



4

Employment and Remuneration Trends

1. Introduction

Turning to employment and remuneration prospects, many South Africans contend that economic restructuring has left many without work. Many more are convinced that our economic revival is about jobs, jobs and more jobs. A 'meso-cosm' of the national debate, the Western Cape picture is no different, and the debate on Provincial labour market performance no less contentious.

That said, it is important to get a better understanding of the Western Cape labour market, as it is the key mechanism through which individuals engage with the economy. Through the labour market, individuals sell their labour, earning incomes that enable them to purchase the goods and services they require.

Any exchange offers winners and losers, and so in many countries, the labour market is not entirely free from the state's hand in regulating market forces. But state intervention is not always without fault. Too much intervention or the wrong type of intervention causes 'government failure', which could distort markets to the extent that winners and losers are determined by the state's regulatory hand itself.

Decades of direct state intervention through labour legislation and indirect influence through a range of other government policies related to population movements, education and the cost of capital, amongst others, have shaped the South African labour market into a distinctive milieu.

Today, national, provincial and local government are challenged to address the systemic scars that *apartheid* etched into the labour market, as well as concerns such as alleviating

poverty, reducing inequality and advancing social cohesion that both influence and are influenced by the labour market itself.

Like other provinces, the Western Cape is faced with a daunting and critical task in reshaping, even reconstructing, the Provincial labour market. This is not an easy task and involves difficult public policy choices. Direct tools are not necessarily effective, as they tend to induce too many distortions of their own. Indirect tools offer a better chance of success, as the labour market is interdependent on other key areas of the economy – education, health, investment promotion and infrastructure policies and interventions that impact directly on labour market performance.

At the same time, the Province has to address the myriad issues surrounding internal migration, which may blur the many commonly used indicators to measure Provincial labour market performance. Dealing with the reality of 'porous borders' in our evolving intergovernmental system raises the interdependence of the system. One part of the system cannot succeed on its own. Individual provincial employment, economic growth and poverty reduction strategies depend on enabling complementary national, provincial and local policies and strategies. The whole is greater than the sum of the parts.

Chapter 4 investigates trends in the Western Cape's labour market based on data from two rounds of the Labour Force Survey, conducted in September 2000 and September 2003. An analysis of Provincial demographic trends and future prospects aids understanding of the labour market profile. This section takes a step further, considering the possible effects of migration on the composition of labour supply.

A closer look at the Provincial labour force enables a better understanding of recent changes and their causes. Employment and unemployment are the main focus areas here, highlighting the critical labour market concerns that the Western Cape faces over the medium term.

The third section of this chapter focuses on provincial remuneration trends in the formal sector. Wages and salaries form a major part of the average household's income, and as such they are main factors driving inequality patterns and trends in the Province. The section investigates pertinent aspects of these trends and looking ahead, teases out their implications for income inequality prospects in the Province.

The chapter closes with an analysis of the Province's small, medium and micro enterprise (SMME) sector and the informal sector, both of which hold opportunity and improved life prospects for many at the lower end of the income distribution. For many people here, life is not easy. Every moment is spent making sure that the next holds better prospects. If not for themselves, then for their children, for whom life and life's prospects lie ahead. Therein lies Government's challenge.

2. Demographic Trends

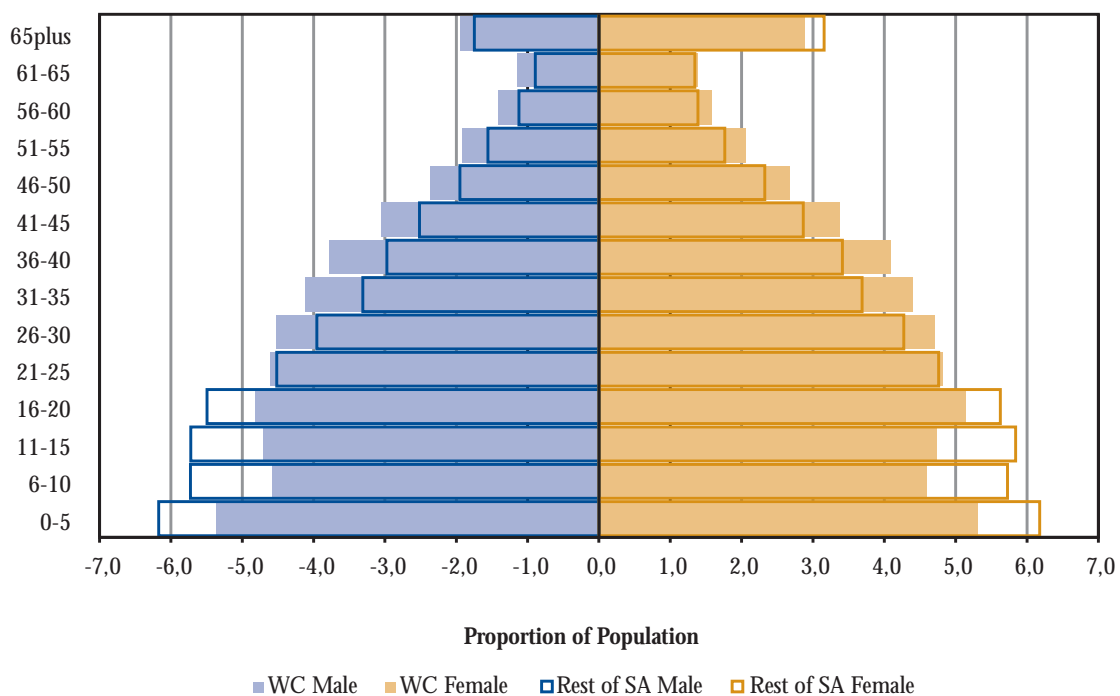
2.1. Demographic profile

Like other markets, the labour market functions through the interaction of supply and demand. Individuals supply or offer their labour to the market. Firms and other potential employers source or demand labour from the market.

A key determinant of labour supply is the size and structure of the population. As the Western Cape is a recipient of in-migration, the size and age profile of the present Provincial population, as well as the numbers and characteristics of individuals migrating into the Province, are important factors that determine the present and future Provincial labour supply.

Those that supply labour on the market constitute the labour force. As only individuals between the ages of 16 and 65 years are legally eligible for the labour force, the size of this age-group or cohort plays an important role in determining the size of the labour force. It is useful to think of the labour force as a dam. The dam becomes fuller as individuals enter the labour force and becomes smaller as they exit the labour force.

Figure 1 Age pyramid for Western Cape and South Africa, 2001



[Source: Statistics South Africa Census 2001]

Although Figure 1 shows that the Provincial population is relatively young in that less than 15 per cent is older than 50 years, relative to the country as a whole the Province's population is slightly older. With higher proportions of the population under 20 years of age, the age pyramid for the rest of South Africa is significantly more bottom-heavy than that of the Western Cape.

Conversely, the Western Cape pyramid is broader at higher age-groups, particularly between the ages of 26 and 45 years. Approximately two-thirds (66%) of the population is between the ages of 16 and 65 and is therefore of working age. Children aged 15 years or younger constitute 29 per cent of the Province's population.

Interestingly, the five age-groups between six and 30 years of age are very similar in size, indicating that the working age population in the Province is likely to grow as these relatively large age-groups grow older and enter the working age population, while fewer older individuals exit the working age population. This change will filter through to the labour force, and the Provincial economy will therefore remain under significant pressure to create jobs for the foreseeable future.

In other words, the inflow of younger people into the 16- to 65-year age group and by implication the labour force 'dam' is likely to be greater than the outflow of older individuals, with the result that the 'dam level' will rise and the labour force will grow.

Looking further ahead, unless migration affects the age distribution of the population significantly, the Western Cape is likely to face the prospect of an ageing population sooner than other provinces.

Across regions within the Province, the Overberg and Eden District Municipalities are relatively old, with 6,2 per cent and 6,0 per cent of their populations respectively over 65 years of age. In contrast, the Central Karoo has the largest proportion of children under 15 years of age (36%) and the City of Cape Town, not surprisingly, has the largest proportion of working age residents.

2.2. Migration trends

Aside from natural population increase, migration can constitute an important root cause of demographic change in South Africa's provinces. The Western Cape is a net receiving province, gaining an estimated *48 000 individuals net of out-migration annually*, according to the *2002 Migration Study in the Western Cape 2001* commissioned by the Western Cape Provincial Government.

Although this may seem a relatively large number, particularly when summed up over time, annual in-migration represents only slightly more than one per cent of the Province's

2001 population (according to Census 2001). Further, the flow of individuals to the Province from other provinces appears to be motivated primarily by brighter employment prospects and higher incomes in the Western Cape relative to the sending provinces, with the largest single stream of migrants originating in the Eastern Cape.

The flow of African in-migrants into the Western Cape has been described as “powerful and fast... probably [representing] the largest and most rapid demographic flow in South Africa” (Western Cape, 2003: 10). Most African in-migrants originate in the southern Transkei region and from Eastern Cape farms and cities, and migrate to Cape Town as well as those regions *en route*, particularly the eastern and southern districts of the Western Cape. About 44 per cent of in-migrants entering the Province originate in the Eastern Cape.

This, though, is likely to represent an underestimate of the true extent of in-migration, as migration information in the 2001 Census relates to the individual’s last move if the individual moved more than once in the five year inter-census period. The situation is compounded by the fact that much migration from the Eastern Cape is, in fact, step-wise migration. Individuals tend not to migrate directly from their place of origin to Cape Town. Rather, they make multiple moves *en route*. A further 18 per cent of in-migrants between the ages of 20 and 65 years arrive from Gauteng and eight per cent from KwaZulu-Natal.

Each in-migrant has a unique set of characteristics. This means that individuals and/or groups both enrich and place demands on the Province in different ways. Closer monitoring of migration patterns and the characteristics of in-migrants offers considerable value, informing Provincial policy- and decision-makers in respect of future demographic and labour force profiles as well as expected demand for provincial infrastructure, social, education and health services.

The 2001 Census allows some investigation of migration, although the data is clouded by certain issues. The most important is the fact that only the information about an individual’s most recent move (between 1996 and 2001) is recorded in the Census, thereby distorting the data where individuals have moved more than once in the inter-census period.

Table 1 presents the age structure of the Province’s population in 2001, according to whether or not they moved in the inter-census period and, if they did move, according to their province of previous residence. Row 8 (Total) of the table shows that in-migrants account for a relatively small size of the population. While 81,7 per cent of the Province’s population did not move in the inter-census period, in-migration accounted for only 7,1 per cent and movement within the Province for 11,2 per cent. As mentioned earlier, migrants from the Eastern Cape constitute the largest group of total in-migration.

Table 1 Age structure of Western Cape residents by recent migration status, 2001

	Moved Within WC (%)	Moved from Eastern Cape (%)	Moved from Rest of SA (%)	Moved from Foreign Country (%)	Did Not Move Since Census '96 (%)	Total In-Migration (%)
0 to 15 years	7,9	1,7	1,8	0,2	88,4	3,7
16 to 25 years	11,9	7,0	4,2	0,6	76,3	11,8
26 to 35 years	17,0	4,5	4,8	0,8	72,9	10,1
36 to 45 years	12,4	2,1	3,7	0,5	81,4	6,2
46 to 55 years	9,4	1,4	3,5	0,5	85,1	5,5
56 to 65 years	8,8	1,1	4,1	0,5	85,4	5,8
Over 65 years	10,1	0,9	3,7	0,5	84,7	5,2
Total	11,2	3,2	3,5	0,5	81,7	7,1

[Source: Statistics South Africa Census 2001]

Note: The zero to 15-year age group actually refers to five- to 15-year olds, as younger children had not been born at the time of the 1996 Census.

In-migration to the Western Cape is most common amongst younger individuals between the ages of 16 and 35 years. In 2001, almost 12 per cent of 16- to 25-year olds in the Province and 10 per cent of 26- to 35-year olds had migrated from outside the Western Cape since 1996. The bulk of the former group originated in the Eastern Cape (around three-fifths), while this was true of slightly less than half of the latter group. Interestingly, in-migration from the rest of South Africa (excluding the Eastern Cape) and from other countries to the Western Cape is spread relatively evenly as a proportion of the Province's population across the age-groups, while in-migration from the Eastern Cape tapers off significantly as age rises. Thus, while 7,0 per cent of 16- to 25-year olds in the Western Cape are recent in-migrants from the Eastern Cape, this is true of only about one per cent of 56- to 65-year olds and those over 65 years of age.

In terms of the impact on the working age population, net in-migration constitutes an injection of young individuals into the Province's working age population (72,6% of in-migrants are under 36 years of age compared to 65,6% of those Western Cape residents who did not move in the inter-census period).

In-migrants from the Eastern Cape differ significantly from other in-migrants in this regard, with 83,3 per cent being in the under 36 years of age group. This difference is even more marked when one compares the proportions for individuals between 16 and 35 years of age: 48,9 per cent of other in-migrants fall into this age-group compared to 68,0 per cent of those from the Eastern Cape. *The Migration Study* found that, being younger, the Coloured and African migration streams represent an injection of young motivated workers, while the older White stream "contributes few workers but brings in economic resources of capital and skills" from geographically diverse origins (Western Cape, 2003: 11).

Since in-migrants add to the working age population and, by extension, the labour force, it is useful to investigate what level of education this addition represents. In Table 2, in-migrants between the ages of 20 and 65 years are classified according to their migration status and their highest educational attainment. The 20- to 65-year age-group is chosen as we are interested in the working age population; the inclusion of individuals younger than 20 would provide a false impression of average education levels since many of them are likely to be attending educational institutions.

Column 8 (Total Western Cape Population) of the table provides a breakdown of the Provincial population for comparison purposes and indicates that over 28 per cent of the population have a primary education or less, while 30,2 per cent have a matric certificate. Just less than five per cent of the population have a tertiary qualification. In-migration as a whole represents a boost to the Provincial educational profile, since almost 41 per cent of all in-migrants have a matric while a further 10 per cent have a tertiary qualification.

