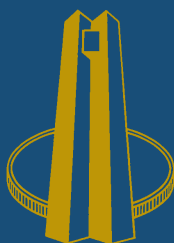




# Labour Market Frontiers

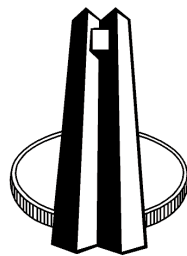
December 2004  
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South African Reserve Bank

# **Labour Market Frontiers**

**December 2004  
Number 6**



**South African Reserve Bank**

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## Editorial overview

Recent developments in South Africa's labour market are encouraging in that there has been a sizeable upward turn in employment creation. Though the recent pick-up in employment is still lagging compared with labour supply trends, the increase in formal employment is a positive development for the labour market. The pace of acceleration in real economic activity, if sustained, is likely to provide desirable inroads to the unemployment challenge. On the demand side of the labour market, the strong growth performance by all sectors of the economy is more than likely to boost the absorptive capacity in the near to medium term.

The nature of the impact of economic growth on employment growth continues to elude researchers and policy-makers alike. Among imperative issues that need greater research and policy attention to improve the understanding of the relationship between output growth and job creation are supply side issues such as what drives entry into and exit from the labour market and what the trends are in that regard. This volume has two articles that attempt to engage with these issues.

The first article is a case study based on a survey that tracks the labour market activities of a sample consisting of the same individuals over time. This enables an identification of personal attributes among the unemployed that facilitate subsequent transition into paid employment or, conversely, their drop-out of the labour force completely. Evidently, educational attainment and spatial location emerge as critical characteristics that determine the likelihood for the unemployed to either find work or to detach themselves from the labour market.

The other article is an explorative analysis of a selection of underlying factors that can act as incentives or disincentives for participation in the labour market either through job seeking or employment. These determinants of labour force participation include discouragement effects, HIV/Aids and the social security system. It emerges that while the discouragement effect, by its nature, has a negative impact on labour force participation, the impact of the latter two factors is much more complex. The

labour market outcomes can be either a reduced or increased likelihood of participation, especially if the dynamics are considered at household rather than individual level.

The government has committed itself to halving unemployment by the year 2014. By highlighting these critical issues, this volume seeks to encourage scientific investigation and kindle policy dialogue. Its findings are far from conclusive in that the first article is not based on a national representative sample and the second one is based on preliminary evidence which needs to be buttressed with more empirical rigour. It therefore serves to raise new dimensions or perspectives rather than to reach conclusions about labour market dynamics in South Africa.

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# Are the unemployed a homogenous group? Evidence from panel data in KwaZulu-Natal

Ingrid Woolard, School of Development Studies, University of KwaZulu-Natal

In order to devise effective policies for addressing unemployment, it is essential to understand the characteristics of the unemployed. In work done for the *South African Poverty and Inequality Report*, Klasen and Woolard<sup>1</sup> argue that it would be useful to distinguish between six categories of the unemployed, namely the poorly educated rural unemployed; the poorly educated urban unemployed; the young unemployed; the long-term unemployed with no labour market experience; the educated unemployed with labour market experience; and the highly educated unemployed. They hypothesise that certain of these groups will be absorbed into the labour market more easily than others. For example, they suggest that the long-term unemployed will find it especially difficult to break into the job market, and that the highly educated are likely to be the most easily absorbed.

This article sets out to investigate whether this categorisation is sufficiently nuanced to assist with policy formulation. The article makes use of panel data for KwaZulu-Natal to investigate the labour market outcomes in 1998 and 2004 of the same individuals that were surveyed in 1993. By observing the same individuals at three points in time, it is possible to see which groups of unemployed individuals have been more likely to make the transition into paid employment. Similarly, it is possible to identify which groups are most likely to have dropped out of the labour force altogether.

## Box 1: The data

The data for this paper come from the KwaZulu-Natal Income Dynamics Study (KIDS). In 1993, a national living standards survey called the Project for Statistics on Living Standards and Development (PSLSD) was conducted by the Southern Africa Labour and Development Unit at the University of Cape Town in collaboration with the World Bank. In 1998 and 2004, the same African and Indian households in KwaZulu-Natal that had originally been part of the PSLSD survey were interviewed again. Data of this sort are referred to as “panel data” because the same individuals are interviewed in each round (or “wave”). The 2004 data used here are provisional, as the final data set will only be released early in 2005. Nevertheless, the data should be broadly indicative of the trends.

The sample used in the analysis for this article consists of a little over 2 000 individuals aged 15 to 54 in 1993 that were subse-

quently tracked and re-interviewed in 1998 and 2004. Throughout the analysis the broad definition of unemployment is used.

The PSLSD/KIDS unemployment estimates differ from the official labour statistics – derived from the Labour Force Surveys (LFS) – for two important reasons. Firstly, the PSLSD/KIDS questionnaires rely largely on self-reported employment status, whereas the LFS elicits a large amount of information from which employment status is objectively inferred. Secondly, KIDS is a panel study of a particular cohort of individuals – it is not necessarily representative of even African and Indian households in KwaZulu-Natal, let alone the country as a whole.

## Creating a typology of the unemployed

In their analysis, Klasen and Woolard distinguish between those with and without labour market experience. This was not possible in the 1993 KIDS data because not all of the unemployed were asked if they had ever worked before<sup>2</sup>. Consequently, the Klasen and Woolard typology is adapted slightly here.

Using the 1993 data for KwaZulu-Natal, the following six categories were created:

- Group a:* Poorly educated rural unemployed (38 per cent of the unemployed sample fell into this category);
- Group b:* Poorly educated urban unemployed (6 per cent);
- Group c:* Young unemployed with some/completed high school and no labour market experience (44 per cent);
- Group d:* Older unemployed with more than primary schooling who have given up searching (8 per cent);
- Group e:* Older searching unemployed with more than primary schooling (4 per cent); and
- Group f:* Highly educated unemployed (1 per cent).

