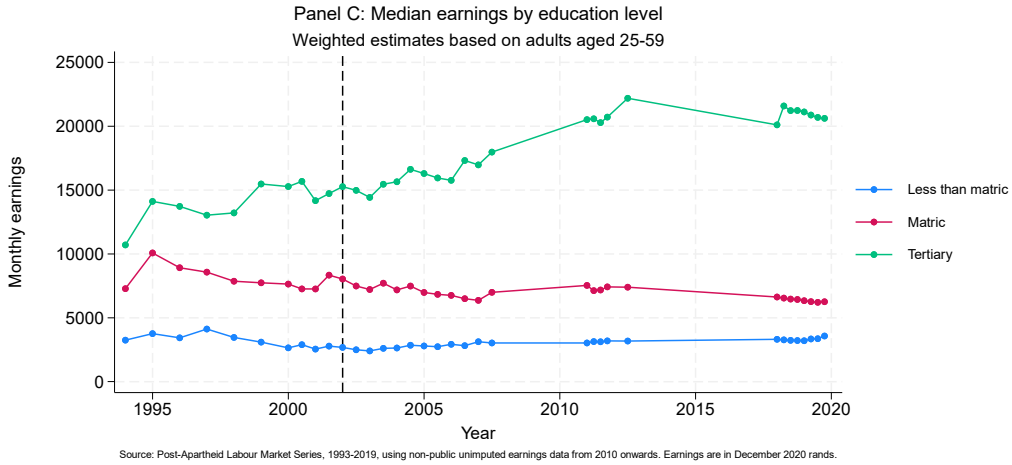
Figure 5.2: Education outcomes in South Africa 1993-2019



Source: Post-Apartheid Labour Market Series, 1993-2019.



Source: Post-Apartheid Labour Market Series, 1993-2019. Estimates are weighted using Stats SA weights.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.

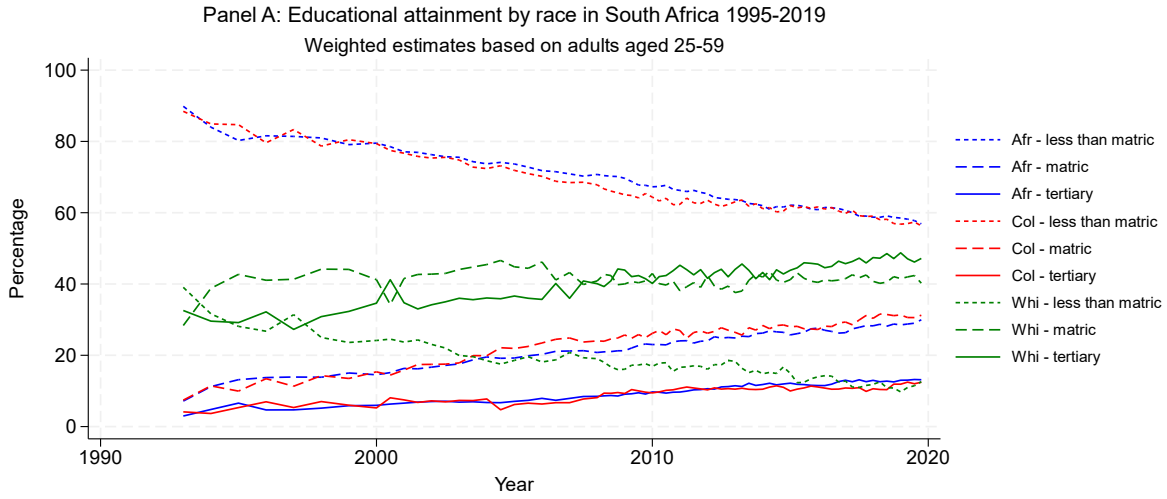
In Figure 5.2, we graph rates of educational attainment and associated employment outcomes from 1993 to 2019.

Panel A shows steady and unambiguous increases in educational attainment over time. The share of people with matric increased most steeply from 12% in 1993 to 31% in 2019, while the share of people with tertiary education increased from 9% to 16%.

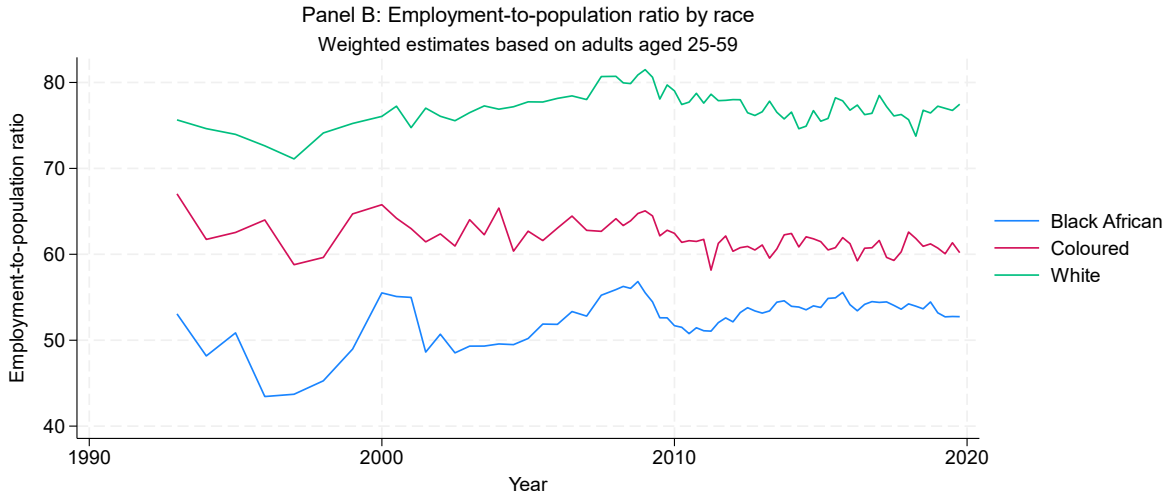
Panel B shows that the share of people in employment is clearly higher for those with matric and, especially, tertiary education relative to those with less than matric. All three educational groups have experienced the same rise and fall in employment that we observed for the combined population, while the gaps between them have remained similar (with a possible slight converging of employment rates between people with matric and people with less than matric).