By origin, in-migrants differ in their educational attainment. Thus, for example, in-migrants from other countries are substantially better educated than the general Provincial population: 33 per cent have tertiary qualifications and almost 50 per cent have completed secondary education.

However, the main stream of in-migrants (that from the Eastern Cape) has a lower educational profile than the stream of in-migrants from the rest of the country. Only 29 per cent of in-migrants from the Eastern Cape in this age-group have completed secondary school and 2,7 per cent have tertiary qualifications, while 27,7 per cent have a primary education or less. Amongst in-migrants from the rest of the country, these proportions are 50,0 per cent, 13,6 per cent and 12,9 per cent respectively.

Although these figures may seem to indicate that in-migrants from the Eastern Cape are lowering the educational profile of the Province, this is an incorrect assumption. In the first place, although in-migrants from the Eastern Cape represent the largest stream entering the Province, it is still relatively small compared to the Provincial population. This means that the lower educational attainment of in-migrants from the Eastern Cape is unable to make a major difference to the educational breakdown of the broader population.

Secondly, in-migrants from the Eastern Cape tend to be younger than in-migrants from other regions; consequently a greater proportion of the former is likely to be in the process of improving their educational status. Thirdly, comparing columns three (Moved from Eastern Cape) and six (Did not Move Since Census '96) in Table 2 makes it clear that the educational attainment of in-migrants from the Eastern Cape is, in fact, not significantly different to the profile of the Province's non-migrant population, nor is it substantially different to the profile of the overall Provincial population.

Table 2 Educational attainment of the Western Cape population aged 20 to 65 years by migrant status, 2001

	Moved Within WC (%)	Moved Eastern Cape (%)	Moved from Rest of SA (%)	Moved from Foreign Country (%)	Did Not Move Since Census '96 (%)	Total In- Migration (%)	Total WC Population (%)
No Education	3,4	6,0	3,0	1,9	5,6	4,2	5,2
Incomplete Primary	11,1	15,0	6,5	1,4	16,5	9,9	15,2
Complete Primary	6,0	6,6	3,4	0,9	8,8	4,7	8,0
Incomplete Secondary	32,9	40,2	23,6	12,8	38,1	30,2	36,7
Complete Secondary	39,3	29,4	50,0	49,7	27,5	40,8	30,2
Tertiary	7,4	2,7	13,6	33,2	3,5	10,2	4,6
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

[Source: Statistics South Africa Census 2001]

Note: The zero to 15 year age-group actually refers to five- to 15-year olds, as younger children had not been born at the time of the 1996 Census.

The fact that recent in-migrants from the Eastern Cape are generally not as well educated as other in-migrants poses specific challenges to Government. Recent research by Van der Berg *et al.* (2004) drawn from the 1996 Census finds that the Western Cape seems to be attracting less educated in-migrants from the Eastern Cape and, specifically, that better educated African migrants from the Transkei region tend not to migrate to the Western Cape but rather move to Gauteng or Eastern Cape cities (Port Elizabeth in particular).

This means that many Eastern Cape in-migrants find themselves slotted in at the lower end of the labour market, where unemployment is greatest, and their relatively weaker social networks mean that they are more likely to struggle to find employment. This is certainly not good from the affected individuals' point of view, but neither is it from society's point of view.

Internationally, migration is often seen as a threat or a negative phenomenon by both receiving and sending regions. Receiving regions tend to feel that in-migrants represent a burden to their economies and government budgets, while sending regions often feel that they are losing precious skills and expertise in the short term.

The Western Cape, along with Gauteng, are major receiving regions for internal migration. It is important, however, not to exaggerate the magnitude of the phenomenon, nor its impact on the aggregate Provincial profile. Nevertheless, in-migration may pose certain challenges, particularly in the areas of service delivery and job creation where there are existing backlogs. It is essential that these challenges are identified, incorporated into

current policy formulation and addressed proactively to ensure that potential future problems are avoided.

3. Labour Market Trends

3.1 Analysing labour market performance

Assessing labour market performance is often a contentious debate. At the political level, contending voices clamour that economic restructuring has left many without work. Many more are convinced that economic revival is purely about jobs. At the technical level, debate is fraught in respect of the analytical measures and data used to assess labour market performance, their robustness and how analytical results should be interpreted, given many data and measurement uncertainties.

Labour market analysts therefore need to tread carefully amidst assessments that either tout the expansion of employment opportunities since 1995, based on national household survey data, or denote South African growth over the last decade as the 'jobless' result to economic restructuring.

The stakes are high. Earning an income is the best tool to lift a family out of poverty. This means that 'getting the story right' on labour market performance is critical in the present political and policy terrain. To do so, it is important to understand the potential and limits of labour market data and the available analytical assessment tools.

Data used in employment analysis

Employment analysis based on nationally representative household surveys commonly uses three groups of datasets:

- The October Household Surveys (OHSs);
- The Labour Force Surveys (LFSs);
- The subsequent LFS of September 2003; and
- The 10% Sample of the national population Census of 2001.

The OHSs were Statistics South Africa's first major household surveys conducted on a national level that included the former homelands and self-governing territories. These surveys were conducted annually in October between 1995 and 1999. The surveys collected a variety of information, including demographic, living conditions, education, health, social security, migration and labour market information.

In 2000, the OHS was discontinued and subsumed into the new LFS, which provides the most comprehensive household-based look at the labour force of any survey of its magnitude currently undertaken by Statistics South Africa. Unlike its predecessor, the LFS is conducted twice each year in February/March and September. As its name suggests, the LFS has as its primary focus the labour market, although it also collects much of the

information previously collected in the OHSs. The first LFS was piloted in February 2000 with a relatively small number of households (9 705) and, as a result, is generally not useful for analysis. Consequently, the first usable LFS is that of September 2000. Most LFSs sample between 26 000 and 29 000 households, representing over 100 000 individuals. The sample is constructed in such a way as to be representative of the national 'picture' by 'inflating' the results derived from the sample.

For a number of reasons, this chapter uses the September 2000 and 2003 LFSs. Most importantly, it provides the longest period for analysis based on the LFSs – three years, between September 2000 and September 2003. (Unfortunately, the September 2004 LFS was not yet available at the time of writing.) It also made more sense to use September LFSs because the Census is conducted in October, which implies that seasonal changes in the labour market would not be too much of an issue. Finally, seasonal influences on the labour market make comparisons of February and September LFSs more difficult and prone to error.

The Census, on the other hand, is not a very good source of labour market information (not all questions key to labour market analysis can be asked due to questionnaire space limitations). As a result, the Census tends to underestimate employment and over-estimate unemployment when compared to the LFS.

A further concern is that the frequency of the Census, previously at five-year intervals and now at 10-year intervals, complicates inter-temporal labour market analysis, or how labour market trends change over time.

However, the major advantage of the Census is its ability to provide information at a relatively low level of geographic aggregation, a feature that does not pertain to the LFS. In other words, the Census 10% Sample is able to provide accurate information at a district council or magisterial district level. Consequently, in an effort to provide a spatial 'flavour' to this chapter, the 2001 Census is used as a secondary data source.

As Census estimates of labour market variables are not totally accurate, too much emphasis should not be placed on the actual derived figures. Instead, these estimates should be used to place regions in the appropriate context relative to one other and to the Province as a whole.

Neither the LFSs nor the Census 10% Sample are able to provide exact numbers for variables such as employment or even, for example, the number of males or females in the population. Instead, they provide only estimates and 'bands' in which the true value of the variable is expected to lie. Therefore, when estimates from two different surveys are compared, it is important to test whether changes are real, rather than related to issues associated with the sample itself. Such changes are said to be statistically significant, which means one can be reasonably certain that these changes did occur. If a change is statistically insignificant, there is not enough certainty that the variation in the estimates is real.

A closer look at the national household surveys (the LFSs) in Table 3 shows that South Africa has witnessed significant employment growth, although such growth appears to have occurred prior to 2000. Between 2000 and 2003, aggregate national employment seems static at about 11,6-million jobs.

What is often forgotten is that these net results mask dynamic movement within and between economic sectors and occupational classes or skill levels. 'Sunrise' or stressed

Table 3 Labour force change in South Africa and the Western Cape, 2000 – 2003

	2000 (‘000s)	2003 (‘000s)	‘000s	Change %	% p.a.	Target Growth Rate (%)	Emp. Absorp. Rate (%)
Western Cape							
Employment	1 537	1 730	194	12,6	4,0		
Expanded Unemployment	449	612	163	36,3	10,9		
Expanded Labour Force	1 986	2 342	356	17,9	5,7	23,2	54,3
Official Unemployment	317	448	131	41,5	12,3		
Official Labour Force	1 853	2 178	325	17,5	5,5	21,1	59,6
South Africa							
Employment	11 675	11 612	-63	-0,5	-0,2		
Expanded Unemployment	6 538	8 302	1 763	27,0	8,3		
Expanded Labour Force	18 214	19 914	1 700	9,3	3,0	14,6	-3,7
Official Unemployment	4 074	4 562	487	12,0	3,8		
Official Labour Force	15 750	16 174	424	2,7	0,9	3,6	-14,9

[Source: Statistics South Africa LFS, September 2000 and September 2003]

sectors will shed employment, while rising or booming sectors will create employment. And there are always winners and losers in this game.

Another key factor to take into account is that while the economy may be creating jobs, it may not be creating enough jobs given the rising number of new entrants into the labour market each year. If annual job growth does not exceed or at least equal the growth in the labour force, rising unemployment rates will continue to be a defining feature of the South African society and economy.

This is the story that represents a more realistic and factual account of South African labour market performance over the last decade. Table 3 shows that the numbers of unemployed and the rates of unemployment have risen dramatically since 1995, irrespective of whether one uses the narrow or expanded definition of unemployment. By 2003, 8,3-million South Africans were unable to find work, up by more than four million individuals, with nearly 1,8-million of these becoming unemployed since 2000.

Definitions of unemployment

Translating the layperson's concept of being unemployed ('not having a job') into a technical and measurable form is a relatively difficult task.

Following that used by the International Labour Organisation (ILO), South Africa's official (or narrow) definition of unemployment classifies individuals as being unemployed if they "(a) did not work during the seven days prior to the interview, (b) want to work and are available to start work within a week of the interview, and (c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview" (Statistics South Africa *Statistical Release* P0210, 2002: xv). This places the 'burden of proof' on the shoulders of non-employed individuals: they need to demonstrate that they have made some attempt at finding or creating a job for themselves. The expanded (or broad) definition of unemployment, on the other hand, does not include criterion (c).

Although the narrow definition is the official definition in South Africa, the evidence suggests that the broad definition is better able to identify the unemployed accurately in countries like South Africa where unemployment rates are very high and many individuals give up looking for work, becoming what is termed 'discouraged workers' (see Kingdon and Knight, 2001: 84-87, for a complete discussion). As a result, the analysis in this paper is based on the expanded definition of unemployment. That is, simply stated, if you have not worked in the last week, but you want to work and would, if offered a job, be able to start working within a week, then you are classified as unemployed according to the expanded definition.

3.1.1. Western Cape labour market performance

At the provincial level, the Western Cape's labour market performance holds brighter prospects than its national counterpart.

The Western Cape's superior employment performance and its faster unemployment growth therefore translate into labour force growth that is significantly higher than is the case nationally. The problems of rapidly growing numbers of unemployed individuals and of a rapidly growing labour force are interlinked, but it is possible to begin to separate out the various forces involved. Because the unemployed are part of the labour force, rapid unemployment growth often, but not always, translates into labour force growth and *vice versa*.

Since 2000, though, about 194 000 jobs were created in the Western Cape at a rate of 4,0 per cent per year. This has seen the Province raise its share of national employment from 13 per cent to 15 per cent. Unfortunately, although employment growth has been above the national average, unemployment in the Province, irrespective of definition, has also expanded at a more rapid rate. The Province is now home to 7,4 per cent of the country's broadly unemployed.

Calculating *target employment growth rates* (TGRs) and *employment absorption rates* (EARs) are useful measures to assess and explain labour market performance and trends in the context of an expanding labour force.

The *TGR* represents the rate of employment growth that would absorb all net new jobseekers into employment, and is defined as the *change (growth) in the labour force relative to the level of employment in the base year* (Bhorat, 2003)¹. For example, if there are 100 000 employed people in the Province, and the labour force grows by 10 000 people, then the target growth rate (which would see *all* net new jobseekers finding a job) would be 10 000 divided by 100 000, which equals 10 per cent. So, the number of jobs would have to grow by 10 per cent for all new jobseekers to find employment.

Interestingly, the target growth rate is a rather high target, because it means that the unemployment rate amongst the cohort of new jobseekers would be zero per cent. What this means is that if employment growth equalled the target employment growth rate, the overall unemployment rate would fall relatively rapidly.

Even though it may not seem so – representing, as it were, a ‘treading water’ level of employment growth – achievement of this target rate of employment growth would be a major success for the economy and policy-makers, as it provides a benchmark rate of employment growth that starts to stabilise unemployment levels in the context of an expanding labour force, pointing to the possibility of lower unemployment rates over the medium to long term.

The *employment absorption rate*, on the other hand, answers the question, “By how much did employment growth miss the target growth rate?”, thereby *comparing the actual growth of employment to the target growth rate*². Where actual employment growth equals the target growth rate, all net new jobseekers would have been absorbed into employment and the employment absorption rate will equal 100 per cent.

Any employment absorption rate below the current unemployment rate will entail an increase in overall unemployment rates. If the employment absorption rate were to improve (rise towards 100, or even more), it would mean that a greater proportion of new labour force participants would be absorbed into employment than before, while a smaller proportion would become unemployed. In contrast, if the employment absorption rate were to worsen (fall towards zero or lower), a smaller proportion of labour force participants would be absorbed into employment than before, while a larger proportion would become unemployed.

The relatively rapid expansion of the Provincial labour force is evident from the Province’s higher target growth rates when compared to national data. To absorb the net increase in

¹ Mathematically, the TGR equals $\frac{EAP_{k,t+1} - EAP_{k,t}}{L_{k,t}} \times 100$, where EAP is the economically active population (or the labour force) and L is the employment level. The subscript k denotes any given subpopulation and t the period.