It should be noted that 41 per cent of the sample reside in urban areas, thus the small size of group *b* relative to group *a* is not explained simply by a rural bias in the sample. It is, however, the case that the Indian sub-sample (which represents individuals with a higher average level of education than the African sub-sample) is concentrated in urban areas.

1 Klasen, S. and Woolard, I. 1998. Who are the unemployed poor? *Input paper for Poverty and Inequality in South Africa prepared for the Office of the Executive Deputy President and the Inter-Ministerial Committee for Poverty and Inequality*, 13 May. Available: <http://www.info.gov.za/reports/1998/poverty/poor.pdf>

2 Only “discouraged” work seekers were asked about their work experience. The question was not posed to those unemployed persons who were actively searching for employment.

Klasen and Woolard conjecture that groups *a* and *d* would be the two groups that would have the greatest difficulties in entering formal-sector employment. These two groups make up 46 per cent of the unemployed, with the vast majority consisting of the rural poorly educated unemployed. Groups *b* and *c*, the urban poorly educated and the young unemployed make up half of the broadly unemployed. Finally, groups *e* and *f*, that Klasen and Woolard theorise to be the most likely to be placed when labour market opportunities increase, make up only one-tenth of the unemployed.

## Findings

The sample is restricted to those individuals who were aged 15 to 54 at the time of the 1993 survey, since people who were older than 54 in 1993 would be too old to be part of the labour force in 2004.

Table 1.1 shows the proportion of each unemployed category that was employed in 1998 and/or 2004. It also shows the results for the not economically active and the employed from 1993 for purposes of comparison.

Overall, 43 per cent of the unemployed in 1993 were working at the time of the 1998 and/or the 2004 survey and only 20 per cent were working in both time periods. Individuals in group *e* – the older, searching unemployed with at least eight years of schooling – were the most likely to make a successful transition to employment. The educated young were moderately successful – half of this group (as defined in 1993) was working by the time of the 2004 survey. Contrary to Klasen and

**Table 1.1 Individuals employed in 1998 and/or 2004 survey by labour market status**

Group (defined in 1993)*	Period employed			
	1998		2004	
	1998	2004	1998 and/or 2004	1998 and 2004
Unemployed (combined)...	29	35	43	20
(a) Low education, rural ....	17	27	35	10
(b) Low education, urban ..	19	13	19	13
(c) Young, educated.....	35	43	50	29
(d) Older, educated, discouraged .....	38	43	48	33
(e) Older, educated, searching .....	70	40	80	30
Not economically active....	21	30	40	11
Employed .....	67	55	77	45

\* Group (f) is omitted as the sample size is too small

Source: Own calculations on PSLSD/KIDS data

Woolard's predictions, the least successful group consisted of urban dwellers with low levels of education. As the unemployment crisis deepened, this group found it increasingly difficult to compete for scarce jobs against the better educated unemployed.

While being employed in 1993 substantially increased an individual's chances of being employed in later periods, less than half of those individuals that were employed in 1993 were also working in both 1998 and 2004. This is an important result, as it suggests a significant amount of labour market churning.

Table 1.1 suggests a high degree of movement into and out of employment. For example, 43 per cent of the unemployed in 1993 were employed in either 1998 or 2004 and only 45 per cent of those employed in 1993 were also working in both 1998 and 2004. In Table 1.2 this is disaggregated further. Three-quarters (75 per cent) of the men and more than half (54 per cent) of the women in the sample had worked in at least one of the three time periods, while only 23 per cent of the men and 10 per cent of the women were working at the time of all three surveys. Many of those in the youngest cohort (15 to 24) would still have been enrolled in education at the time of the first survey, hence only a very small proportion of this group were working in all three time periods. Nevertheless, it is disheartening to note that almost one-third of the men and more than half of the women in this age cohort were not working in *any* of the time periods.

**Table 1.2 Individuals that had worked during the survey reference periods, by age and gender**

Age in 1993	Number of time periods worked							
	None				1			
	2		3		None		1	
	Male				Female			
15 – 24 .....	32	34	25	9	57	30	12	2
25 – 34 .....	26	20	24	30	41	20	22	17
35 – 44 .....	22	15	26	37	36	31	16	17
45 – 54 .....	12	21	38	29	46	28	15	11
All.....	25	24	27	24	47	27	16	11

Source: Own calculations on PSLSD/KIDS data

It would be expected that the likelihood of being employed should be positively correlated with educational attainment. Table 1.3 shows a disaggregation of the number of time periods worked by educational status. Because the younger individuals in the sample may still have been studying at the time of the first survey round, this table is

broken down by educational attainment in 1998. The probability of not having worked in any of the reference periods falls steeply with higher levels of education. Only 4 per cent of males and 11 per cent of females with post-secondary education were not working at the time of all three surveys. By contrast, 29 per cent of men and 50 per cent of women with primary schooling or less were not working in any of the three reference periods.

Table 1.3 suggests that it is important to draw a distinction between those individuals with some secondary schooling and those with *completed* secondary schooling. This is in keeping with the findings of other researchers<sup>3</sup> and would seem to be a refinement that could be incorporated usefully into the Klasen and Woolard typology. Whereas 30 per cent of males with incomplete secondary schooling were not working in any of the three time periods, this was only true for 18 per cent of those who completed high school.