In contrast, Panel C shows median earnings by education group to have divergent trends over time, with earnings increasing rapidly for those with tertiary education while remaining stagnant for those with matric or fewer years of education.

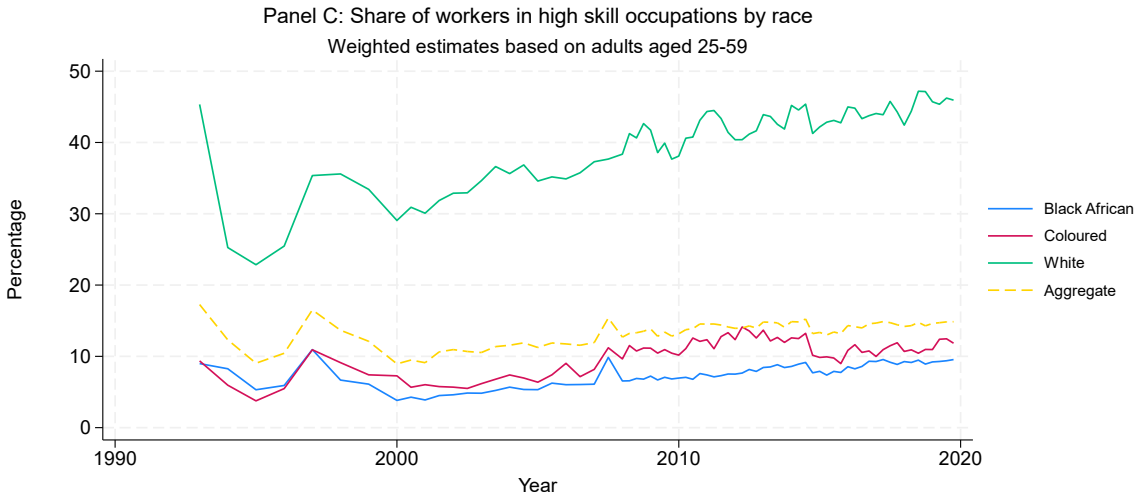
Figure 5.3: Employment outcomes by race in South Africa 1993-2019



Source: Post-Apartheid Labour Market Series, 1993-2019. Estimates are weighted using Stats SA weights.



Source: Post-Apartheid Labour Market Series, 1993-2019. Estimates are weighted using Stats SA weights.



Source: Post-Apartheid Labour Market Series, 1993-2019. Estimates are weighted using Stats SA weights.

In Figure 5.3 we graph employment and education outcomes by race group between 1993 and 2019. We generally focus on comparing outcomes for Black African and White people, as these are the prominent groups that generally have the least and most favourable outcomes, respectively. We also generally omit estimates for the Indian/Asian group due to very small sample sizes (and population shares), which make estimates for this group highly imprecise.

Having documented large overall increases in matric and tertiary educational attainment in Panel A of Figure 5.2, we now examine how educational attainment has changed for different race groups. Black Africans' attainment of matric increased steadily over the period, from 13% in 1995 to 29% in 2019[11], while the share of African people with tertiary education increased from 7% to 13%. Although the share of Africans with less than matric reduced from a high of 80% in 1995, it remains notably high at 58% in 2019.

Although they started from a much higher base, White people also saw dramatic increases in education over the period. While around 42% of White people had matric in both 1995 and 2019, there was a big reduction in the share of White people with less than a Matric (from 28% to 10%, causing an inflow into the Matric category) and a marked increase in the share of people with tertiary education (from 29% to 49%, causing an outflow from the matric category).

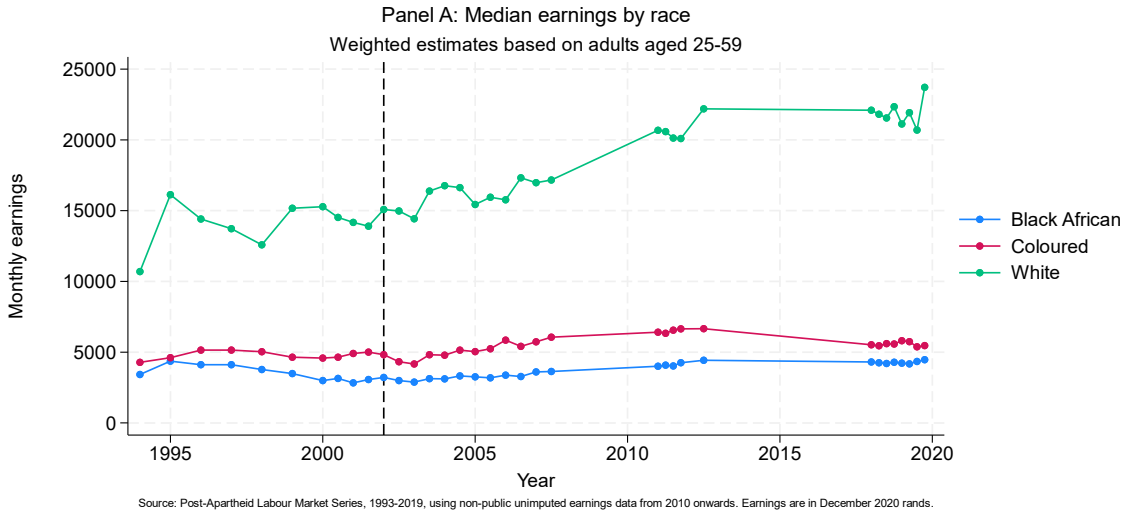
Panel B shows employment-to-population ratios by race. There are clear differences by race across the entire time period, with a much higher proportion of Coloured people being employed relative to African people and a far greater proportion of White people being employed than either of the other groups. In 2019, 77% of White people (aged 25-59) were employed, compared to 60% of Coloured people and 53% of African people. In terms of the last decade, however, Africans are the only group for whom employment levels have consistently increased since 2010.