² The EAR is represented mathematically by $\frac{L_{k,t+1} - L_{k,t}}{EAP_{k,t+1} - EAP_{k,t}} \times 100$, where EAP is the economically active population (or the labour force) and L is the employment level. The subscript k denotes any given subpopulation and t the period.

the Province's labour force between 2000 and 2003, the Western Cape would have needed to achieve employment growth in excess of 20 per cent. This is equivalent to an average of about seven per cent a year.

As seen earlier, actual Provincial employment growth reached just 12,6 per cent over the period – half of the required rate, resulting in an employment absorption rate of 54,3 per cent according to the expanded definition of unemployment. Despite the fact that almost one in two net labour market entrants in the province was unable to find employment, these rates compare favourably with national rates (-0,5% employment growth between 2000 and 2003, and a -3,7% employment absorption rate), which indicates an inability on the part of the national economy to absorb the growing labour force³.

The usefulness of the target employment growth rate and employment absorption rate measures is that they can be calculated for specific groups within the labour force, for example, for Coloureds or for females or for Cape Town residents. This allows one to identify areas of success and progress as well as areas of concern that need further policy attention.

Figure 2 presents the relationship between desired employment growth and actual employment growth in the Province. The three columns in the figure represent the target growth rate of employment, the actual growth rate of employment and the employment absorption rate. The relationship between the target growth rate and the employment absorption rate is clarified through the inclusion of the actual employment growth rate. Thus, in the figure, the TGR (first) row divided by the actual employment growth (second) row (and multiplied by 100) gives the employment absorption rate (third) row.

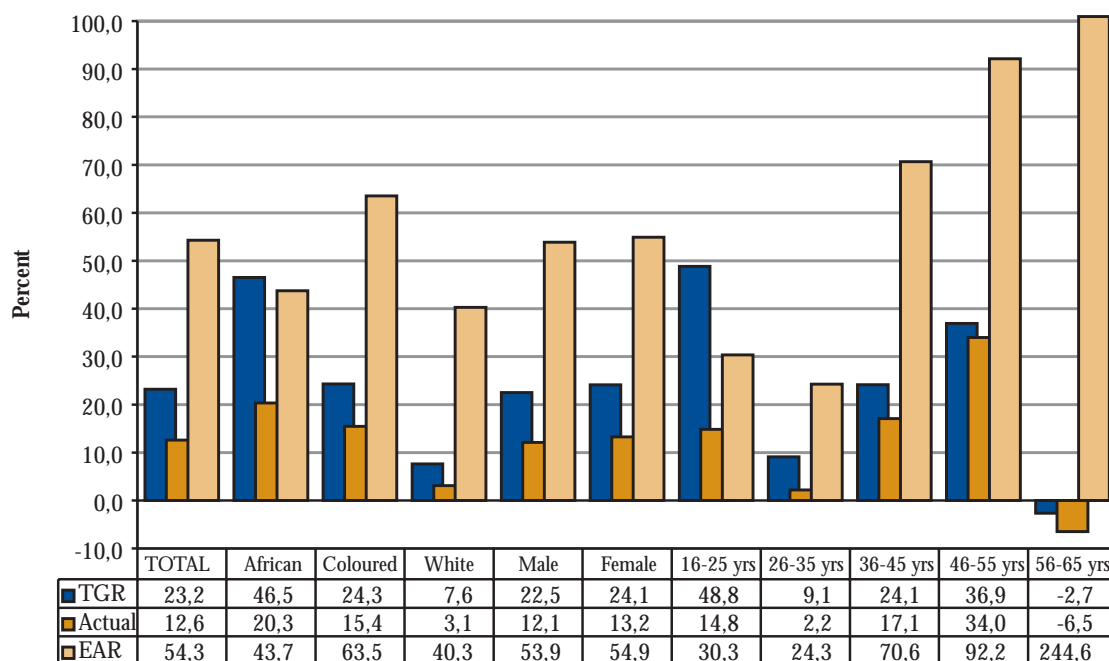
A number of interesting changes are evident. For example, the African labour force has grown rapidly, requiring employment among this group to grow by almost half to absorb new labour force entrants (the TGR is 46,5%), but the economy has been able to absorb only two-fifths of these new entrants (the EAR is 43,7%). This growth is at least in part related to the continued in-migration of Africans to the Western Cape, which is adding younger, relatively less skilled individuals to the labour force. In comparison, nearly two-thirds of Coloured net labour force entrants were absorbed into employment, while amongst Whites, employment absorption was only around 40 per cent.

While there are differences amongst the races, the experience of males and females has been virtually identical. Perhaps the most alarming trend relates to the youth as opposed to other age-groups. The youngest group within the labour force – 16- to 25-year olds – has seen relatively rapid labour force growth, but only three in 10 new entrants in this age-group were able to secure employment. At the other extreme, labour force growth amongst the oldest has been slower, with very high levels of absorption being recorded for those over

³ Although the employment absorption rates for the South African economy are negative in the table, the decline in employment is statistically insignificant, which would render employment absorption rates of zero per cent.

35 years and, in particular, for those over 46 years of age. Even amongst 26- to 35-year olds, fewer than one in four of net new labour market entrants found employment despite a low target growth rate of just over nine per cent. Clearly, therefore, there are important issues that need to be dealt with in this regard and the emphasis placed by the *iKapa Elihlumayo* strategy on the youth is not misplaced.

Figure 2 Required and actual labour market performance for the Western Cape, 2000 – 2003



[Source: Statistics South Africa LFS, September 2000 and September 2003]

As mentioned earlier, the size of the labour force is related to the size of the population between the ages of 16 and 64 years. The size of the labour force is also affected by the propensity of individuals to enter the labour market. This is essentially a behavioural change, with individuals deciding whether or not to enter the labour force based on innumerable factors, some relevant to the general population and others personal. Recent evidence from national household surveys shows that, nationally, there has been a significant increase in the propensity of individuals, particularly African females, to enter the labour force, as reflected by the labour force participation rate (LFPR) (Casale and Posel, 2002; Borhat and Oosthuizen, 2004).

Rising labour force participation rates have been observed internationally; in South Africa, this phenomenon is the result of numerous forces acting on society. One of the key reasons is certainly the opening up of the South African labour market and the elimination of racially-based restrictions on access to jobs and geographical mobility, allowing all

individuals the opportunity to engage in the labour market. The changing structure of the South African economy, with the growth of the services sectors, has both created space and stimulated demand for greater female employment. Other issues may include rising poverty that has forced individuals into the labour market in order for them to survive and support their households.

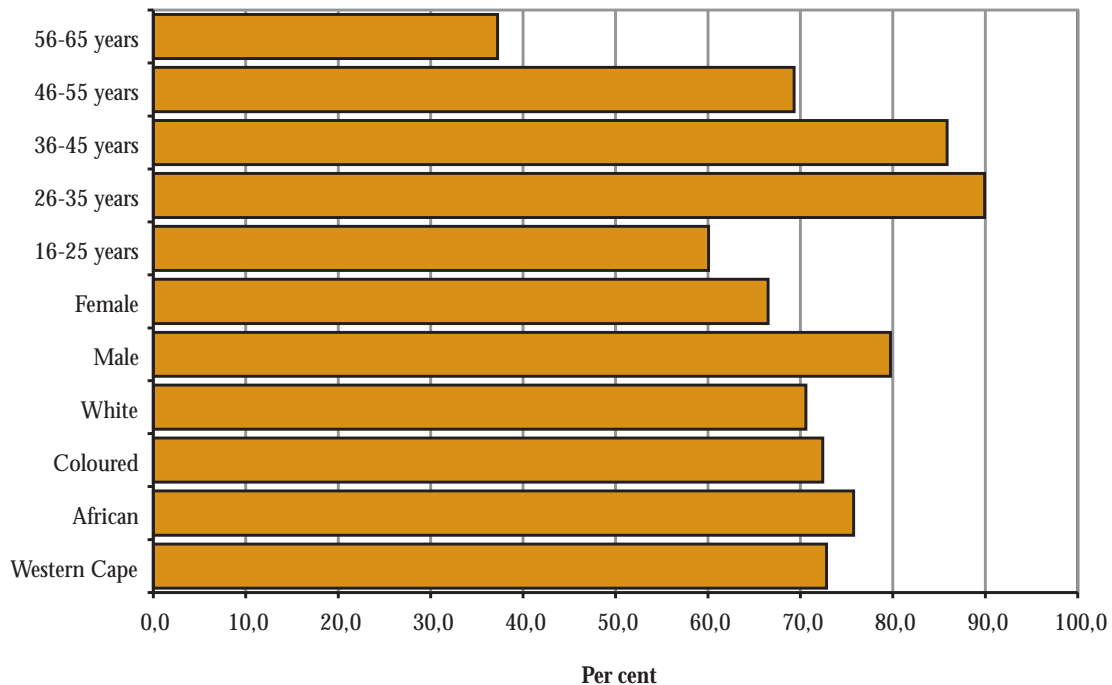
The labour force participation rate is calculated as the size of the labour force as a proportion of the number of people in the working age population (16 to 65 years). For example, if there are 17 000 employed people of working age and 13 000 unemployed people of working age, then the labour force consists of 30 000 people. If there are another 20 000 people who are outside of the labour force (neither employed nor unemployed), the labour force participation rate is $(17\ 000 + 13\ 000)$ divided by $(17\ 000 + 13\ 000 + 20\ 000)$, which equals 60 per cent.

Higher LFPR rates contribute to rapidly growing numbers of unemployed individuals, particularly in the context of the broader economy's inability to absorb new labour market entrants. At the national level, the most marked increase in participation was amongst African females (up 17 percentage points to 64%). Large increases were also recorded over the period in rural areas (up 13 percentage points to 62 per cent), largely related to the change observed amongst African females, and for 15- to 24-year olds (up 12 percentage points to 41%) (Oosthuizen and Borat, 2004).

In the Western Cape, however, labour force growth of 17,9 per cent between 2000 and 2003 is attributable to the rapid growth of the 16- to 64-year age-group, averaging 5,7 per cent per annum, more than 1,5 percentage points higher than the provincial population growth rate, with LFPR not contributing to labour force growth at all.

Figure 3 shows that almost three in four individuals (72,8%) in the Western Cape between the ages of 16 and 64 years form part of the labour force, the rest being classified as not economically active. There is relatively little difference across race groups, with African participation marginally higher than that of Coloureds and Whites. This is likely a result of differences in household incomes that allow members of wealthier households the opportunity of withdrawing from the labour force without significant deleterious impacts on their households, but it may also stem from differences in these groups' age and gender profiles.

Figure 3 Western Cape labour force participation rates, 2003



[Source: Statistics South Africa LFS, September 2000 and September 2003]

As one would expect, men are more likely to enter the labour force than women. About 80 per cent of males are labour force members, being either employed or unemployed, compared to two-thirds of females. The usual pattern of greatest engagement with the labour market amongst the middle age-groups is confirmed, with labour force participation at 85 per cent to 90 per cent amongst 26- to 45-year olds. LFPRs are lower amongst the very young (due to participation in the further and higher education system) and the very old (incidence of retirement increasing with age).

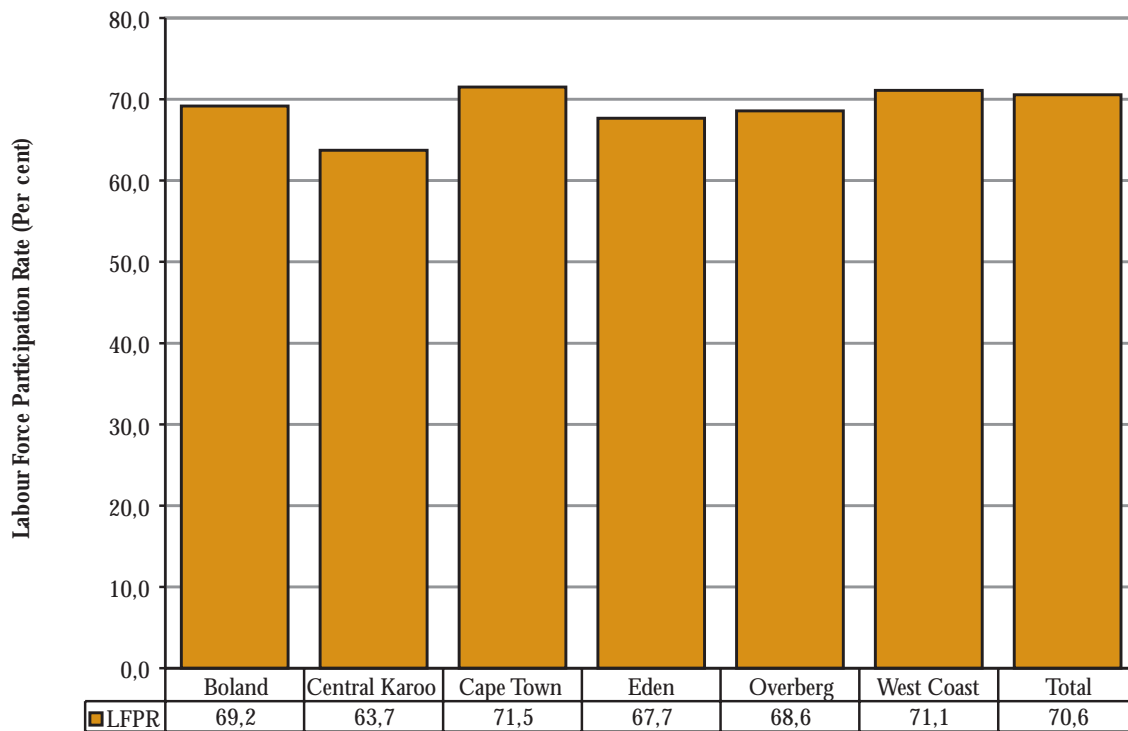
As one moves higher through the age-groups, growing proportions of individuals tend to exit the labour force due to, *inter alia*, family responsibilities or retirement. For instance, a mere 37 per cent of 56- to 65-year olds are labour force members. This result may be related to the Western Cape being a recipient of older, often retired, migrants.