**Table 1.3 Individuals that had worked during the survey reference periods, by educational attainment and gender**

Per cent

Educational attainment in 1998	Number of time periods worked							
	None				1			
	None	1	2	3	None	1	2	3
	Male				Female			
No schooling or primary only.....	29	26	29	16	50	27	12	11
Incomplete secondary ...	30	23	21	26	48	26	16	10
Completed high school (matric).....	18	24	36	22	43	30	20	6
Diploma or degree.....	4	26	19	51	11	26	26	37
All .....	25	24	27	24	47	27	16	11

Source: Own calculations on PSLSD/KIDS data

Table 1.4 considers the proportion of each group that was economically inactive in 1998 and/or 2004. Interestingly, for almost every group there is little intersection between the individuals that were inactive in 1998 and the individuals that were inactive in 2004. For example, among the individuals that were not economically active in 1993, 48 per cent were also inactive in 1998 and 40 per cent were inactive in 2004 – but only 24 per cent of the original group were inactive in both subsequent periods. The probability of withdrawal from the labour market (i.e. transition to economically inactive status) was most likely among the

poorly educated urban unemployed. Among the young unemployed, one-third of the original group was classified as economically inactive in 2004, yet only 4 per cent

**Table 1.4 Individuals not economically active at the time of the 1998 and/or 2004 survey, by labour market status in 1993**

Per cent

Group (defined in 1993)*	Period economically inactive		
	1998	2004	1998 and 2004
Not economically active.....	48	40	24
Employed.....	18	30	11
Unemployed (combined).....	30	35	15
(a) Low education, rural .....	42	30	17
(b) Low education, urban ....	75	75	75
(c) Young educated .....	14	33	4
(d) Older, educated, discouraged, unemployed .....	38	57	29
(e) Older, educated, unemployed who are actively searching .....	30	10	10

\* Group (f) is omitted as the sample size is too small

Source: Own calculations on PSLSD/KIDS data

were inactive in both 1998 and 2004. This again suggests a high degree of movement into and out of the labour force.

## Conclusion

The above analysis suggests that there is considerable movement into and out of the (broadly defined) labour market and into and out of employment. Employment prospects for some groups are, however, particularly bleak. People with low levels of education – especially in urban areas – seem to have a particularly low likelihood of finding work and are the most likely to drop out of the labour force completely.

Each of the identified categories of unemployed individuals requires specific kinds of interventions. While skills training and assistance in job search are likely to benefit the young and better educated, these types of interventions are unlikely to be of much assistance to the older unemployed with only primary school education. For these groups, targeted public works programmes and social assistance are probably the only answer.

3 For example, see Borat, H. 2004. *Labour Market Challenges in the Post-Apartheid South Africa*. Available: <http://www.sarprn.org.za/documents/d0000747/index.php>



# What drives changes in labour market participation in South Africa?

*Moleboheng Lehutso-Phooko, Research Department*

The current socio-economic situation in South Africa poses two challenges. The one is to provide opportunities for the integration of the marginalised and excluded population into productive activities and the general mainstream economy primarily through employment and general labour market participation. The second challenge, especially for those who cannot be economically active, is to access relief from abject poverty and to support the basic survival and economic functioning of a household unit. Every population necessarily has some sections remaining economically inactive either because of age, culture, education/schooling or other reasons such as normal retirement and disability. While not everyone can be economically active – the performance of an economy is measured *inter alia* by the level of labour market participation either through job searching or employment activities.

Although South Africa's rates of labour force participation are in line with general international levels, it becomes somewhat concerning, however, if the participation rates seemingly assume a downward turn as indicated by available data. Preliminary examination of Statistics South Africa's *Labour Force Survey* (LFS) results reveals a shrinking pool of active labour market participants. The labour market participation rate is the number of persons employed or unemployed as a percentage of the population aged 15 years and over. It indicates changes in the size and composition of the population available for the production of goods and services. Active or official labour market participation includes those who are employed as well as persons who are unemployed or active job seekers.

This is an explorative analysis aimed at stimulating more rigorous analysis of factors that drive active labour force participation. It proposes that the factors to be considered should firstly include the discouragement effect due to long-term unemployment coupled with moderate employment creation. The paper also suggests that the relatively high prevalence of HIV/Aids is the other possible factor whose impact on labour market attachment or exit has not received systematic research. The article further draws a framework for considering the relationship between welfare benefits and labour market participation. It also raises caution regarding possible distortions in the data due to drawbacks associated with self-reported labour

market status. Existing literature reveals that the interaction of these factors with the labour market participation propensities can be very complex and therefore the article calls for further empirical research and technical debate.

This article consists of three main sections. The next section outlines trends in unemployment and labour market participation using the September LFS results, between 2000 and 2003. It is followed by an explorative analysis of the possible driving forces behind the decline in the country's official unemployment rate and general labour market participation. The final section highlights challenges for labour market research and the policy environment.

## Unemployment and labour market participation: 2000 – 2003

The recent changes in unemployment and general labour market participation rates in South Africa necessitate some reflection on the possible underlying factors. According to Statistics South Africa's published LFS of September 2003, an apparent decline in unemployment was accompanied by an increase in the number of people who reported their employment status as neither employed nor looking for work. This was an increase of 985 000 to 13,7 million people who were not economically active over the preceding six-month period. Over the same period, the number of people who were actively looking and were available for jobs (i.e. the officially unemployed) had dropped from 5,3 to 4,6 million<sup>1</sup>. The addition of approximately 985 000 non-economically active people suggests a group consisting of both those who dropped out of the labour market and new entrants to the working-age population. The purpose of this article is to probe the former, i.e. the possible determinants of the apparent withdrawal from the labour market.

A decline in the rate of unemployment is usually a reliable indicator of growth in job creation and good economic performance. Between March and September 2003 the total number of active job seekers or "narrowly" unemployed people dropped by approximately 680 000. The volume of total employment, however, increased by an estimated 57 000 jobs over the same period,

<sup>1</sup> Caution should be taken in interpreting these figures due to the problems associated with seasonality. The core of this study is based on 12-month cycles over the period September 2000 to September 2003.

