

# Employment & Poverty

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# This presentation

- Character of low skill work
- How it is linked to emerging industrial structure
- What impact on poverty if unemployment was half or quarter of current rate?
- What is policy package that would help achieve both unemployment & poverty targets?

# Where might jobs come from?

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# Changing employment structure

- Minerals exporter
- Majority of new investment to minerals related projects
- Majority of new jobs in services sectors
  - This is the case since 1970s
- Classic example of reasonably successful minerals exporting economy

# Historical context

- High income inequality
  - Wage inequality
  - Access to economic opportunity
  - Access to assets

# Global context

- SA's track is global track – only unusual in its historic inequality as starting point
- Services becoming larger share of employment at lower levels of development and per capita income
- Manufacturing becoming smaller share of total employment
  - Few countries expanding manufacturing employment faster than 2 or 3% pa.
  - This means for SA, that manufacturing could contribute a maximum of about 100,000 – 500,000 of the 5million jobs needed to 2014 to halve unemployment
- This contributes to rising income inequality
  - Smaller share of artisan-type worker
  - Smaller share of 'rents' going to labour
    - So rising productivity not necessarily benefiting wages
    - High mark-ups in services industries

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# Manuf as % of employment falling everywhere

Region	1960	1970	1980	1990	1998
Sub-Saharan Africa	4.4	4.8	6.2	5.5	5.5
Latin America	15.4	16.3	16.5	16.8	14.2
Southern Cone and Brazil	17.4	17.2	16.2	<b>16.6</b>	<b>11.8</b>
West Asia and North Africa	7.9	10.7	12.9	15.1	15.3
South Asia	8.7	9.2	10.7	13.0	13.9
East Asia (w/o China and Japan)	10.0	10.4	15.8	16.6	14.9
NICs	10.5	12.9	18.5	<b>21.0</b>	<b>16.1</b>
China	10.9	11.5	10.3	13.5	12.3
Third World	10.2	10.8	11.5	13.6	12.5
First World	26.5	<b>26.8</b>	<b>24.1</b>	<b>20.1</b>	<b>17.3</b>

Source: Palma, 2006

*Not special to SA*

# Possible sectors where jobs created

- Agriculture & Mining - likely to be stagnant or falling
- Manufacturing
- Skill intensive services
- Labour intensive services
- Survivalist informal activity
- Public service
- Public works

Interest in employment – poverty link means we are looking for:

- quantity
- quality (ie ‘good’ jobs vs ‘bad’ jobs)

# Manufacturing: special qualities?

- Manufacturing ascribed with certain special qualities that are growth promoting:
  - Technology & learning
  - Rising terms of trade
  - Spread effects
  - Pay higher wages
- Evidence that while manuf may not lead employment growth, a diminishing manuf sector can be a sign of broader economic malaise.....
  - With few exceptions, seems to be important in most country's growth stories

*Are there other sectors with these same qualities?*

# Other sectors?

- If manufacturing likely to generate max 100,000 – 500,000 jobs.....
  - Where else might jobs be sourced in 'dynamic' growth promoting activities?
- Higher paid services incl finance, business services, transport, etc.
- There are also activities typically not thought of as traded, such as construction, health or personal services
- Globally, lead developing countries such as Malaysia, Korea, China, India, Philippines & Turkey are growing their services trade by 12% to 17% pa. versus SA (6% pa).
- Could they grow by 6% pa on a consistent basis, thereby creating 1.5 mn jobs??? Can they be part of economic growth strategy?
  - To what extent dependent on growth of other sectors?
  - To what extent independent growth dynamic that can lead other sectors?
  - To what extent do these sectors have same employment properties as manufacturing? (eg high skill/low empl growth)?
  - **.....our research shows that manufacturing & services are about equally dependent on each other (to buy its output)**

# Crowding in new activities

- newer labour absorbing industries likely to be stimulated by:
  - greater efficiencies in 'network' industries
  - stable & competitive exchange rate
  - more strategic approach to procurement
  - trade arrangements
  - home affairs & movement of people

# Jobs & Poverty Challenge

- The higher value services industries often expand on the back of outsourcing. This is how markets develop, new technologies are introduced, etc.
  - Much of this outsourcing has already happened.
  - Many of these sectors are not easy to organise: they can be more individualised and feminised.
- A critical challenge will be to address inefficiencies in services: product orientation for the poor, service quality, high mark-ups. This is sometimes addressed through “consumer rights” coalitions.
- What will this mean for organising in Jobs & Poverty campaign?

# Public service employment

- Low skill workers earn more in public service than in private sector, due to historic commitment to pay equity.
- Government recognises service delivery gaps partly caused by understaffing
- Public service currently accounts for about 14% of all working people and about 9% of labour force
- There is no particular size the public service should be, but this is small by global standards
- If unemployment is halved by 2014, public service would need to grow by about 3.5% just to maintain this ratio.
- Public service can play an important labour market role
  - Eg incomes in rural areas, graduate employment, etc
- Implications?
  - Fiscal: expansion of public service + pay increases = ?
  - Commitment to service delivery of new public servants

# Public works & community-based social services

- HSRC producing evidence-based employment scenarios in relation to halving unemployment & poverty
- Some key insights so far from 'best case' scenario:
  - likely that will need at least additional 500,000 to one million additional EPWP-type jobs created each year in addition to market based growth
- Currently about 250,000 people say they are linked to EPWP
- Mostly in community-based social services such as HCBC & ECD
- Special role of community organisations in making that happen and ensuring quality delivery to vulnerable groups

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# Employment – poverty link

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**HSRC**  
Human Sciences  
Research Council