In the broader national context, Gauteng and the Western Cape have the highest provincial labour force participation rates, due most likely to their urbanised nature. The only large difference observed is for 16- to 25-year olds, where the Western Cape's LFPR is more than 10 percentage points higher than the national figure. This result is somewhat concerning, given that non-participants in this age-group are most likely to be engaged in education, and therefore corresponds to the high drop-out rate in secondary schooling from Grade 10 onwards, pointing to the critical importance of the Human Resource

Development Strategy focus on improving school through-put and further education and training provision through the Western Cape.

Just as the Province differs from the rest of the country in terms of individuals' decisions to enter the labour force, so regions within the Province differ from one other. The Western Cape's five district councils – the Boland, the Central Karoo, Eden, Overberg and the West Coast – and the Province's only metropolitan area, the City of Cape Town, are each distinctive in their demographic and economic characteristics. It is therefore not surprising that labour force participation varies across regions.

Figure 4 Labour force participation rates by district council, 2001



[Source: Statistics South Africa Census 2001]

Figure 4 provides rough estimates of labour force participation rates by district council in 2001. For the Western Cape as a whole, labour force participation is estimated at just over 70 per cent. Labour force participation rates in the six regions vary between 63 per cent and 72 per cent, with participation highest in Cape Town (71,5%) and the West Coast (71,1%). In contrast, less than two-thirds of adults between the ages of 16 and 64 years in the Central Karoo are economically active, rising to 67,7 per cent in Eden. (*For information by magisterial district, refer to Appendix B*).

The broad outlines of the Western Cape labour market sketched above reveal a mixed performance that stands in contrast to the national picture. On the positive side, Provincial employment has grown at a fairly rapid pace since 2000 and employment absorption has

been relatively good by South African standards. In both instances, the Provincial performance has exceeded the national average. However, the fact that rapid labour force growth has been significantly higher than the national average means that unemployment growth in the Province has far exceeded national unemployment growth. On average, this indicates an increasing burden on employed individuals to provide for those without employment, and points to the prospect of increased inequality and a greater burden on Provincial social spending if this trend continues.

3.2. Employment and unemployment

A detailed walk through Provincial demographic and labour market trends and the performance of the Provincial labour market provides an essential backdrop against which Provincial employment and unemployment may be analysed.

3.2.1. Employment and unemployment: a national priority

Unemployment remains one of the most pressing socio-economic problems facing South Africa and one that has a myriad of linkages to other issues and problems, such as poverty, inequality and crime. Unemployment continued to increase steadily over the entire post-*apartheid* era. Nationally, in 1995, the official unemployment rate was around 17 per cent of the labour force and expanded unemployment stood at 30 per cent (Oosthuizen and Bhorat, 2004). By 2000, these rates stood at 26 per cent and 36 per cent respectively, rising further to 28 per cent and 42 per cent respectively in 2003.

Recent evidence from the LFSs, though, suggests that national unemployment rates are stabilising, if not declining slightly. Rising unemployment does not preclude the expansion of employment and, as mentioned earlier, the period 1995 to 2002 saw the number of jobs nationally grow by around 1,6-million. At the same time, employment in the Western Cape expanded by 177 000 jobs at a rate slightly slower than nationally (Western Cape, 2003: 18). In 2003, the Provincial unemployment rate was 26 per cent according to the expanded definition and 21 per cent according to the official definition.

That unemployment is not as severe in the Western Cape as it is nationally is evident from the relatively small proportion of the broadly unemployed who can be classified as discouraged work-seekers (around 5% of the labour force). In contrast, nationally, discouraged work-seekers constitute around 13,5 per cent of the labour force.

3.2.2. Composition of the employed and unemployed

Unemployment problems are typically identified through investigations of unemployment rates, with higher rates indicating the most serious problems. However, unemployment rates, although important to our understanding of labour market conditions, tend to

provide only part of the picture. In common with poverty analyses, while it is important to know which group is most often afflicted by unemployment, policy must also be informed by the knowledge of which group constitutes the largest *share* of unemployment.

Analysis in respect of *unemployment rates* and *unemployment shares* provides critical information to policy- and decision-makers in respect of government interventions to assist the unemployed. In essence, the question is whether it is preferable to focus on helping the group most often afflicted by unemployment (the group with the highest unemployment rate) or on helping the largest group of unemployed individuals (the group with the highest unemployment share). Given a stratified labour market at the national and provincial levels, this question impacts on race, gender, age and geographic or spatial area variance in employment and unemployment trends.

Probably one of the simplest ways to identify problems in terms of employment and unemployment is to compare their composition. So, groups that constitute inordinately large proportions of the unemployed relative to the employed can easily be seen to be disadvantaged, for whatever reason. The further benefit of this approach is that it gives an idea of a group's unemployment share, as well as its unemployment rate relative to the average (*national and provincial unemployment rates by race, gender and age-group can be found in Appendix A*). In situations where a group's unemployment share exceeds its employment share, that group's unemployment rate is above the average for the overall population, while the opposite is true where the unemployment share is lower than the employment share.

Figure 5 presents comparisons in respect of Western Cape employment and unemployment according to race, gender, age and education, immediately highlighting concerns in respect of Africans, females, the youth and the less educated.

Given that the Western Cape's demographic profile differs markedly from the broader national demographic profile, so too do the Province's employment and unemployment profiles differ from those at the national level, where nine in 10 unemployed individuals are African.

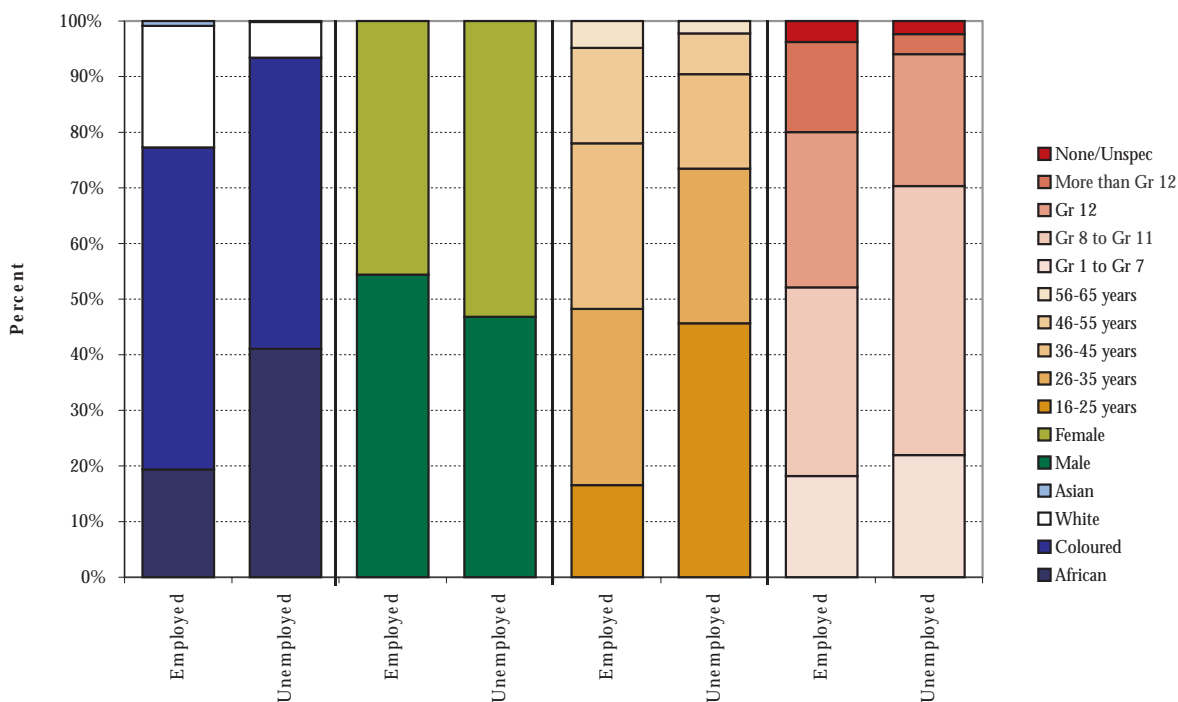
In 2003, most jobs (58%) in the Western Cape were filled by Coloureds, reflecting their demographic dominance in the Province. In contrast, Africans and Whites each constitute around one-fifth of Provincial employment.

At the same time, more than half, or 320 000, of the 612 000 Western Cape unemployed are Coloured. In contrast, at 41 per cent, Africans' share of unemployment is twice their employment share (19,4%) indicating a substantial disadvantage for Africans in the Provincial labour market. Conversely, Whites' unemployment share is around six per cent and less than one-third of their employment share (21,8%).

These patterns suggest a higher unemployment rate amongst Africans than is the case nationally, pointing to inequitable access to the Provincial labour market. Such inference is confirmed by data analysis, which shows that the Provincial unemployment rate amongst Africans was 43 per cent in 2003, compared to 48,7 per cent nationally. Within the Province, this compares to 24 per cent for Coloureds and only nine per cent for Whites. However, the rise in the African unemployment rate was, relative to the 2000 rate, slowest amongst the three race groups, at less than 10 per cent. On the other hand, the unemployment rate for Whites increased by 62 per cent off a low base (less than 6%).

Not only is employment unevenly distributed across individuals of different race groups, but it also appears that the new jobs created since 2000 were not evenly distributed. Approximately 70 per cent of net employment growth was attributable to Coloured individuals, resulting in this group slightly increasing its share of total employment. Growth in African and Coloured employment exceeded the Provincial average (around 6% off a relatively low base and 5% off a much higher base, respectively), while White employment remained constant at around 370 000.

Figure 5 Composition of the employed and unemployed in the Western Cape, 2003



[Source: Statistics South Africa LFS, September 2003]

The relatively high proportion of Africans amongst the unemployed is related to this group's skills profile and rate of in-migration. Given historical inequities in educational provision, African in-migrants tend to have a lower skills profile than other in-migrants. This trend is compounded by the fact, noted above, that the Western Cape is attracting 44 per cent of its in-migrants from the Eastern Cape, but at the lower end of the skills

spectrum, while those of a higher skills dispensation tend to migrate to Gauteng or to cities in the Eastern Cape, in particular Port Elizabeth.

These trends exacerbate already high levels of Provincial unskilled and semi-skilled labour supply at the same time that those economic sectors most dependent on such labour profile, for instance agriculture and clothing & textiles, are in decline. (*Please refer to Chapter 3 for more detail on Provincial economic sectoral performance*). The conflation of demographic factors, increased supply of low-skilled labour and reduced demand for such labour in the Western Cape has therefore led to relatively high unemployment amongst Africans in the Province.

Turning to gender considerations, more than half of all jobs (54,4%) in the Province is filled by men, but the latter constitute only 46,8 per cent of the unemployed. This employment share pattern is not unique to the Western Cape but reflects the national gender employment profile, although the Provincial gender bias is slightly less than nationally where females account for 57 per cent of the unemployed.

Recently, though, female employment growth in the Province has been marginally higher than that of males. Approximately 92 000 net new jobs accrued to women, although this is less than half the overall increase in Provincial employment. This has meant that the gap in unemployment rates between males and females has narrowed slightly. The unemployment rate for men in the Province remains lower than the Provincial average at 23 per cent, while nearly 30 per cent of women in the Province were unable to secure employment in 2003.

Perhaps the most alarming trend observed in Figure 5 is the highly unequal age composition of the employed and the unemployed. The largest groups by age within the employed are the 26- to 35-year olds and the 36- to 45-year olds, who account for 32 per cent and 30 per cent of employment respectively, approximately 62 per cent in total. These two age-groups, however, represent only 28 per cent and 17 per cent of unemployment, or around 45 per cent in total.

Of considerable concern is the dominance of young people aged between 16 and 25 years among the unemployed. Their *employment share* stands at a mere 17 per cent, whilst accounting for 46 per cent of unemployment. Viewed differently, while one in every six employed people is between 16 and 25 years old, nearly every second unemployed person is in the same age-group.

The problem of youth unemployment in the Western Cape therefore seems structural in nature and relatively more acute than it is in the rest of the country, where this group's share of unemployment was just under 40 per cent in 2003. Consequently, the Province accounts for a relatively high share of the national number of unemployed 16- to 25-year olds.

This pattern, as mentioned earlier, manifests itself in significantly higher *unemployment rates* amongst the youth. The youth labour force is split quite evenly between employed and unemployed. The unemployment rate for this group stood at 49 per cent in 2003, almost twice the Provincial average and more than twice the rate for 26- to 35-year olds (24%), which is the age-group with the second-highest unemployment rate. All other age-groups have unemployment rates below the Provincial average (23%), with the rates declining as age increases.

It should not be surprising that the general pattern of falling unemployment rates as age increases characterises the Western Cape economy, given that younger people are more likely to be experiencing frictional unemployment as they move out of the education system and into the labour market. This pattern is likely to hold to varying degrees in most economies. Younger people are also disadvantaged in securing employment in that they have little, if any, experience, a characteristic that is highly valued by potential employers. At the same time, older unemployed individuals tend to retire or exit the labour force rather than remain unemployed. What is somewhat surprising, though, is the extent of the difference across age-groups.

Recent work on the national labour market reveals the same pattern, with some evidence suggesting that the phenomenon may be at least partially driven by employment retention by older individuals, thereby making entry by younger individuals more difficult (Oosthuizen and Borat, 2004). In line with this, unemployment rates amongst 46- to 55-year olds have declined slightly, although the oldest members of the labour force – 56- to 65-year-olds – have seen surging unemployment rates (up by more than one-third on the 2000 rate). Amongst other factors, this may be related partly to older individuals increasingly needing to enter the labour force, seeking work to avert looming poverty, and partly to restructuring by firms and government where older workers are targeted for retrenchment. However, more information is required before either of these can be confirmed.