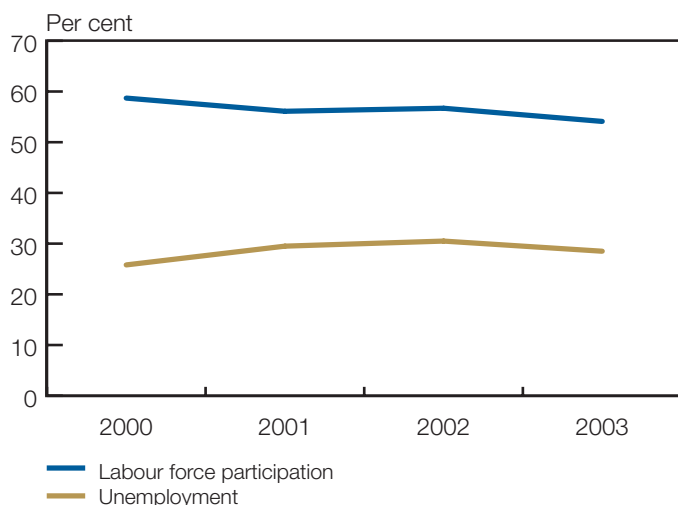
representing a marginal change that is more attributable to sampling error than a real trend<sup>2</sup>.

The net outcome points to a reduction in the rate of unemployment that was not matched in magnitude by the rate of job creation. It appears that, rather than finding employment, the job seekers pulled out of the labour market and became part of the non-economically active population. The other possibility could be that they misstated their employment status since they did not report themselves as discouraged job seekers. The rate of expanded unemployment remained flat at between 42,1 per cent in March and 41,8 per cent in September 2003, respectively<sup>3</sup>.

Figure 2.1 traces changes in the official unemployment rate on a year-on-year basis from September 2000 to September 2003<sup>4</sup>. It shows that the rate of active job seeking or official unemployment peaked at 30,5 per cent in 2002 before taking a downward turn. Labour force participation rates are useful indicators of the overall movement into and out of the labour market.

Figure 2.1 also compares unemployment to changes in labour force participation. The overall rate of labour

**Figure 2.1 Official unemployment and labour force participation rates, 2000 – 2003**



Source: Statistics South Africa. *Labour Force Survey*, September 2000 – September 2003. Pretoria

force participation seemingly maintained a steady downward movement over the period ending in 2003. This occurred in spite of the working-age population<sup>5</sup> expanding by an estimated 2 million people<sup>6</sup> between September 2000 and September 2003. The total official labour force participation rates declined from 58,9 per cent to nearly 54,1 per cent between September 2000 and September 2003.

It can be deduced from Figure 2.1 that the propensity for people to attach themselves to the labour market – either by actively searching for jobs or actually being employed – had been consistently declining up to 2003. This apparent downward trend of active labour force participation could have occurred among new entrants to the workforce (i.e. youth and/or immigrants) who opt to further their studies or are unable to participate due to disability, family, economic or other reasons. Alternatively, or in addition, this trend could be due to labour force participants who might have later pulled out of the labour market voluntarily or involuntarily. Together these two groups could account for the contraction in the size of the economically active pool by over half a million people<sup>7</sup> between March and September 2003 as discussed above.

Figure 2.2 displays age-specific labour force participation rates between the ages 15 and 64 years for September 2000 and September 2003. The graph mirrors a typical pattern of labour force participation during a person's life cycle. It tends to rise with age from entry level and peaks in the early adulthood ages and thereafter begins to taper off to the normal retirement age. The graph shows that the rate of labour force participation declined in all ages between 2000 and 2003, more so among the people aged 30 years and older than the younger labour market participants.

The fact that the likelihood of participating in the labour market declined throughout the working-age range implies that the obstacles or deterrents to active participation became progressively greater with new age cohorts compared with earlier ones. Secondly, the larger downward shift in participation rates within the older workforce could indicate that withdrawal was the more overriding force behind the overall decline in participation rates than outright non-participation among new entrants reaching working age.

2 Statistics South Africa. March 2004. *Labour Force Survey*, September 2003. Pretoria.

3 Statistics South Africa. March 2004. *Labour Force Survey*, September 2003. Press Release, Pretoria.

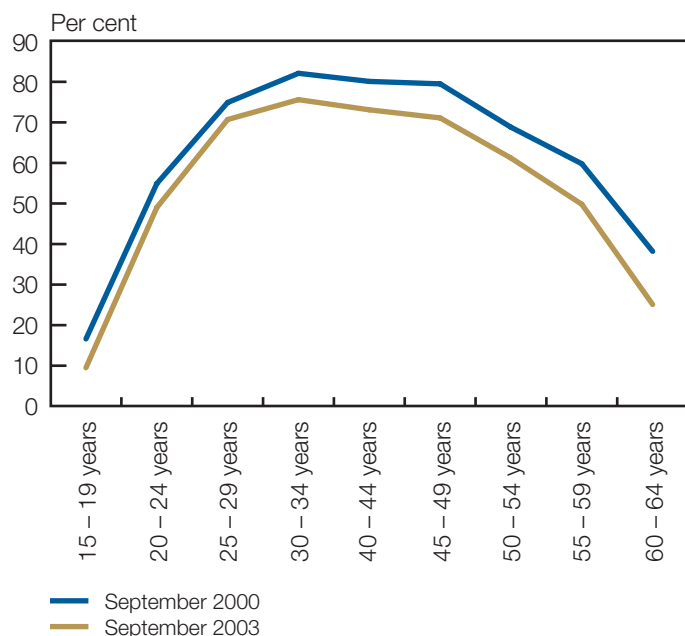
4 Statistics South Africa. March 2004. *Labour Force Survey*, September 2003. Pretoria. In its September 2004 release, Statistics South Africa revised the reference period from one to two weeks for measuring both the expanded and official unemployment rates. This returned a marginally higher estimate of the official unemployment rate, i.e. 28,4 per cent compared with 28,2 per cent for September 2003. This analysis uses the "one week" reference period for comparability with previous survey rounds.