Panel C shows the share of workers in high-skill occupations by race.[12] Describing outcomes from 2002 onwards, there has been a general increase in the share of workers in high-skill occupations over time (as seen in the aggregate line). This increase is the largest in absolute terms for White workers, but the lower starting point of African and Coloured workers means that their increases reflect substantial percentage increases as well. In addition, given that Africans make up the great majority of workers (and the population), an increase in the share employed in high-skill occupations from 5 to 10% is very meaningful (for the overall share of employment).

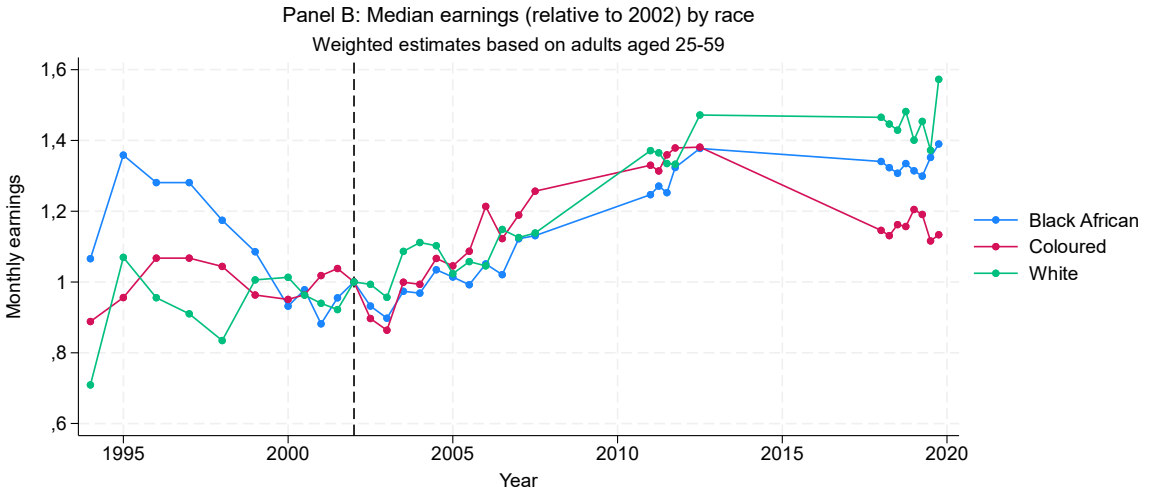
[11] We use 1995 as a starting point for comparisons due to previous surveys appearing to underestimate educational attainment (with unrealistic increases in the two years after 1993).

[12] We follow Bhorat et al. (2013) in grouping occupations into low-, medium- and high-skill occupations. This classification differentiates between high-skill (managers and professionals), medium-skill (clerks, services and sales workers, agriculture workers, craft and trade workers, operators and assemblers) and low-skill occupations (elementary occupations and domestic work).

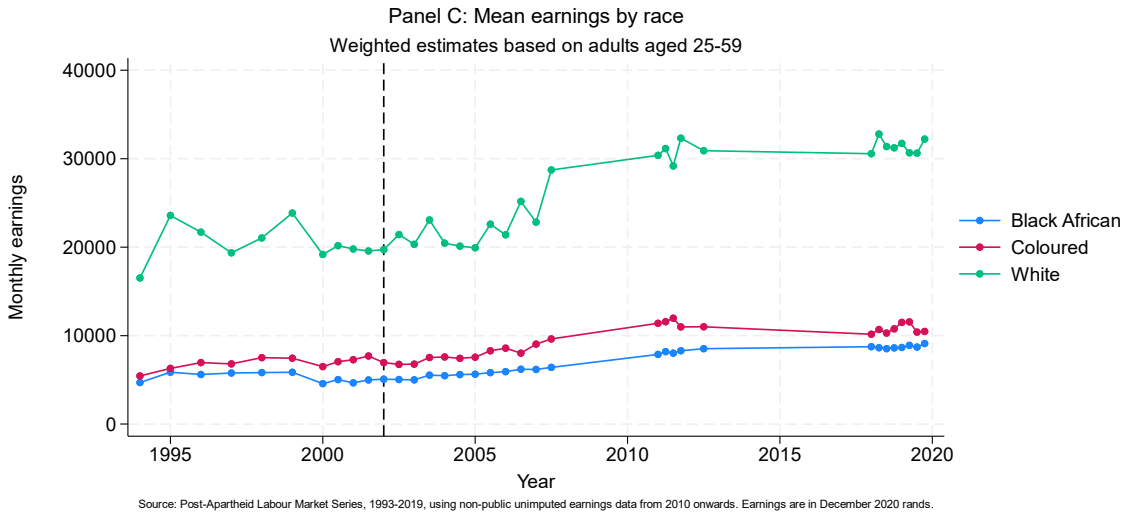
Figure 5.4: Earnings outcomes by race in South Africa 1993-2019



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.

In Figure 5.4, our attention shifts towards comparing earnings across race groups. Panels A and B show median earnings by race first in absolute terms and then benchmarked to 2002 (so that relative changes since then can be examined). Median earnings for African workers have increased from around R3 000 in 2002 to around R4 500 in 2019 and from R4 800 to R5 400 for Coloured workers over the same period. In absolute terms, the increase in median earnings has been much more dramatic for White workers, increasing from below R15 000 in 2002 to around R22 000 in recent years.