Although 26- to 35-year olds constitute the largest group within the employed, they have lost ground to older age-groups. Between 2000 and 2003, more than three-quarters of overall employment growth in the Province – 150 000 jobs – accrued to 36- to 55-year olds, increasing their employment share from 43 per cent to 47 per cent. While almost 50 000 jobs accrued to 16- to 35-year olds, most went to 16- to 25-year olds, with 26- to 35-year olds faring second-worst of the five age-groups. Employment amongst 56- to 65-year olds was, at best, stagnant. This pattern of employment change is consistent with the changes seen nationally, except for 16- to 25-year olds who, nationally, experienced the most rapid contraction of employment of all age-groups.

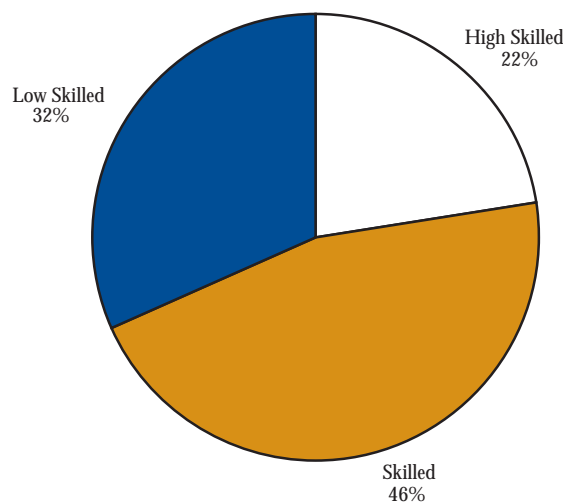
The fourth area of concern in terms of employment and unemployment trends relates to high unemployment amongst those without complete secondary education. The issues surrounding education, employment and unemployment in the Western Cape are not straightforward, though, with individuals with primary or less education seemingly not

worst off in terms of securing employment. Since an individual's level of education is a key determinant of the individual's occupation and therefore skill classification, issues surrounding these three variables are discussed together.

The long-term trend in the South African economy has been one biased towards high-skilled employment and against low-skilled employment. Nationally, the last three decades have seen skill-biased employment expansion, with more skilled workers experiencing the most rapid rates of employment expansion. This trend is evidenced in national household survey data since 1995 (Bhorat and Hodge, 1999; Oosthuizen and Bhorat, 2004).

The current distribution of employment in the Western Cape across both educational and skill categories confirms the above trend. Approximately 44 per cent of the Province's employed have at least a matric certificate and 16 per cent a post-matric qualification. A further 34 per cent have incomplete secondary education and 18 per cent have completed only primary grades (Grades 1 to 7).

Figure 6 Skill composition of Western Cape total employment, 2003



[Source: Statistics South Africa LFS, September 2003]

Figure 6 shows that 22 per cent of Western Cape employment is in high-skilled occupations, 46 per cent in skilled occupations and 32 per cent in low-skilled occupations⁴. Interestingly, the skills profile of employment in the Province is virtually identical to the national profile, although the educational profile is slightly better, with the Province having a lower proportion of workers with less than Grade 7 education (14% of Provincial employment versus 21% nationally).

Between 2000 and 2003, most of the growth in Provincial employment – two-thirds of 194 000 jobs – accrued to those with matric certificates. In the broader South African context, employment expanded rapidly amongst those with matric certificates, at an average annual rate of 9,6 per cent, representing 728 000 new jobs. Here, the Western

The skills categories used are as follows. High-skilled occupations include Managers (and Legislators), Professionals and Technicians, skilled occupations are Clerks, Service and Sales workers, Crafts workers, Operators and Skilled Agricultural workers, while low-skilled occupations include Elementary occupants and Domestic Workers. It is important to note that the skill categories do not necessarily coincide with specific educational categories, or with general perceptions of skill and education levels.

Cape created more jobs than would be expected, given its share of total and matriculant employment in 2000, accounting for 18 per cent of these new jobs. Unfortunately, the LFSs do not point to unambiguous increases in employment in any of the skill categories.

A natural assumption is to expect that individuals with the least education would be most often unemployed, given the bias towards more skilled employment. This assumption does not play out in practice. In fact, those with no education are the least often unemployed, after tertiary-educated individuals. This result is linked in particular to employment in the agriculture sector, where, according to Census 2001, more than 10 per cent of the employed lack any formal education. Those with no education also accounted for around five per cent of employment in construction, but for all other sectors the proportion ranged from one per cent to three per cent. The relative decline in the fortunes of the agriculture sector, noted in Chapter 3, is likely to hold particularly negative implications for the least educated workers in the Province, posing an important challenge to efforts potentially aimed at reskilling retrenched agricultural workers.

An important characteristic of those with no education is that they are generally older than average. For example, one-third of individuals over 15 years of age with no formal education are over the age of 55 years, although this group represents only 15 per cent of all individuals over 15 years old. In contrast, 16- to 25-year olds account for only ten per cent of those with no formal education while representing 27 per cent of those over 15 years of age. Consequently, it is likely that employment of those without formal education will decline over time as these individuals gradually exit the labour market, while education policies continue to limit the supply of uneducated and very low educated workers.

Lower rates of unemployment amongst those without formal education may also be related to the fact that better educated individuals may be more likely to hold out for a job that pays an 'acceptable' wage. Further, because the least educated individuals tend to be older, they may be more likely to exit the labour force if they are not employed than younger individuals, particularly where the individual is eligible to receive an old-age pension.

Table 4 demonstrates that both Provincial and national unemployment rates, in 2000 and 2003, are lowest amongst those with the highest educational levels, in line with the structure of labour demand that is biased in favour of higher-level skills. Amongst those with tertiary education, unemployment is just over seven per cent in the Western Cape, compared to around 13 per cent nationally. Holders of matric certificates and those with incomplete secondary education are significantly more often unemployed, with Provincial unemployment rates for these two groups at 23 per cent and 34 per cent respectively in 2003.

Although unemployment rates by educational attainment in the Province cannot be said to have changed over the period, the data does show that, in absolute terms, unemployment has increased amongst those with complete and incomplete secondary

Table 4 Unemployment rates by education level, 2000 and 2003

	2000		2003	
	WC	SA	WC	SA
None	19,5 [11,0; 28,1]	30,3 [28,4; 32,3]	19,8 [8,8; 30,7]	36,7 [34,1; 39,3]
Incomplete Primary	31,2 [26,7; 35,8]	36,6 [35,2; 38,0]	28,3 [23,5; 33,2]	43,8 [42,2; 45,4]
Complete Primary	27,6 [22,8; 32,4]	40,3 [38,4; 42,3]	32,5 [26,9; 38,0]	47,2 [45,1; 49,4]
Incomplete Secondary	27,6 [24,6; 30,6]	42,1 [41,0; 43,2]	33,5 [30,3; 36,7]	50,0 [48,8; 51,2]
Complete Secondary	19,6 [16,2; 23,0]	38,8 [37,3; 40,4]	23,1 [19,5; 26,7]	40,9 [39,4; 42,3]
Tertiary	4,3 [2,3; 6,3]	13,1 [11,7; 14,5]	7,3 [4,5; 10,2]	13,1 [11,8; 14,4]

[Source: Statistics South Africa LFS, September 2000 and September 2003]

Note: Figures in square brackets are the 95 per cent confidence intervals. Where changes over the period are statistically significant, the relevant cells are shaded.

education, a trend that is not unique to the Province. In 1995, the national unemployment rate for tertiary-educated labour market participants was seven per cent and four per cent for degreed individuals. By 2002, unemployment had risen to 15 per cent and eight per cent respectively (Oosthuizen and Bhorat, 2004). Although the table suggests that unemployment amongst tertiary-educated individuals has risen, overlapping confidence intervals on both unemployment rates and absolute numbers mean that these changes are not statistically significant.

Although the Western Cape numbers are too small to discern real changes in unemployment within these groups, it is likely that tertiary-educated individuals in the Province have seen similar changes, particularly as it seems that Provincial high-skilled employment has not expanded significantly since 2000.

Although the labour market is often quickly blamed for not producing highly educated and skilled workers in sufficient quantities, the excess supply of tertiary- and secondary-educated labour force participants seems to suggest that at least part of the problem is related to deficient labour demand – although, admittedly, there is evidence to suggest that many individuals are obtaining qualifications in ‘incorrect’ fields where labour demand is low (Bhorat, 2003).

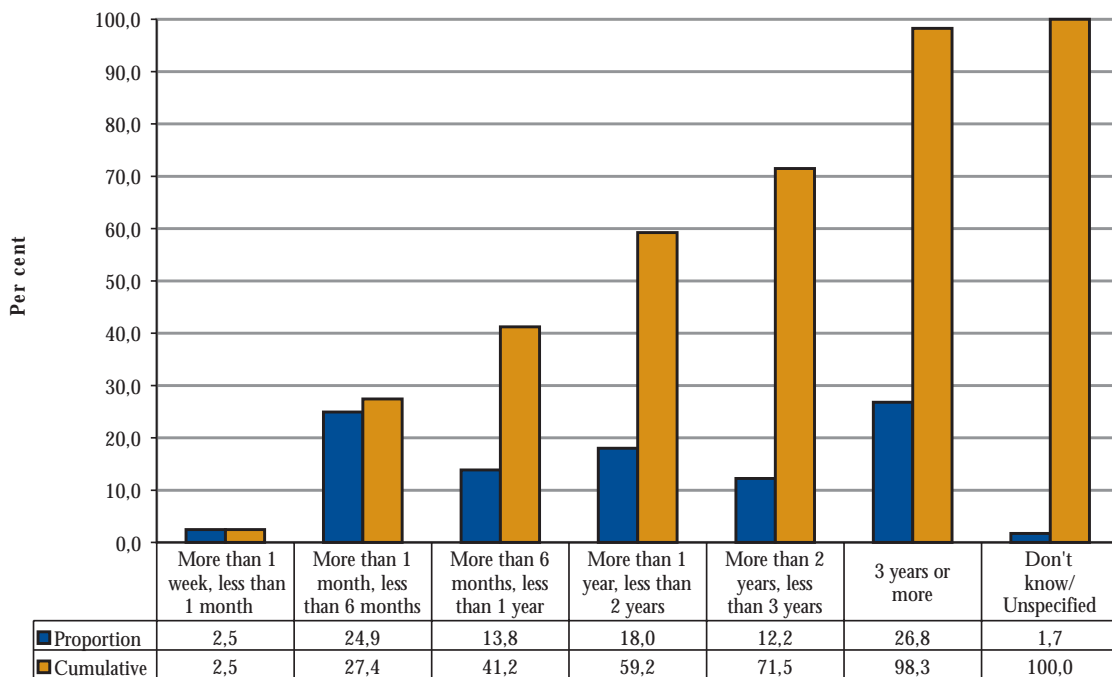
In the Western Cape, as is the case nationally, a large proportion of the unemployed who have worked before have been unemployed for long periods of time. Of the

612 000 unemployed residents of the Province (according to the expanded definition), 41 per cent or 251 000 have never worked before.

The bulk of the unemployed who have never worked before are young: 61,5 per cent are between 16 and 25 years of age, while 11,0 per cent are between 25 and 36 years. The majority (three-fifths) of the unemployed who have worked before have been unemployed for more than a year (*refer to Figure 7*). More than one-quarter (26,8%) have not worked for three years or more, while a similar proportion (27,4%) has not worked for up to six months.

This large proportion of individuals who have been unemployed for extended periods of time should be of significant concern to Government. The longer individuals remain unemployed, the more likely they are to experience an erosion of their skills and the more difficult it becomes for them to keep abreast of the latest technologies and techniques, thereby reducing their chances of finding employment even further. Long-term unemployment eventually renders individuals 'unemployable', as employers become increasingly reluctant to take them on.

Figure 7 Time since last worked, expanded unemployed who have worked before, 2003



[Source: Statistics South Africa LFS, September 2003]

Overall, total unemployment in the Western Cape measured according to the expanded definition has risen in absolute terms (the increase being statistically significant). Although

it is not possible to say with certainty that unemployment *rates* in the Province have changed between 2000 and 2003 (*please refer to Appendix A*), this should be viewed in light of the fact that, for the country as a whole, the change in the expanded unemployment rate has been upward and statistically significant, pointing to an overall superior labour market performance for the Province relative to the country as a whole.

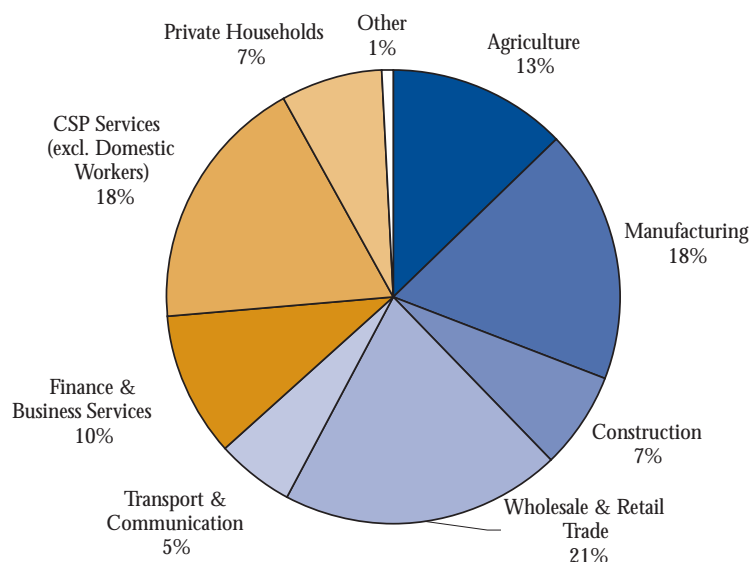
3.2.3. Sector distribution of employment

Employment (formal) in the Western Cape is dominated by four sectors – internal trade (21%); manufacturing (18%); community, social & personal (CSP) services (18%); and agriculture (13%).

Figure 8 shows that, together, these sectors account for nearly 70 per cent of total employment in 2003. Internal trade, which includes the hospitality industry, is the largest sector in employment terms, comprising one-fifth of total employment in 2003, while manufacturing and CSP services each provide 18 per cent of the Province’s jobs. Future economic conditions and employment changes in these sectors, as well as in agriculture, are likely to have a large impact on aggregate Provincial employment.