5 Statistics South Africa classifies the working-age population as people aged from 15 to 65 years.

6 It should be noted that these figures are only estimates calculated given the weights used in the *Labour Force Surveys*. The published figures show growth in the working-age population of 26,9 and 29,9 people between the two time points, or an increment of 3 million people. The figure is probably closer to 2 million people. The February and September 2000 *Labour Force Survey* weights are based on the 1996 census whereas weights for the March 2003 *Labour Force Survey* onwards use the 2001 census. Further reweighting of earlier survey rounds is apparently in the pipeline.

7 Again, it is more the trend that is important for this discussion than the actual magnitude of change. Notably, in 2003 this survey was conducted in March for the first time, rather than February as was previously the case. This could also make a huge difference due to the fact that most further educational institutions open in February.

Figure 2.2 Official labour force participation rate, 2000 and 2003

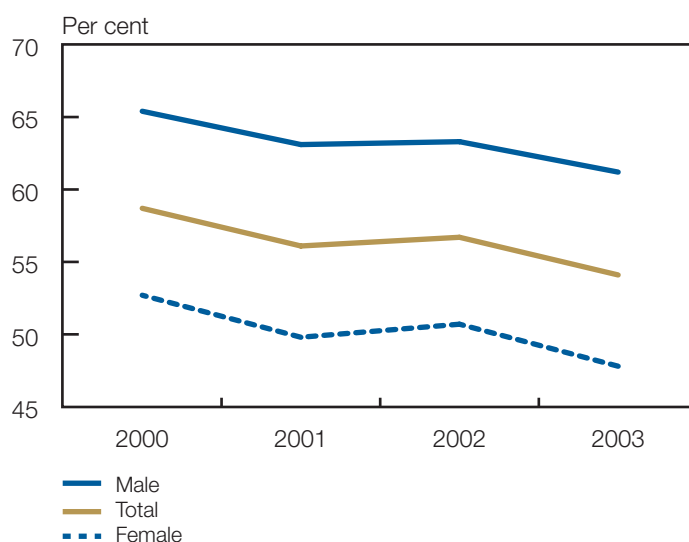


Source: Statistics South Africa. *Labour Force Survey*, September 2000 and September 2003. Pretoria

The LFS results further reveal that disaggregated labour force participation rates for both females and males dropped during the period under review (see Figure 2.3). The female labour force participation rates (LFPR) declined to a greater extent from 52,7 per cent to 47,8 per cent compared with that of males which dropped from 65,4 per cent to 61,2 per cent between 2000 and 2003. This pattern implies that, regardless of age, the likelihood of working-age females attaching to the labour market worsened relative to that of males. In other words, the conditions for participation were not particularly conducive for females, thereby increasing the gender gap of the LFPR.

Overall, the recent reduction in the likelihood for South Africans to participate in the labour market occurred mainly among adult working-age people and it was conceivably more due to withdrawal from the labour market than initial non-participation among recent working-age entrants. This marginalisation from economic participation was especially pronounced among females. The following discussion attempts to probe into the likely drivers of net aggregate declines in labour force participation rates.

Figure 2.3 Male and female labour force participation rates, 2000 – 2003



Source: Statistics South Africa. *Labour Force Survey*, September 2000 – September 2003. Pretoria

### Determinants of participation in the labour market: 2000 – 2003

There are both supportive and deterrent factors to labour force participation within a working-age population. One survey on labour market participation in the European Union found that self-reported deterrents include, *inter alia*, education and training (27 per cent or about 90 per cent in the 15 to 24-year age group) and family and home care responsibilities (20 per cent). Other stated reasons were illness or disability (9 per cent) and early retirement (16 per cent or 90 per cent within the 55 to 64-year age group)<sup>8</sup>. While recognising the complexity of the factors that influence economic inactivity, this section outlines some of the key factors that play a role in the decline of labour force participation. These include the discouragement effects, HIV/Aids and welfare grant allocations. In addition, there are data reliability and validity challenges associated with self-reported employment status especially in the era of the growing role of the informal sector in South Africa's economy.

#### Discouragement effects

A setting in which the downturn in the rate of active job seeking signals a shrinking labour force rather than absorption into employment is not unique to South Africa.

8 Commission of the European Communities. 2002. *Increasing labour force participation and promoting active ageing*. Brussels.

In an analysis of a similar experience in the United States of America<sup>9</sup>, it was found that people withdrew from the labour market in response to a weak hiring environment. Between 1969 and 1996 in Canada<sup>10</sup> the modest job creation environment was found to have dampened perceived employment prospects among job seekers and as a result the labour force participation rates declined.

A subdued job creation environment and its associated phenomenon of long-term unemployment can lead to discouragement in two ways. Firstly, there is the discouraged worker effect where job seekers cease to actively look for work but are reportedly available should they get employment offers. Even though the rate of expanded unemployment has stabilised, in absolute terms the number of discouraged job seekers remains relatively high – between September 2000 and 2003 expanded unemployment increased from 6 559 000 to 8 332 000. Secondly, discouragement can lead to discontinuation of labour force participation driven either by perceptions of reduced chances of getting a job or exhaustion of financial and other means of searching for work. Discouragement is probably one of the important explanatory factors for reduced labour force participation rates in South Africa.

The LFS provides data on self-reported reasons for not participating in job searching. Of those aged between 15 and 65 years who did not work in the seven days prior to the interview in September 2000, nearly 42 per cent of the respondents reported that there were no jobs in their area. The next highest reason stated was lack of money (14 per cent) followed by loss of hope of finding a job at 10 per cent. These remained the top most reported reasons for not looking for work over the subsequent September surveys until 2003. Their percentage share actually increased to 47,1; 20,5 and a marginal 10,6 per cent, respectively<sup>11</sup>.