However, panel B shows that the lower starting point of African and Coloured earnings means that, in relative terms, median earnings have increased similarly across the three groups. The three trends only seem to diverge after 2011, with Coloured earnings falling and White earnings rising the most since the financial crisis. In the preceding decade, all three groups' median earnings had increased by around 40%.

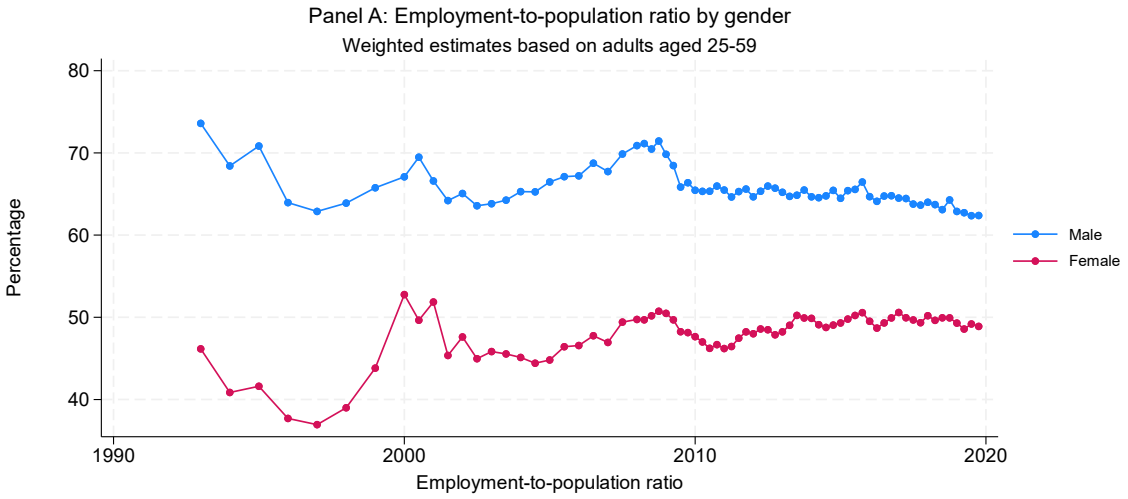
Mean earnings (in panel C) show a similar pattern to median earnings, with clear increases across all race groups but much larger increases for White workers in absolute terms.

In Figure 5.5, we contrast the employment and earnings outcomes of men and women over time. Panel A shows that there has been some convergence in the share of men and women who are employed (especially relative to estimates from the 1990s). However, a substantial gender gap in employment remains, with 62% of men and 49% of women employed in 2019.

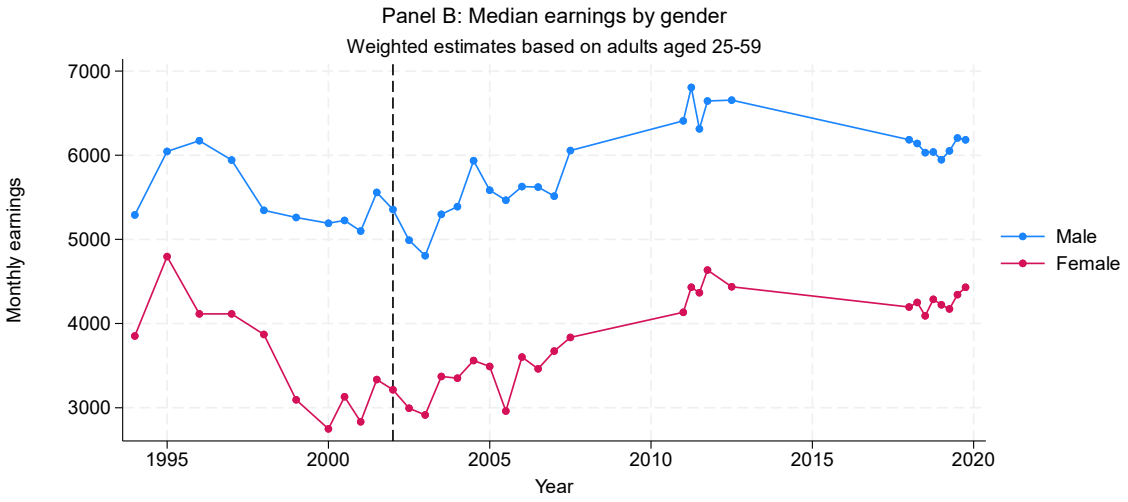
Panels B and C show gender differences in median and mean earnings, respectively. Median earnings show little sign of converging over time, with the two series largely moving in parallel. The same goes for mean earnings, although there appeared to be some convergence in the decade following 2002. In 2019, median earnings for women were R4 432 compared to R6 185 for men.

The lower starting point of women's earnings means that similar absolute increases in earnings across genders (as observed for the decade following 2002) will constitute a much larger percentage increase in earnings for women than for men.