It is important to note that Figure 8 uses LFS, September, 2003 data, which is not comparable to Chapter 2’s sector employment analysis which draws on the Quatec Research database.

Figure 8 Total employment by sector, 2003



[Source: Statistics South Africa LFS, September 2003]

⁵ Economic sectors are classified as primary, secondary or tertiary according to the type of activities they represent. Primary sectors are the resource-extraction sectors, such as Agriculture and Mining. The secondary sectors are the industrial and manufacturing sectors and include Manufacturing, Electricity, Gas & Water, and Construction. The services sectors, namely Internal Trade, Transport & Communications, Finance, Community, Social & Personal Services, and Private Households, comprise the tertiary sector.

The bulk of the remaining jobs are located within three tertiary sectors⁵ – finance (10%), private households (7%) and transport & communication (5%). Provincial employment is therefore clearly dominated by tertiary (service) sectors, which account for 61 per cent of all jobs, while the secondary and primary sectors account for 26 per cent and 13 per cent of employment respectively. The distribution of Western Cape employment differs from the national distribution in that it is relatively more concentrated within the secondary sector (one-fifth of national employment as opposed to one-quarter of Provincial employment).

Unfortunately, the LFS data does not allow for an accurate sectoral breakdown of employment growth within the Western Cape. However, indications are that the tertiary sector is responsible for the generation of around two out of three net new jobs, with this growth likely to be concentrated in the internal trade and CSP services sectors. Internal trade is characterised by a relatively high level of informality, as many informal sector 'retail' activities are classified within this sector. As such, an important question, but one that is unanswerable with national household surveys due to the small sample sizes, is to what extent employment growth in this sector is derived from its informal component.

By far the largest formal sector in the Western Cape in terms of employment is the tertiary sector, which in 2003 employed over one million people (*Table 5*). The secondary sector employed approximately 441 000 people and the primary sector 224 000 people. However, the small sample size in the LFSs means that it is not possible to be certain that the estimated changes in sectoral employment found in the surveys is an accurate representation of reality. This is due to the fact that the 95 per cent confidence intervals for the two years for each sector overlap.

Table 5 Aggregate sectoral composition of formal employment, 2000 and 2003

	2000	2003
Primary Sector	194,4 [160,0; 228,7]	223,9 [189,4; 258,3]
Secondary Sector	401,6 [356,7; 446,6]	441,5 [399,6; 483,4]
Tertiary Sector	933,0 [863,2; 1 002,7]	1 064,1 [998,0; 1 130,3]
Total	1 536,8 [1 446,8; 1 626,8]	1 730,3 [1 649,4; 1 811]

[Source: Statistics South Africa LFS, September 2000 and September 2003]

Note: Figures in square brackets are the 95 per cent confidence intervals. Where changes over the period are statistically significant, the relevant cells are shaded.

Although the Provincial tertiary sector has been able to expand employment since 2000, it has not always been able to keep pace with expansion in the national economy. Provincial employment expansion has far outpaced national employment expansion in the internal trade sector (averaging 4,6% per annum, compared to 0,4% per annum nationally), but employment in the finance sector grew slightly slower in the Western Cape than it did nationally (4,6% per annum versus 5,2% per annum).

Generally, though, in the tertiary sectors that are less skills intensive (such as private households and CSP services), employment growth in the Western Cape has equalled or surpassed that of the country as a whole. Employment change in the remaining sectors, though, has been too low to be statistically significant.

3.2.4. Spatial distribution of employment and unemployment

Identifying specific race, gender and age-groups amongst which unemployment is a pressing problem is not sufficient for policy to make a real and sustainable impact on unemployment numbers or rates, nor is the identification of skill requirements and shortages. Perhaps one of the most critical variables to consider, around which many policies should be anchored, is the spatial dimension.

The unequal distribution of economic activity is not necessarily undesirable, in that it provides firms and workers with a range of advantages that promote competitiveness and continued employment respectively. However, where there is an improper match between economic and population concentrations, at whatever geographic level, whether it be local, provincial, national or international level, major problems and inequalities are sure to arise.

Figure 9 shows that the City of Cape Town is the dominant urban and economic agglomeration in the Province, accounting for 64 per cent of the Province's population in 2001. One would therefore expect a similar proportion of employment to be located in the City, or even a slightly higher proportion, depending on the extent of the metropolitan area's economic dominance. Cape Town is home to 63 per cent of the Province's employed, according to Census 2001, a proportion that may be an underestimate, given the Census' relative poor capturing of the informal sector. A further 15 per cent of employment is located within the borders of the Boland District Council and nine per cent in the Eden region. The Central Karoo accounts for the smallest proportion of employment at only one per cent in 2001.

Unemployment, however, is relatively more concentrated in the City of Cape Town (71%) as only 29 per cent of the Province's unemployed residents live outside of the metropolitan area. The Boland and Eden regions each account for 10 per cent of the unemployed. The differences in the employment and unemployment shares mean that unemployment is higher than the Provincial average in three of the six regions, namely the City of Cape

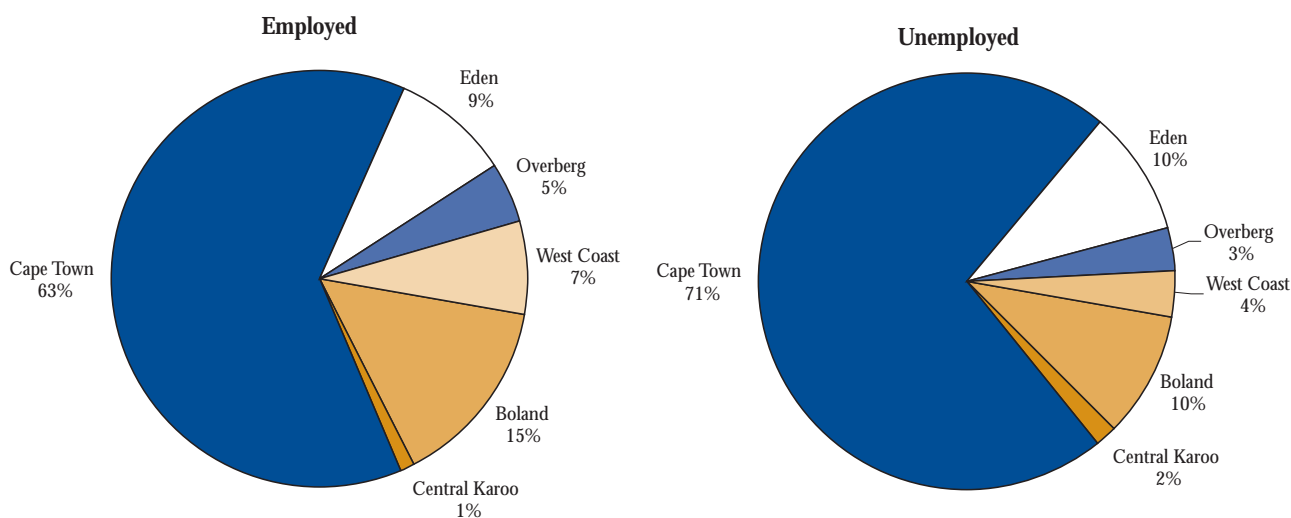
⁶ Note that, due to the less detailed questions on labour market status in the Census, the broad unemployment figures reported here are strictly not comparable with those derived from the CFSs. However, they do provide an indication of relative performance across regions.

Town, and the Eden and Central Karoo regions. The highest rates of unemployment are to be found in the Central Karoo and the City of Cape Town, where approximately 42 per cent and 31 per cent of the workforce are broadly unemployed respectively⁶. The lowest unemployment rates in the Province are to be found in the West Coast (17%), Boland (21%) and Overberg (22%) regions.

These comparisons are interesting, particularly given that labour force participation rates in the West Coast, the Boland and the Overberg regions are above or close to the Provincial average, indicating that the lower unemployment rates are not due to the withdrawal of unemployed individuals from the labour market, which would result in lower labour force participation rates.

At a further level of disaggregation, using Census 2001, three magisterial districts are home to two-fifths of the unemployed: Kuils River (16%), Mitchell's Plain (14%) and Wynberg (10%), all three of which fall within the City of Cape Town and contain the city's largest townships and informal settlements. A more detailed geographical presentation of unemployment rates by magisterial district can be found in Appendix B.

Figure 9 Spatial distribution of employment and unemployment, 2001



[Source: Statistics South Africa Census 2001]

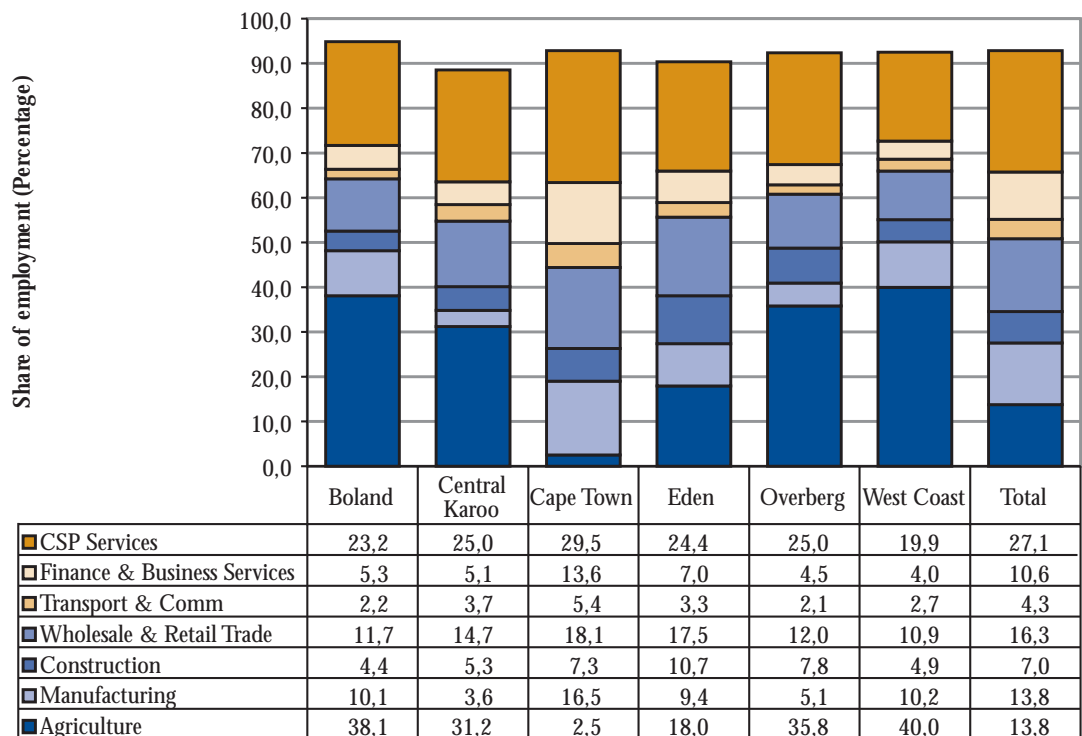
3.2.5. District economic structures

Relative employment and unemployment performances are likely to be related in some way to the economic structures of the various districts. So, for example, a district that is dominated by a declining sector or that lacks dynamic growing sectors may have higher unemployment rates than average. On a district level, the different economic structures are clearly discernible from the distribution of employment across industries as estimated from the 2001 Census and illustrated in Figure 10.

Agriculture is the main employer in four districts, namely the West Coast (employing 40% of the workforce), Boland (38%), Overberg (36%) and Central Karoo (31%). In Cape Town and the Eden district, the largest sector in terms of employment is community, social & personal services, employing 30 per cent and 25 per cent of the workforce respectively.

Each of the regions are reliant on a relatively narrow sectoral employment base. The two largest sectors in terms of employment account for three-fifths or more of total employment in the Boland, Overberg and West Coast district councils, while the three largest sectors account for 70 per cent to 73 per cent of employment in the Boland, Central Karoo, Overberg and West Coast.

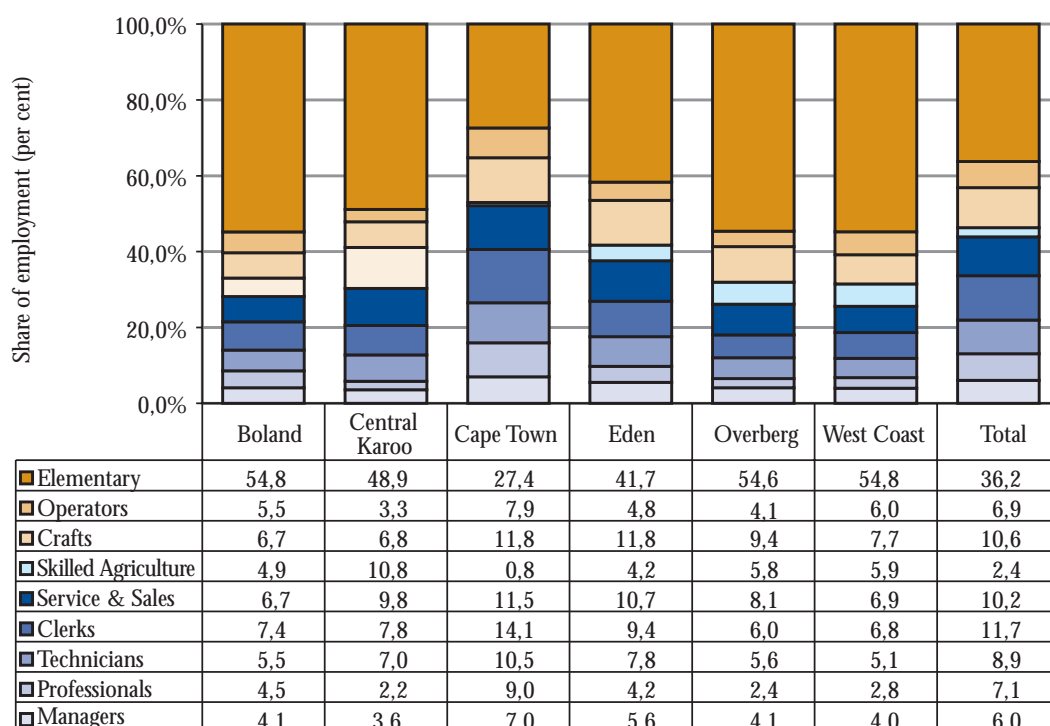
Figure 10 Sectoral distribution of total employment by district, 2001



[Source: Statistics South Africa Census 2001]

Interestingly, the district with the broadest sectoral employment base is Eden, with 42 per cent of total employment concentrated in the two largest sectors and 60 per cent in the three largest sectors. A narrow sectoral employment base means that overall employment is particularly susceptible to employment problems in these key sectors and, where the employment base is particularly narrow, concerted policy effort may be required to diversify employment where appropriate. This, however, is likely to more of a problem on a smaller geographical level than that of district council.