## The impact of HIV/Aids

One of the factors that could explain the overall net reduction in the official unemployment rate and general participation in the labour market could be the relatively

elevated prevalence of HIV/Aids by global standards. South Africa ranks fifth within southern Africa, a region that is viewed as the epicentre of the epidemic. It is estimated that the highest prevalence rates in the region in 2003 were in Swaziland (38,2 per cent), followed closely by Botswana (38,0 per cent), Lesotho (28,9 per cent), Zimbabwe (24,9 per cent), South Africa (20,9 per cent), Zambia (16,7 per cent) and Malawi (14,3)<sup>12</sup>. HIV/Aids is particularly hard hitting in that it directly affects the sexually active section of the population, which is also the core of the workforce. The recently released report by the International Labour Organisation (ILO)<sup>13</sup> reveals that over 70 per cent of the world's labour force living with either HIV or full-blown Aids is found in Africa. South Africa (3,7 million), Zimbabwe (1,3 million) and Mozambique (1,1 million) are ranked among the African countries that have crossed the one million "threshold" of labour force participants infected with HIV. The ILO's projections of labour force losses due to HIV/Aids for 2005 and 2020<sup>14</sup> estimate that labour supply in Botswana, Zimbabwe and South Africa will be the hardest hit over the next fifteen years. South Africa's estimated losses due to HIV/Aids are expected to rise from one in ten workers to one in four over the coming fifteen years.

Among the widely documented labour market consequences of HIV/Aids illness is withdrawal from the labour force either through the debilitating effects of the disease or through perceived or real discrimination in the workplace<sup>15</sup>. In a survey conducted among people living with HIV and Aids in Canada, it was found that 70 per cent of the respondents had left their jobs due to health-related problems. Among those who had stopped looking for work, 53 per cent stated their reasons as "too ill to work" and 23 per cent did not believe that employers would hire people with HIV or Aids status<sup>16</sup>. In a localised study in Soweto, South Africa, Naidu<sup>17</sup> also found that the impact of HIV/Aids can lead to withdrawal among infected people.

As demonstrated in Figure 2.4, estimates based on the sero-prevalence surveys of public antenatal clinics in

9 Minehan, C. 2004. Labour Markets: What We Know and What We Don't. Speech presented to money marketeers in New York, Chief Executive Officer, Federal Reserve Bank of Boston.

OECD. 2004. *OECD Economic Outlook*, June. Vol. 2004/1, No. 75. France.

Lipsky, J. and Glassman, J. 2004. Supply Side Responses Drive US Labour Markets. *Global Issues*, March. New York: Office of the Chief Economist, JP Morgan.

10 Fortin, M. and Fortin, P. 1999. The Changing Labour Force Participation of Canadians, 1969 – 96: Evidence from a Panel of Six Demographic Groups. *Canadian Business Economics*, Vol. 7, No. 2.

11 Figures provided by Statistics South Africa. The estimates only provide an indication of how previous labour market participants perceive the driving factors behind their withdrawal. They should therefore be viewed with caution.

12 UNAIDS. 2004. *Report on the Global Aids epidemic – Overcoming Aids: the next agenda*. Switzerland: Geneva.

13 International Labour Organisation. 2004. *HIV/Aids and work: global estimates, impact and response*. Switzerland: Geneva.

14 International Labour Organisation. 2000. HIV/Aids in Africa: The impact of the world of work. Presented at the *Africa Development Forum 2000*. Addis Ababa, Ethiopia.

15 Ibid.

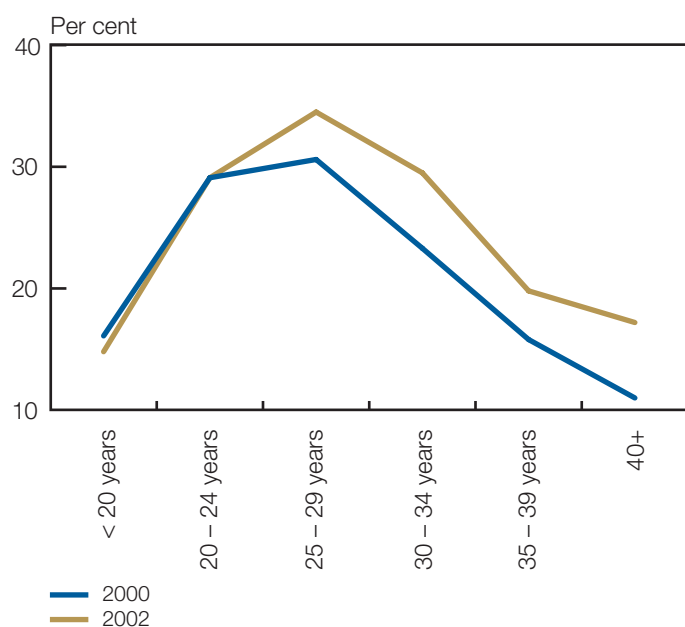
16 Canadian AIDS Society. 1998. *Force for Change: Labour Force Participation for People Living with HIV/AIDS*. Ottawa: Canadian HIV/Aids Clearinghouse.

17 Naidu, V. 2003. The impact of HIV/Aids on income earning urban households: A pilot study of households in Soweto. *Labour Markets and Social Frontiers*, October. Pretoria: South African Reserve Bank.



South Africa<sup>18</sup> reveal that HIV/Aids prevalence increases up to the ages of 25 to 29 and tapers off towards the top end of the reproductive ages, above 40 years. The graph shows that between 2000 and 2002 prevalence levels actually dropped from 16,1 per cent to 14,8 per cent among the expectant women aged below 20 years. Whereas the rate remained unchanged at about 29 per cent among those in the 20 to 24-year age range, there was a dramatic increase among older women. The peak of the age-specific prevalence rates at 25 to 29 years rose from 30,6 per cent to 34,5 per cent in 2002. In the age group 30 to 34 years and 40 years and above it increased from nearly 16 per cent to about 20 per cent and from 11 per cent to 17 per cent, respectively. Despite the limitations to the generalisability of the data, it is plausible to expect that the rise in HIV/Aids prevalence among older working-age cohorts could have partly driven withdrawal from the labour force. With the well-recorded indications that HIV/Aids prevalence among females tends to be higher than that of males, the faster decline in labour force participation among women is possibly due to this epidemic.