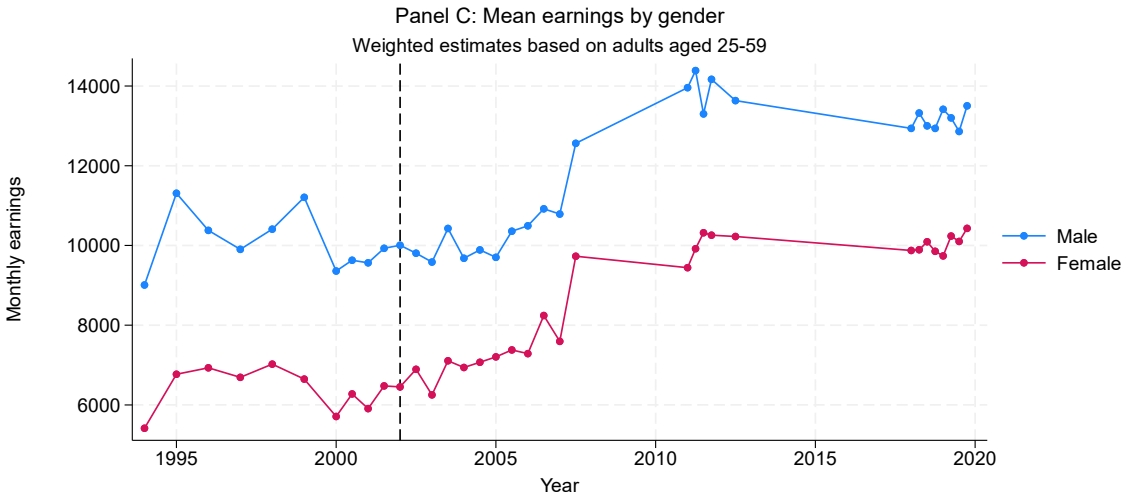
Figure 5.5: Employment outcomes by gender in South Africa 1993-2019



Source: Post-Apartheid Labour Market Series, 1993-2019. Estimates are weighted using Stats SA weights.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2020 rands.



Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data from 2010 onwards. Earnings are in December 2017 rands.

Error! Not a valid bookmark self-reference. provides the shares of employment by industry for 1995 and 2019 (as well as the difference in percentage points between the two years). The largest increase in the share of employment came in the Finance sector (rising from 6 to 15%), followed by the Construction and Trade industries (with 3 percentage and 2 percentage point increases, respectively). Meanwhile, the share of employment in Agriculture declined from 12% to 5%, and the share of employment in Manufacturing declined from 16% to 11%. The biggest employer, Services, declined by 1 percentage point.

Table 1: Industrial composition of employment in South Africa 1995 and 2019

Industry	1995	2019	Difference
Agriculture, hunting, forestry and fishing	12,0%	5,0%	-7,1%
Mining and quarrying	5,0%	2,7%	-2,3%
Manufacturing	15,6%	10,8%	-4,8%
Utilities	0,9%	0,9%	0,0%
Construction	4,9%	8,4%	3,4%
Trade	17,9%	19,8%	1,9%
Transport	5,1%	6,3%	1,2%
Finance	5,9%	15,4%	9,5%
Services	23,9%	22,5%	-1,4%
Domestic Services	8,7%	8,2%	-0,5%
	100,0%	100,0%	

Notes: Based on workers aged 25-59.
Source: Post-Apartheid Labour Market Series, 1993-2019

4.3 Decomposition of employment and earnings

The results presented so far compare average outcomes across groups and make no attempt to control for differences in characteristics (of people and their jobs) that may contribute to differences in outcomes. We now run decompositions of earnings and employment gaps, which tell us what share of the gaps between groups (at the average) can be explained by differences in relevant covariates and what share of the gaps remains unexplained.[13] We use the following base covariates: age (in 5-year groups), educational attainment, hours worked[14], and rural location.[15] In addition, gender is included as a covariate for the race gap decompositions, and race dummies are included as covariates in the gender gap decompositions.

Some existing studies have decomposed gaps in this way for South Africa. Using data from 1993 and 1999, Rospabé (2002) investigates the degree of hiring, wage, and occupational discrimination in South Africa using an Oaxaca-Blinder decomposition, with the key finding being that between 30 and 40% of racial gaps are unexplained by the included covariates. Hinks (2002) estimates the level of unexplained wage differences

[13] The decomposition of differentials into explained and unexplained components also requires a decision about what the 'fair' or 'true' coefficients or returns are – so that groups' coefficients can be compared to this benchmark. For our benchmark we use the coefficients from a pooled regression including both groups (and the group identifier included as a covariate) - operationalised using the *oaxaca* command in Stata with the *pooled* option (Jann 2008).

[14] The inclusion of hours worked is essential when the earnings outcome variable is not at the hourly level.

[15] For categorical variables, a well-known issue in the decomposition literature is the 'omitted variable problem' (Fortin et al. 2011; Jann 2008). This basically means that for categorical variables the decomposition results are sensitive to the base category that is used, especially for the unexplained component. Although there are methods of removing this sensitivity to the base category, there is no complete solution. Therefore, we leave our results as they are and acknowledge this sensitivity to base categories for our categorical variables.

between men and women (within each race group) and finds that in all race groups, women experience discrimination, but that this was largest for White and Indian women (22% and 25% respectively), and smallest for African women (16%).