Figure 11 Occupational distribution of total employment by district, 2001



[Source: Statistics South Africa Census 2001]

Evidence from the 2001 Census points to the fact that the City of Cape Town has, relative to the rest of Province, a more skilled workforce (*refer to Figure 11*). Elementary occupations account for only 27 per cent of the City's total employment, compared to 36 per cent Provincially⁷. The City's urban nature means that there are virtually no workers employed in skilled agriculture occupations, while the proportions of managers, professionals, technicians, clerks, service and sales workers, crafts workers and operators are higher than for the Province as a whole.

Overall, high-skilled occupations account for 27 per cent, skilled occupations (excluding skilled agriculture) for 45 per cent and low-skilled occupations for 27 per cent of total employment. This compares very favourably to the 14 per cent, 29 per cent and 51 per cent for high-skilled, skilled and low-skilled employment in the rest of the Province.

At a district council level, therefore, it is clear that the varying performances of the economic sectors, as well as the changing profile of skills demand, will impact on employment differently. For example, if the

⁷ Note that these figures are strictly speaking not comparable to those derived from the Labour Force Survey.

agricultural sector were struggling, overall employment in the City of Cape Town would be far less affected than overall employment, say, in the Overberg region.

3.2.6. Racial distribution of employment by sector and skill level

It is important to note that employment expansion in a given sector will not impact evenly across race, gender, educational or geographic groupings. Of particular interest is the differential impact of expanding employment on the employment fortunes across races. These differences are exacerbated due to the skills inequalities between Africans, Coloureds and Whites, although the data does not allow adequate and accurate disaggregation to investigate the sectoral and occupational interactions.

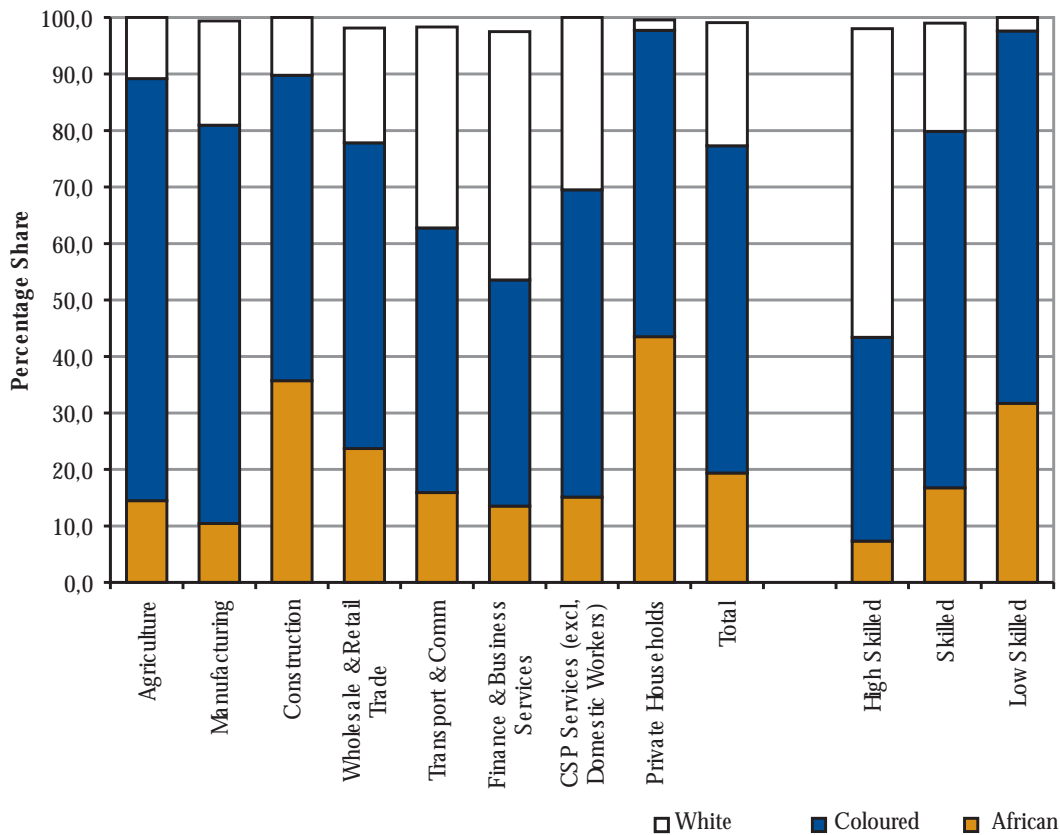
Figure 12 shows that in terms of skill, the racial composition of the workforce varied substantially in 2003. Coloureds dominate employment in all but one sector, namely finance, and constitute more than half of the workforce in six of the eight sectors. The preponderance of Coloureds within the workforce is particularly marked in agriculture and manufacturing, where they represent in excess of 70 per cent of employment.

Given the racial structure of employment by skill level, it is clear that Africans and Whites are concentrated in those sectors characterised by relatively low- and relatively high-skill requirements respectively. Africans account for the largest proportions of employment in private households (43%) and construction (36%), and represent 24 per cent of the workforce in the internal trade sector. Conversely, Whites constitute 44 per cent of the finance sector workforce, 36 per cent of employment in transport & communication and 30 per cent in CSP services.

The offshoot of this is that rapid employment growth in a given sector is likely to impact differently on the employment fortunes of the Province's three major race groups. The predicted impact becomes particularly certain over short periods in instances where there is no change in the given sector's desired skills mix of employment.

If, for example, one looks at the finance sector which expanded employment relatively rapidly over the period, it is clear that, given a stable skills mix, high-skilled workers in general and Whites in particular are likely to have benefited disproportionately. Agricultural employment growth, on the other hand, is likely to have been concentrated within low-skilled and skilled occupations, thereby expanding, disproportionately, employment amongst Coloureds disproportionately. The differential skills and, consequently, racial impacts that sectoral employment expansion often has, have important implications for inequality within the Province, an issue that is explored in greater detail below.

Figure 12 Racial distribution of total employment by sector and skill, 2003



[Source: Statistics South Africa LFS, September 2003]

3.2.7. Provincial employment and unemployment summarised

In summary, Western Cape employment growth between 2000 and 2003 has been relatively rapid but has not been high enough to absorb all new labour market entrants. Irrespective, the Province has one of the lowest provincial unemployment rates in the country at 26 per cent compared to almost 42 per cent nationally in 2003, although the pattern of unemployment reflects rather accurately the national pattern, being highest amongst Africans, females and the youth (Oosthuizen and Borat, 2004).

Employment growth has been most rapid amongst Africans, females and older age-groups (36 to 55 years), although Coloureds, males and older individuals filled most jobs. The Province is also experiencing a clear trend towards a more educated workforce, with two-thirds of net employment expansion occurring amongst holders of matric certificates and the share and levels of employment of individuals with no education, or incomplete or complete primary education, declining.

Despite this trend, in occupational and broad skill-level terms, most employment growth has occurred at the middle and lower end of the skills ladder. The tertiary (services) sector

has been the main driver of employment expansion in the Province, accounting for more than two-thirds of the provincial total increase, with internal trade and community, social & personal services the key sectors. At the same time, employment in the Province has become more formal as the informal sector shed jobs and formal sector employment grew rapidly.

Although the Western Cape is characterised by less severe unemployment rates relative to the rest of South Africa, the problem is intensifying, with 612 000 unemployed individuals living in the Province. Unemployment is most severe amongst Africans and females, while there is a very strong youth dimension to the problem, with 16- to 25-year olds accounting for close to half of all the unemployed in the Province. At the same time, the evidence suggests that, although unemployment does not necessarily decline as individuals' educational attainment rises, completing secondary and tertiary education is related to lower unemployment rates, a pattern that is also evident nationally.

Geographically, unemployment is concentrated in the City of Cape Town (unsurprisingly, given its dominance in economic and population terms) and the Boland and Eden regions, although the Central Karoo suffers from the highest unemployment rate.

The key challenges for Government are clearly addressing youth unemployment and the uneven distribution of economic activity, which results in a wide dispersion of unemployment rates on a sub-provincial regional basis.

4. Formal Sector Remuneration and Inequality

As mentioned earlier, the labour market is the key mechanism through which individuals interact with the economy. However, it is through remuneration that labour market outcomes are translated into socio-economic reality and impact on poverty and inequality within a society. By looking at formal sector remuneration, it is possible to judge different kinds of employment growth. Therefore, if all formal sector employment growth comprised of low-paying employment, we would judge it less beneficial to society than a similar level of employment growth within better paying occupations. This is because, generally, the latter will improve inequality and poverty levels, while relieving some of the pressure on Government from a welfare perspective.

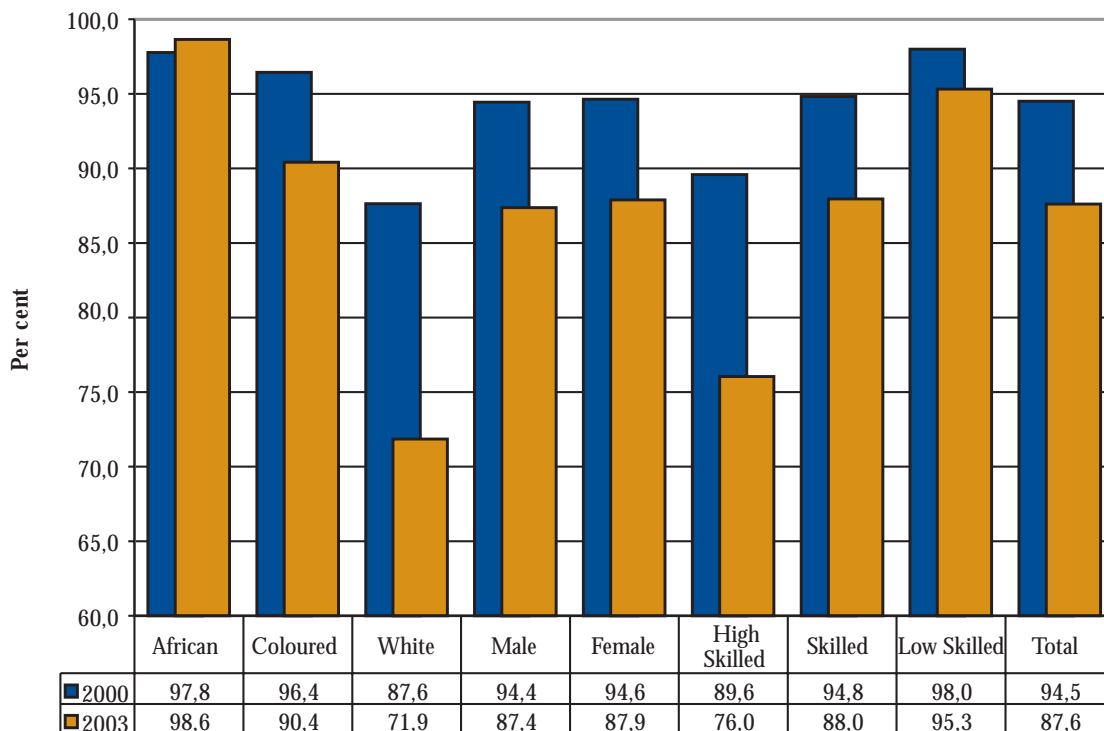
Incomes are, for various reasons, notoriously difficult to capture accurately, particularly when the survey requires individuals to provide an actual number without giving them the option of rather indicating an income band. Fortunately, though, the LFSs have allowed respondents to indicate either an actual income figure or the band in which their incomes fall. Consequently in 2000, as seen in Figure 13, only 5,5 per cent of employed individuals did not report their incomes, while in 2003 there is income data for almost 88 per cent of employed individuals.

However, closer investigation of the income data reveals that those who did not reveal their incomes were not always randomly distributed across the various categories used. Although the dispersion in the proportions of people revealing their incomes was relatively small across race, gender, skill, occupation and industry in 2000 (between six and 12 percentage points), the dispersion ranged from 19 to 29 percentage points in 2003.

The decline in response rate to the income questions was particularly marked amongst Whites, with only 72 per cent reporting incomes in 2003 compared to 88 per cent in 2000. The response rate for Coloureds also fell by more than five percentage points. On aggregate, gender seems not to influence the decision to report one's income to the survey enumerators, with response rates falling from around 94,5 per cent to 87,5 per cent for both males and females over the period.

In contrast, the skill level is negatively related to the response rate (individuals in higher-skilled occupations being less likely to report their incomes) and higher-skilled individuals have become relatively less likely to report their incomes over the period. The fall in the response rate for high skilled workers was 13,5 percentage points, compared to declines of seven and three percentage points for skilled and low-skilled workers respectively.

Figure 13 Proportion of formal sector employed respondents reporting incomes



[Source: Statistics South Africa LFS, September 2000 and September 2003]

The discernment of remuneration trends is complicated by the apparently uneven incidence of non-responses across groups. However, skill levels and remuneration are closely related and it is therefore possible to identify the likely impact that the non-responses will have on the distribution of workers across the income categories.

In general, higher income categories are likely to be under-represented relative to lower income categories, given that non-responses are most common amongst high-skilled workers. This fits in with the fact that non-responses are lowest, and have fallen most, amongst Whites. Keeping this in mind, remuneration trends of formal sector workers are investigated below.