# Character of low paid work

- Approx 65% of working people paid less than R 2,500 pm (in 2004) (equiv to about “\$2/day” MDG target)
- Approx 39% earn less than R 1,000 pm (equiv to \$1/day)
- More than ½ of poor workers found in formal sector
- Prevalence of written contracts and full time ‘permanent’ work (about 82% in 2005, up from about 62% in 1999)
- But:
  - Extremely low pay, and stagnant real wages for large parts of low and semi-skilled workforce
  - rise in contracts has not translated into other benefits such as private pensions
  - Although working full time, jobs insecure: substantial churning around the economy and movement from formal to informal to unemployment and back

# Employment & poverty: why sectors matter

Close to  
“\$1/day”

Close to  
“\$2/day”

Wages earned per month

Sector

1-1000

1000 – 2500

2500 +

Sector	1-1000	1000 – 2500	2500 +
Agriculture, hunting, forestry and fishing	85.2%	4.7%	10.1%
Community, social and personal services	20.4%	10.7%	68.9%
Construction	58.0%	22.2%	19.8%
Financial intermediation, insurance, real estate and business	30.0%	15.5%	54.5%
Manufacturing	38.0%	23.6%	38.3%
Mining and quarrying	10.1%	32.6%	57.4%
Private households	95.7%	3.4%	0.9%
Transport, storage and communication	28.3%	16.7%	55.1%
Wholesale and retail trade	56.0%	17.3%	26.7%

- Informal workers almost all under R 2,500 pm, and mostly below R 1,000
- Public service workers mostly above R 2,500 pm
- worker in same job (eg cleaner) will tend to earn more in ‘high productivity sector’ (eg manufacturing or finance) than in ‘low productivity sector’ (eg. retail)
- Low and semi-skill wages stagnant: wage levels not benefiting from productivity improvements

# Policy approach

- Precarious low paid work will need policies to raise pay for most vulnerable workers and deeper social protection measures
- Current policy approach:
  - Minimum wages in most vulnerable sectors
  - BCEA, CCMA
  - National skills fund, Labour centres
  - Social grants aimed at most vulnerable groups
- Challenge for Jobs & Poverty Campaign
  - Is this package of policies effective?
  - If not, where are gaps?
  - What can civil society do to ensure 'voice' of vulnerable workers and work-seekers?

# Unemployment & Poverty Target

- Unemployment
  - Current unemployment rate = about 26%
  - Half unemployment = 13%
- Poverty
  - Current poverty rate: 50% fall below Treasury poverty line
  - Half Poverty rate = 25% below poverty line?

# Labour market scenarios

- Wild cards

- Urban in-migration
- Regional in-migration
- Labour force health

Success in creating jobs can make reducing UE harder, as signals that could idea to enter LM

Regional in-migration also affected by push factors: UE, poverty, crisis

Eg.

- Proximate country LM = about 24 m. What if 5% moved to SA? = 1.2 m
- Congo & Nigeria even larger (64 m)
- Zim LF has shrunk by more than 2 m since 2001 – estimate 3.2 m UE in 2006

*What is going to be approach?  
Exclusion or inclusion?*

Poor health amongst industrial workforce: eg. 33% of all women between the ages 25-29 have contracted HIV. One quarter of those aged 30-34 have are HIV positive

# What impact on poverty if unemployment fell to 13%?

- Treasury proposes poverty line of R430 pp pm
  - 50% of the population currently fall below this line.
- If current unemployment rates had been either 13% about 35% of the population would still have fallen below this line (with incomes as reported in IES 2000, inflated to 2006 prices)
  - That is, their situation improves considerably (by up to 120%) but they still fall below this line.

## ***With social grants:***

- the addition of grants (as reported in GHS 2005) would have put 30% under poverty line.

## ***With minimum wages:***

- If avg minimum wage were set at R 1000 and avg wages rose by 2% pa in real terms over 7, 30% below the poverty line.

## ***With both:***

- 25% would fall below poverty line at half or quarter unemployment

# Employment, poverty & emerging policy choices

- Link between employment & poverty
  - Employment expansion would have dramatic impact on incomes
  - But with prevalence of low wages, even a dramatic drop in unemployment does not bring HHs above the poverty line.
  - Only the best HSRC employment scenario found maintenance of current wage distribution at  $\frac{1}{2}$  unemployment
- Implications for policy choices:
  - Need approach that incentivises (or at least does not disincentivise) low & semi-skill employment
  - Enables low income earners to assemble livelihood for HHs
  - Phases out with the problem

# Policy choices & policy package =?

- Lower cost to employers
  - Employment subsidies (NT proposal)
  - .....
- Raise earnings for lower earners
  - Minimum wages
  - Public service employment
  - Employment subsidy (eg EITC)
- Raise earnings to workers and dependents through social grants
- Lower cost of living
  - Food prices, etc
  - Quality social services
  - Commuter transport (or commuter transport subsidies)
  - ....

# Cost implications of reducing *both* UE & Poverty

- In addition to budgeted items (eg industrial incentives, infrastructure, etc).....
- any large additional choices to make up for shortfall in employment or reduce poverty, alongside market based growth will be costly
- For example:
  - Large expansion to EPWP
    - may need to reach up to 1 million people per year
  - Expanded public service
    - Scale and salary levels
  - Minimum wages & wage subsidies
  - Stronger active labour market policies
  - Social grants

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# Challenge to civil society

- Government has communicated struggling with capacity constraints
- Something 'new' is needed.....
- Approach to organising new industrial workforce, needs new organising principles:
  - Community organising
  - Awareness of regional labour community
- Role of civil society organisations in supporting delivery:
  - Ideas from the ground on what works and what doesn't
  - Mobilising participation in service delivery & EPWP
- Support from Govt in stabilising funding of civil society organisations