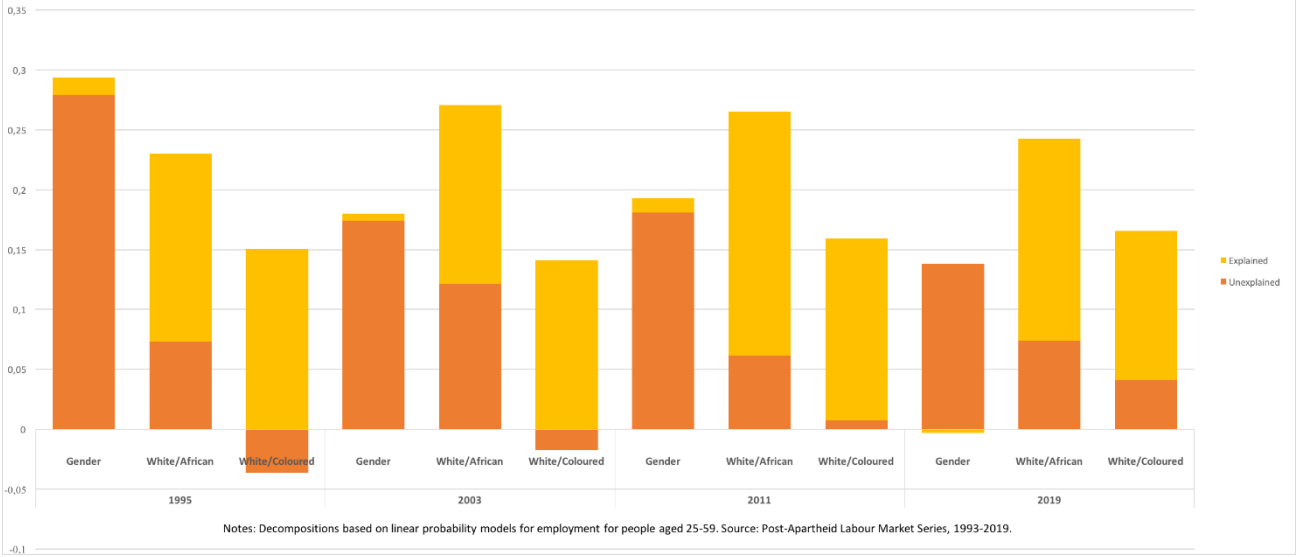
Thereafter, Burger and Jafta (2010) found an employment gap between White men and African men of 28% for 2006, most of which could be explained by covariates, and a much larger gap between White and African women. They found that gaps in wages, conditional on being employed, were much larger in magnitude. The average White man's wages were more than double those of African men throughout the early 2000s, and more than half of this is unexplained. Gaps between White and African women were slightly smaller but still very large, at about 90%.

Figure 5.6 shows decompositions of employment gaps for four years spanning the 1995-2019 period.[16] Focusing on gender first, there seems to have been a clear reduction in the magnitude of the overall employment gap between men and women over time. Across all time periods, almost the entire share of this is unexplained, which means that women do not have levels of observed characteristics that are associated with lower employment outcomes. In fact, the negative explained component in 2019 implies that the employment gap between men and women would have been slightly greater if women did not have superior levels of covariates like education. These findings are consistent with the international literature, which consistently finds gender gaps to be unexplained (see Altonji and Blank, 1999).

Racial employment gaps, on the other hand, have not converged and remain at least as high in 2019 as they were in 1995. White people are around 25 percentage points more likely to be employed than African people across the years. The fact that the employment shares and probabilities are bounded between 0 and 1 underlines how significant this is as a magnitude. There is some fluctuation in the share of the gap that is explained by covariates, but no clear trend. Much more of the gap is explained by covariates relative to the gender gap, but close to a third of the gap remains unexplained across periods. The White/Coloured gap is similarly persistent over time (at around 15 percentage points), and is almost entirely explained by differences in covariates. In fact, the negative unexplained component in the earlier years suggests that just looking at levels of covariates, one would expect a greater gap in employment rates (between White and Coloured people) than the gap that is observed.

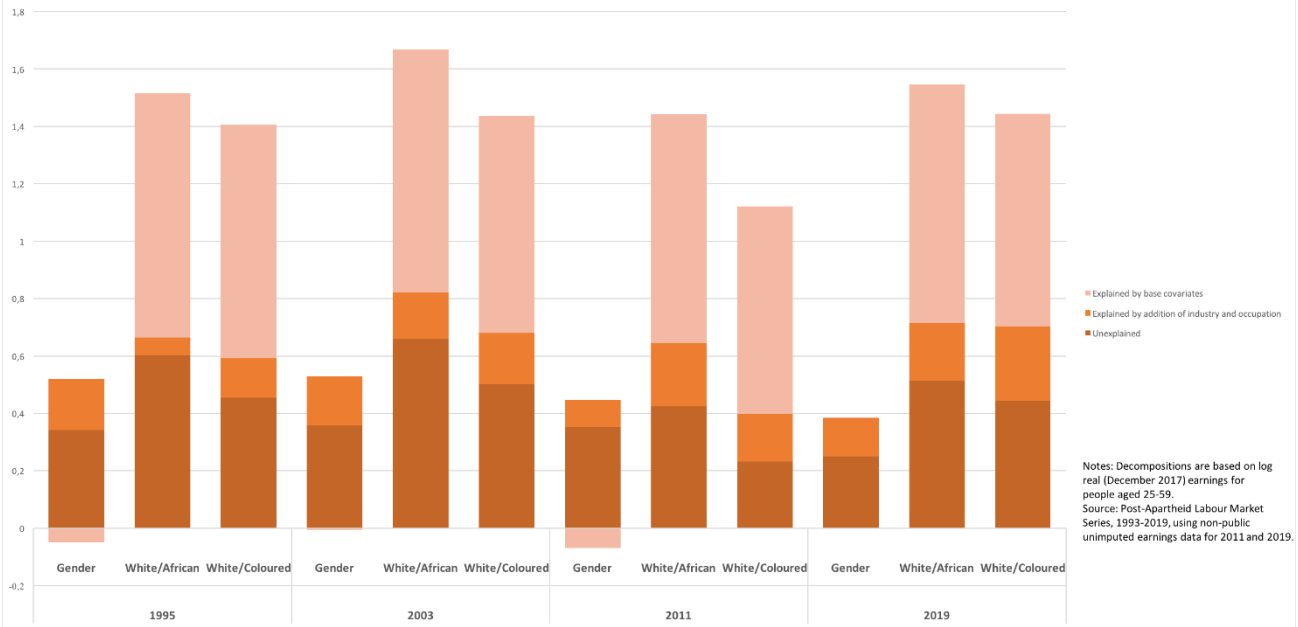
[16] These decompositions are based on linear probability models with a binary employment indicator as the dependent variable (not conditional on labour force participation).