Figure 2.4 HIV prevalence by age group among antenatal clinic attendees in South Africa



Source: Department of Health. 2003. *National HIV and Syphilis Antenatal Sero Prevalence Survey in South Africa*. Pretoria

18 Limitations of estimates based on the sero-prevalence surveys are well known. They cannot be directly raised to the general public because the sample is biased against men of all ages, reproductive-age women who do not fall pregnant and women who attend private clinics for antenatal care. Furthermore, the representivity of the sampled clinics in terms of the geographical and rural/urban spread is unclear. See Naidoo, R. 2003. Commentary: Issues surrounding the measurement of HIV prevalence and Aids mortality, in *Labour Markets and Social Frontiers*, October. Pretoria: South African Reserve Bank.

19 Whiteside, A and Barnett, T. 2000. HIV/Aids, poverty and development. *Speech given at the Overseas Development Institute*.

20 Lehutso-Phooko, M. and Naidoo, R. 2002. Income inequality prospects with HIV/Aids - A social dimension. *Labour Markets and Social Frontiers*, October. Pretoria: South African Reserve Bank

21 Hlekiso, T. 2003. Book Review: International Labour Standards: History, Theory and Policy Options. *Labour Markets and Social Frontiers*, October. Pretoria: South African Reserve Bank.

The effects of HIV/Aids on the likelihood of labour force withdrawal should, however, be approached with caution. The first consideration is the cycle of the disease as depicted by Whiteside and Barnett<sup>19</sup>. They describe the four waves as HIV infection, tuberculosis, Aids illness and death and, finally, the impact on households<sup>20</sup>. An assessment of the impact of the disease on labour force participation should take cognisance of the lag effects between each of the waves and the timing of withdrawal from the labour market. Secondly, an HIV/Aids impact analysis should take into account the wider household context and that the resulting labour force behaviour is not necessarily linear. The withdrawal of the infected economically active person can force other household members to enter the labour force. Conversely, it can also induce an/other economically active household member(s) to withdraw in order to provide home-based care. Labour force participation rates can also rise, even among children<sup>21</sup> and the elderly, as a direct result of the disease. The impact can therefore be quite complex. At the micro level, therefore, the challenge for analysts is to isolate these diverse labour force outcomes.

Thirdly, the mass provision of anti-retroviral treatment necessarily affects the lag period between the HIV infection and Aids illness and death waves on the one hand, and the timing of withdrawal from labour force participation on the other hand. South Africa has initiated the process of implementing a national roll-out plan to provide anti-retroviral treatment in the public health system. The impact of this intervention on labour market participation among people infected and households affected by the scourge remains to be established.

Whilst the exact impact of HIV/Aids on labour force participation behaviour cannot be determined without more empirical evidence and statistical analysis, the aggregate outcomes depicted above warrant further consideration of the dynamics involved for the unemployed (and employed) people living with the disease as well as their households.

### The impact of the distribution of social grants

Financial incentives are very important in influencing the decision to enter or exit the labour market.

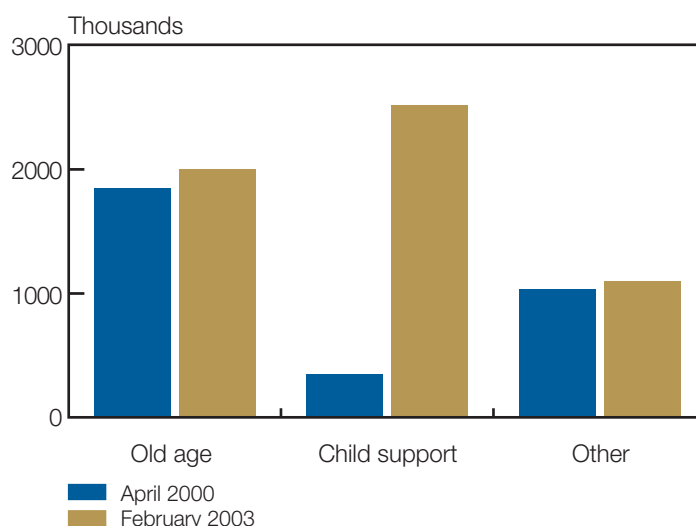
The concept underpinning the labour market participation decision-making process is referred to as the reservation wage. It is basically the preferred non-labour income

threshold above which a job seeker is prepared to work for. According to Borjas<sup>22</sup>, for a person to decide to work or to look for a job, the earnings or income prospects should exceed their reservation wage. A number of attributes can influence a person's reservation wage threshold. These can include education, gender, household savings, race and presence of a child<sup>23</sup>. Increases in shared income within a household, through for example wage or salary increases of employed members, remittances and social grant receipts, are likely to raise the reservation wage of unemployed (or even employed) members. Consequently, the raised household income can deter the job seekers in such households from further searching or accepting a job that offers labour income that falls below their "new" wage preferences. Conversely, social grants receipts can also act as incentives for job searching where the additional non-wage income provides resources for transportation and other costs for job searching. Clearly, the amount received becomes the critical factor in labour market participation decision making.

The debates about the labour force incentive or disincentive effects of social grants either through increased resources for job searching or raised reservation wage levels are particularly important. Figure 2.5 illustrates changes in the number of various types of beneficiaries between April 2000 and February 2003. The total number of beneficiaries in all categories of social security benefits rose from 3 232 million to 5 620 million individuals, representing a 74-per-cent rise over a period of nearly three years. Whereas old-age pension beneficiaries took the largest share of about 57 per cent of the recipients in 2000, child support grant beneficiaries constituted the major component of about 45 per cent in early 2003. In a localised study in the Free State<sup>24</sup> it was found that social grants tend to reduce poverty and inequality and mitigate the impact of HIV/Aids. Woolard<sup>25</sup> found similar effects using the *Income and Expenditure Survey*, 2000.