Figure 5.6: Decomposition of employment differentials by gender and race in South Africa 1995-2019



Notes: Decompositions based on linear probability models for employment for people aged 25-59. Source: Post-Apartheid Labour Market Series, 1993-2019.

Figure 5.7: Decomposition of earnings differentials by gender and race in South Africa 1995-2019



Notes: Decompositions are based on log real (December 2017) earnings for people aged 25-59.
Source: Post-Apartheid Labour Market Series, 1993-2019, using non-public unimputed earnings data for 2011 and 2019.

We now turn to decompositions of (log) monthly earnings. The inclusion of industry and occupation variables in earnings decompositions is controversial as these variables may themselves be capturing the effect of discrimination through occupational or sectoral sorting. Following the precedent of many authors (see Altonji and Blank, 1999), we run decompositions for earnings with and without industry and occupation.

This means that the overall gaps in earnings between groups in Figure 5.7 are decomposed into three components: a share that is explained by the base covariates (in pink), the additional share that is explained when industry and occupation are added (in orange), and the share that remains unexplained even after the inclusion of industry and occupation (in brown).

A similar pattern emerges for earnings as in the employment case, with a clear downward trend in the magnitude of gender gaps and no sign at all of attenuation of racial earnings gaps. The magnitude of the persistent earnings gaps between race groups is extremely high, with White workers earning 140% or more than African or Coloured workers across the years.[17] This is a very large gap by international standards, far exceeding estimates from the US (Lang and Lehmann, 2012) and other countries known to have entrenched racial inequalities. For example, Reis and Crespo (2015) found that in Brazil, White workers earn 80% more than Black workers at the mean.

In our decompositions, at least half of racial earnings gaps can be explained by differences in covariates such as education across years. A substantial additional share of the gap is explained by adding controls for industry and occupation, but even after their inclusion, a significant portion of the gap (more than 40 percentage points) remains unexplained.

Gender gaps are much smaller in magnitude, starting at around 50% in 1995 and declining to around 40% in 2019. They are also less explained by covariates than racial gaps. In fact, none of the gaps are explained by base covariates, with negative explained components in 1995 and 2011 implying that the gender gap would have been greater were it not for employed women having superior levels of covariates (such as education). The inclusion of industry and occupation does explain some of the gaps, suggesting that sectoral and occupational sorting may be a factor in the persistence of gender earnings gaps. This pattern of results is consistent with a detailed analysis by Mosomi (2019) who finds that the gender wage gap at the mean declined from 40% in 1993 to 16% in 2014. She also finds that differences in human capital do not explain wage gaps, and that an expanding unexplained component contributed to the gender wage gap increasing at the top of the wage distribution in the decade leading up to 2014.

4.4 Reflection on the results

The employment and earnings trends both show that there was a sustained period of improvement in employment outcomes in the 2000s and that this was experienced broadly and not limited only to the elite part of the workforce. However, it is also true that the largest increases in absolute earnings have come for already advantaged groups (i.e. White workers or people with higher education qualifications).

Despite this, there has never been a meaningful reduction in racial employment and earnings gaps between groups.[18] The fact that employment and earnings gaps between race groups have not diminished (at the average), despite large increases in educational attainment among African and Coloured people, demands some interrogation and explanation. Our results suggested that this can be explained by the accompanying increase in education (and tertiary education in particular) among White people over the period and the especially high (and increasing) returns to tertiary education (especially in terms of earnings).

For gender on the other hand, there has been clear progress in the reduction of both employment and earnings gaps over time, although substantial gaps remain. There is also evidence that there has been some degree of compositional change in the nature of employment, with an increasing share of employment in high-skill (management and professional) occupations. This is likely to be related to the observed sectoral

[17] The earnings gap of 110% between White and Coloured workers in 2011 is the only exception. This is also the only decomposition where the unexplained component falls below 40 percentage points.
[18] The 2011 decomposition shows a slightly smaller gap which could be a sign that the preceding decade of growth had started to reduce inequalities but we do not have enough evidence to make that claim.

shifts over time, with the composition of employment shifting away from Agriculture and Manufacturing towards more ‘professional’ sectors like finance.

5 Conclusion

If one were to imagine what the key questions from a labour policy perspective would have been in 1994, they would almost surely have emphasised the need to generate employment and improved standards of living for the majority of South Africans. Moreover, given the history of the country, it would have been imperative to achieve lower levels of racial inequality in the labour market.

In this paper, we took a long-term view of what has happened in the South African labour market in terms of employment and earnings. In addition to the aggregate trends, we explored differences in outcomes by race and by gender. We first measured the gaps in outcomes and then decomposed these gaps into components that are explained or unexplained by various sets of explanatory factors.

Due to concerns about data quality and measurement, we focused primarily on the period from 2002 to 2019. One incidental point that emerges is that issues of data availability and data quality are key for any temporal analysis, in the sense that they are likely to be consequential for our understanding of labour market dynamics in South Africa. These concerns were amplified during the Covid era and remain worthy of our attention going forward.

There are two distinct phases for the period we considered. These coincide approximately with the period before the global financial crisis and the period thereafter. The share of working-age people who were employed increased by about six percentage points between 2002 and 2008, decreased sharply in 2009, and then drifted without a clear trend until 2019. This pattern is mirrored by both median and mean earnings after adjusting for inflation, although the decline is considerably steeper for the median than it is for the mean. It is likely that the period from 2020 to 2024 saw declines in both employment likelihoods and mean earnings, although the lack of suitable data precluded us from including this time period in our analyses.

In terms of gender disparities, there has been progress in terms of employment and earnings, even if this has been slow. On the other hand, the gender gaps in both employment and earnings remain substantial, and these cannot be explained by differences in education or the sector of employment.

The findings for racial inequalities are much less favourable. The employment gap between White and African people has not decreased since 1993 and remains between twenty and thirty percentage points. The earnings gap has also remained exceptionally high, at between 140% and just over 160% in the four surveys that we use. While a large share of these gaps can be accounted for by differences in education, extremely large components remain unexplained.

The lack of convergence is doubly concerning, given that African educational attainment levels have increased considerably and reflect substantial convergence with White educational attainment since the end of apartheid. Two factors help us to understand this phenomenon. First, White levels of education have also increased during this period, but at different points in the education distribution. Among Africans, a much greater proportion are now finishing matric than previously, while amongst Whites, a much greater proportion are now obtaining a tertiary qualification than before. At the same time, the occupational and sectoral evolution of the labour market has generated much greater returns for people with tertiary qualifications. The net effect of these movements are very stable and disturbingly large employment and earnings gaps by race.

In summary, we observe a labour market that has not generated enough new jobs for society. Labour absorption levels remain relatively low, unemployment is high, youth unemployment is exceptionally high, racial disparities in outcomes remain stark and stable, while gender disparities are closing but remain sizable, and the rate of convergence between genders is very slow.

All of this leads us to consider how our current policy landscape is shaping the performance of our labour market. Of course, the economy is a complex organism that is shaped by a mixture of social, economic, and political factors, while also exhibiting path dependence, which means that the role of history cannot be ignored. For example, we have discussed the role of education and briefly noted the improvements in labour market outcomes associated with the prolonged growth phase that we experienced in the early 2000s. These imply that macroeconomic policy, the investment climate, the prolonged electricity crisis, and education policy are all likely to be important, especially over a long-term horizon.

Nonetheless, for our purposes, we focus specifically on labour market policy here. One of the most widely cited causes of the sustained unemployment problem in South Africa is labour market regulations, which proponents claim are too onerous and restrictive. This view is certainly held by the Free Market Foundation[19] but can also be found in the academic literature. (See, for example, Loewald et al., 2021). On the other hand, Bhorat and Stanwix (2018) point out widespread non-compliance with the regulatory requirements as set out in the Sectoral determinations, which would make it harder to explain the persistent unemployment rates using regulatory constraints.

A similar argument is made specifically with respect to minimum wages. The argument put forward is that wages are too high, which makes employers reduce the number of positions that they have. There are several empirical studies of minimum wages in South Africa, and the evidence on their effects on unemployment is mixed, although all of them document significant levels of non-compliance with the minimum wage. (See, for example, Dinkelman and Ranchhod, 2012; Bhorat et al., 2013; Bhorat et al., 2014; and Bassier and Ranchhod, 2024.) In addition, a large international literature on minimum wages across several countries has evolved, which shows that minimum wages sometimes generate unemployment but sometimes do not, and in the cases where they do generate unemployment, the magnitude of the disemployment effects is relatively small.

On the one hand, the regulatory environment might be contributing to the unemployment problem. On the other hand, the lack of strong empirical evidence and the high levels of non-compliance in South Africa, combined with the international evidence on minimum wages, all combine to suggest that the regulatory environment by itself is unlikely to be the primary cause of the South African unemployment rate, which is far and away the highest in the world.

The legal requirements embedded in the Employment Equity Act and the Broad-Based Black Economic Empowerment Act may also have played a role in how the labour market has evolved, although they have been primarily used as an incentive via state procurements. Despite these laws, our results indicate that there has been, at most, limited convergence in average employment rates or earnings across races. What may well have occurred is that these Acts open opportunities for highly qualified Black South Africans, but these individuals remain a minority of the aggregate labour force, and the mean and median could remain largely unaffected.[20]

A number of attempts have been made to help people, and in particular young people, to find employment. These most often take the form of job-matching services internships and occasionally include some form of training or mentorship. Variants of these interventions include a job seeker transport subsidy, and help with

[19] https://www.politicsweb.co.za/politics/qlfs-structural-unemployment-demands-structural-re. https://freemarketfoundation.com/south-african-labour-regulations-are-a-violation-of-human-rights-and-hampering-employment/ Accessed on 13th November 2024.

[20] For a thorough discussion on the effectiveness of affirmative action policies in South Africa see Burger, Jafta, and von Fintel (2022).

obtaining reference letters and writing CVs.[21] All of these interventions should help the labour market to function a little better, although it is worth noting that many of the successful interventions help individuals (primarily) to 'jump the job queue' rather than creating new jobs. As such, they are unlikely to substantially reduce the unemployment problem if the overall unemployment rate is above 30% (using the narrow definition of unemployment).

The one direct attempt to stimulate employment creation has been the ETI. The evidence of its efficacy is not particularly compelling. Studies using survey data tend to find that it has no effect on individual young job seekers (Ranchhod and Finn, 2016), while studies using firm-level tax data have found positive employment effects amongst smaller firms but not among larger firms nor on average (Ebrahim et al., 2017). More recently, a very careful econometric study by Budlender and Ebrahim (2021) concluded that the studies using the firm-level tax data did not meet the statistical pre-conditions that are necessary for those estimators to provide unbiased information and, as such, should not be given much weight.

Where does all of this leave us then, and what is the best way forward?

Presumably, everyone agrees that we need more jobs and better-paid jobs. Most people probably recognise that the inequalities in the South African labour market are both unjust and represent a potentially disastrous risk to social, economic, and political stability. At the same time, there are many constraints, and these probably interact with each other in complementary ways. This leads to a complex system in which no single intervention is likely to be an overwhelming success. As such, it would be both arrogant and delusional of us to claim to have an answer on how to solve South Africa's unemployment problem. Nonetheless, any long-term and systemic solution would have to include solving the electricity crisis, increasing investment and growth, and addressing the challenges in our education system.

[21] For a summary of these interventions see the empirical studies reviewed in Section 2.

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