Current research paints a relatively complex relationship between welfare benefits and labour force participation. For example, Klasen and Woolard<sup>26</sup>, Anandan<sup>27</sup>, and

Figure 2.5 Trends in number of grant beneficiaries, 2000 – 2003



Source: Statistics South Africa. *Labour Force Survey*, September 2000 – September 2003. Pretoria

Christofides et al<sup>28</sup> infer that pension transfers do not influence labour force participation through the reservation wage. Klasen and Woolard conclude that rather than directly deterring job searching, pension receipts are indirect determinants of withdrawal from the labour force. This occurs through household formation whereby the unemployed move back to parental homes which are recipients of pension payouts and/or some other type of social grant. These homes are more often than not distant from sources of employment. As a result search costs are increased and these unemployed cease to engage in job searching. The existing literature indicates a more intricate nexus of intermediate factors in the relationship between welfare participation and consequential labour force behaviour. It seems the predictive power of welfare benefits on withdrawal from the labour market depends on the type of social grant, the amount disbursed relative to existing household income and individual and household characteristics such as gender, age, marital status, number of children, education and timing of declines in market wages relative to welfare benefits<sup>29</sup>.

22 Borjas, G.J. 2000. *Labour Economics*, second edition. New York: Irwin/Mcgraw-Hill.

23 Anandan, T. 2002. What determines reservation wages for individuals in South Africa? University of Michigan. Available: [www-personal.umich.edu/~tandan/saproject/cover.htm](http://www-personal.umich.edu/~tandan/saproject/cover.htm) (accessed on 4 September 2004).

24 Booyens, F. and Van den Berg, S. 2004. The role of social grants in mitigating the socio-economic impact of HIV/Aids in two Free State communities. *South African Journal of Economics*, unpublished.

25 Woolard, I. 2003. Social Assistance Grants, poverty and economic growth in South Africa. *DPRU Conference*, Johannesburg, September.

26 Klasen, S. and Woolard, I. 2000. Surviving Unemployment without State Support: Unemployment and Household Formation in South Africa. *Discussion Paper No. 237*, Institute for the Study of Labour, International Reform Monitor database.

27 Anandan, T. 2002. What determines reservation wages for individuals in South Africa? University of Michigan. Available: [www-personal.umich.edu/~tandan/saproject/cover.htm](http://www-personal.umich.edu/~tandan/saproject/cover.htm) (accessed on 4 September 2004).

28 Christofides, L.N., Thanasis, S and Swidinsky, R. 1997. Welfare participation and Labour Market Behaviour in Canada. *Canadian Journal of Economics*, Volume 30:3.

29 Dooley, M. and Ross, F. 2001. Differences in Labour Force Participation, Earnings and Welfare Participation Among Canadian Lone Mothers: A Longitudinal Data Analysis. *Working Paper Series (W-01-8E)*, Human Resources Development: Canada.

The emerging trends in welfare support a call for a revisit of the debate on the role of social grants in either raising or not raising the reservation wage, or indirectly inducing withdrawal from the labour market. The study by Klasen and Woolard covers the 1990s. This is a period in which the rate of social grants uptake in the population was not as high as in the early 2000s. Furthermore, in the 1990s unemployment was still on the rise whereas it had begun to stabilise towards 2002. This study found that households that had one or more job seekers had risen from 30 per cent to 35 per cent over the period 1993 – 1997. By implication, private safety nets were under tremendous strain due to a combination of rising joblessness and limited outreach of the public welfare benefits.

The interrogation into the relationship should equally pay attention to the possible incentive effects of the welfare system. Some cursory research indicates that different types of grants are likely to yield different results. Using panel data from a small, localised sample, Booysen and Van den Berg<sup>30</sup> found that disbursements of old-age pensions and disability grants (linked to HIV/Aids illness) reduced the likelihood of labour force participation in the sampled households. Conversely, child support benefits were associated with higher labour force participation. These outcomes should be viewed in the context of the independent labour supply effects of HIV/Aids illness as discussed in the foregoing section.

Social grants provide sorely needed relief from a very desperate situation experienced by marginalised households. Indeed, based on some experience, the

discussion above tentatively finds that some types of social grants can actually augment resources to the extent of raising the likelihood of labour force participation.

### Concluding remarks

Attachment to the labour market is key to economic well-being, to a more inclusive economy as well as to the capitalisation of South Africa's impending "demographic dividend"<sup>31</sup>. The first reaction to the declining labour force participation rates is to question the reliability of the data. While this is a valid concern that deserves further debate, this analysis focuses more on the apparent trends. The consistency of the patterns over the four-year period points to a real underlying labour market participation inclination, which warrants some reflection.

The paper argues that the role of HIV/Aids and welfare distribution on withdrawal of previously economically active agents who are still in the working ages, should form part of an investigation of the barriers and enablers of labour force participation. The explorative discussion demonstrates that there aren't necessarily predetermined ways in which labour market outcomes respond to these forces. Furthermore, the net result at the aggregate level can mask critical dynamics at household level. It is therefore crucial for the research agenda to attend to both micro and macro level issues as well as the relevant interlinkages. Such efforts would more effectively serve the policy-making, sequencing and oversight processes. Any unintended consequences of policy implementation can be dealt with more proactively.

<sup>30</sup> Ibid

<sup>31</sup> Lehutso-Phooko, M. 2004. Demographic change and the supply-side dynamics of labour markets. *Labour Market Frontiers*, April. Pretoria: South African Reserve Bank.