An individual's income is closely related to his or her occupation or skill level and it is therefore important, in the analysis of remuneration trends and inequality, to investigate the distribution of skills within the population.

Skills are highly unevenly distributed both nationally and within the Western Cape. Amongst those employed in the formal sector, Whites account for close to 54 per cent of the high-skilled, compared to their 22 per cent share of total formal sector employment. In contrast, while Africans constitute slightly more than 17 per cent of the employed in the Province, more than 28 per cent of the low-skilled are African. Coloureds are over-represented in the skilled and low-skilled occupations.

This distribution, however, is likely to be less biased than the overall distribution if one includes both formal and informal sector employment and unemployment, the latter two being characterised by larger proportions of lower-skilled Africans and Coloureds.

Table 6 Racial shares of formal sector employment by skill level, 2003

	African	Coloured	White
High-Skilled	6,4	38,3	53,7
Skilled	15,2	64,4	19,7
Low-Skilled	28,4	69,4	2,2
Total	17,3	59,9	22,1

[Source: Statistics South Africa LFS, September 2003]

The effect of *apartheid* and decades of discrimination and unequal access to educational and employment opportunities have left a clear mark on the remuneration structure of formal sector employment across the race groups.

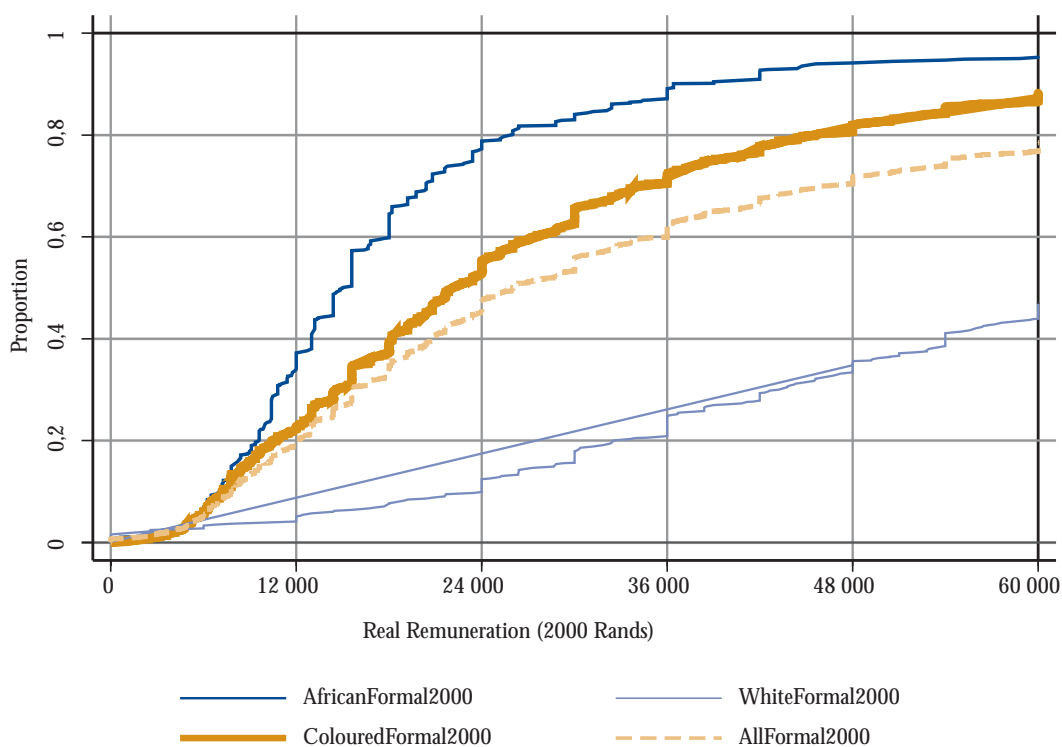
Figure 14 presents cumulative real income distributions for formal sector workers by race in 2000, and includes only those formal sector workers who reported incomes.

Interpretation of these lines is relatively straightforward. Each line indicates the proportion of people that earn less than a given amount, the amount being displayed on the horizontal axis and the proportion on the vertical axis. So, for example, approximately 20 per cent of formal sector workers (who reported their incomes) earned no more than R12 000 per year (or R1 000 per month) in 2000. Amongst African formal sector workers, this proportion was almost twice as high at around 35 per cent, while only around five per cent of White formal sector workers earned this amount.

Taking another income level as a reference point, close to 90 per cent of African formal sector workers earn no more than R36 000 per annum, compared to around 25 per cent of White workers. In fact, this is true of all income levels: the proportion of African workers earning less than a given amount in 2000 is always less than the proportion of White workers earning less than that amount.

Graphically, what this means is that the line for Africans in 2000 is always above that of Whites for 2000. Generalising this, if one group's line is always above another group's line, the first group is worse off (in terms of income) than the second group. Therefore, irrespective of what income level is used as reference, White formal sector workers are significantly better off than their Coloured counterparts, who in turn are better off than their African counterparts.

Figure 14 Cumulative real income distributions for formal sector workers, by race, 2000

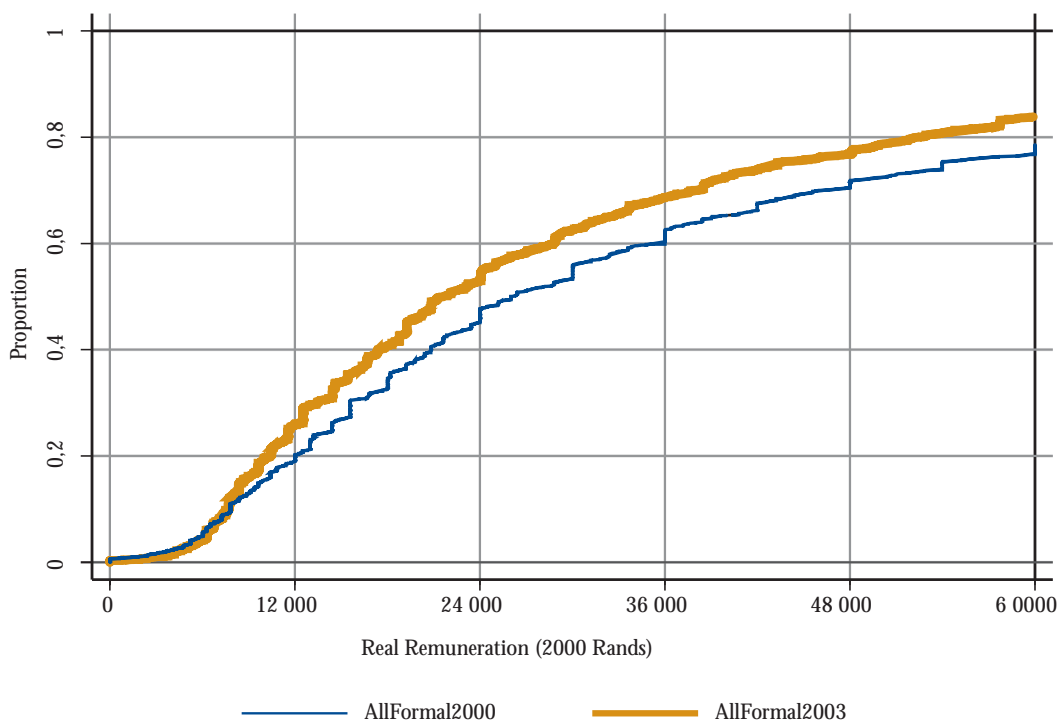


[Source: Statistics South Africa LFS, September 2000.]

At the top end of the formal sector remuneration distribution, only 5,5 per cent of Africans earned more than R60 000 per annum in 2003 (in 2000 rands), compared to 18,6 per cent of Coloureds and 62,0 per cent of Whites. Given that higher skilled workers and Whites have been found to not report their incomes more often than other workers, it is likely that the proportion of Whites earning over R60 000 per annum is even higher. In 2003, therefore, the inequalities in the Western Cape in terms of formal sector remuneration are large, with White individuals accounting for 54,6 per cent of all formal sector workers earning over R60 000 per annum and 55,7 per cent of those earning over R100 000 per annum.

Just as it is possible to compare race groups, it is also to compare skill categories or groups over time. In Figure 15, the cumulative real income distributions for formal sector workers in 2000 and 2003 are presented. Incomes for 2003 were deflated by the consumer price index for this period. What the figure shows is that the line for 2003 is below that of 2000, which, if we compare it with what has been said about the race groups in Figure 14, seems to indicate that formal sector workers are worse off in 2003 than in 2000. Unfortunately, it is impossible to tell whether this is an actual upward movement of the curve, or whether it has been caused, at least partially, by the increase in the number of individuals who did not report their incomes in 2003 and are likely to be located near the top of the income distribution (as mentioned, in 2003, more than 12% of formal sector workers did not report their incomes as opposed to 5,5% in 2000).

Figure 15 Cumulative real income distributions for formal sector workers, 2000 and 2003



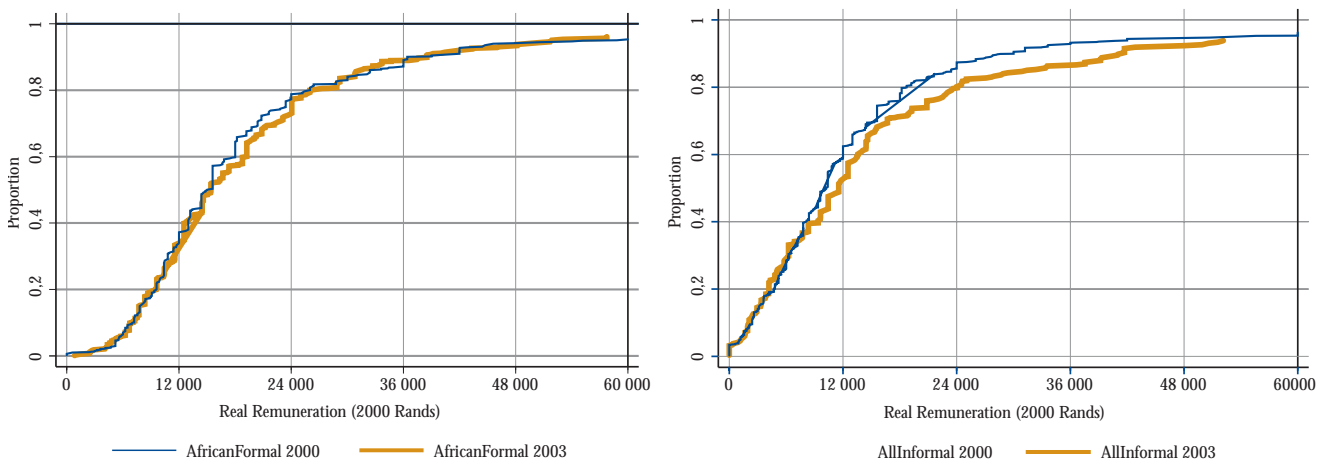
[Source: Statistics South Africa LFS, September 2000.]

Nevertheless, certain groups were relatively less affected by the rise in non-reporting of income, and comparisons of the 2000 and 2003 cumulative income distributions will therefore be more reliable. Specifically, Africans were actually more likely to report their incomes in 2003 than in 2000, and non-reporting amongst non-skilled workers fell by less than three percentage points.

In the left-hand panel of Figure 16, it is clear that the distribution of formal sector real remuneration amongst Africans has hardly changed over the period at all, indicating that they are neither better nor worse off as a group in 2003. In contrast, however, amongst low-skilled workers (the right-hand panel), there appears to have been a deterioration in the real earnings profile between 2000 and 2003.

Most interesting, though, is the fact that the distributions are almost identical at the lowest income levels. This means that the lowest paying low-skilled jobs in the formal sector have been relatively successful in warding off decreases in their real incomes, while others have not. This may be related to minimum wage legislation and the regular inflation adjustments made by government. However, the figure indicates a significant worsening in the plight of low-skilled formal sector workers generally, with a particularly substantial increase in the proportion of workers earning between R6 000 and R12 000 per annum (R500 to R1 000 per month).

Figure 16 Cumulative real income distributions for African and low-skilled formal sector workers, 2000 and 2003



[Source: Statistics South Africa LFS, September 2000.]

Although cumulative income distributions can be powerful tools in the analysis of differing income distributions across time periods, they are rendered relatively useless by the systematic changes in non-response rates in the surveys.

One alternative is to look at the actual numbers of formal sector workers in specific remuneration categories. That way, at least, it is possible to see the changed distribution of workers across remuneration categories over time.

This data is presented in Table 7 and suggests a rapid increase in the number of workers in the lowest remuneration categories. However, there are only two categories where the confidence intervals do not overlap, allowing a high degree of certainty as to the change experienced. First, there has been a substantial increase in the number of formal sector workers earning up to R6 000 per annum (or up to R500 per month). Secondly, there has been, as was mentioned, a large increase in the proportion of non-reporters.

Improvements in remuneration are of greatest concern amongst those earning the least and who are most often low-skilled workers. Fortunately, the remuneration situation amongst the workers with the lowest skill levels is the most clear-cut, given that almost all low-skilled workers provided remuneration information for 2003. Unfortunately, the data

Table 7 Remuneration of formal sector workers, 2000 and 2003

Remuneration (2000 Rands)	Number of workers	
	2000	2003
Up to R6000	214 948 [183 243; 246 653]	320 337 [280 486; 360 188]
R6001-R12000	153 326 [127 682; 178 969]	195 490 [169 953; 221 027]
R12001-R24000	233 056 [205 362; 260 751]	279 031 [245 612; 312 449]
R24001-R48000	231 545 [194 836; 268 254]	230 130 [199 645; 260 614]
R48001-R96000	181 685 [146 453; 216 917]	158 511 [129 954; 187 069]
R96001 +	114 086 [81 719; 146 454]	82 629 [61 160; 104 098]
Unspecified	62 248 [41 259; 83 238]	192 335 [157 590; 227 080]
Total	1 190 895 [1 108 890; 1 272 899]	1 458 462 [1 376 517; 1 540 407]

[Source: Statistics South Africa LFS, September 2000]

Note: Figures in square brackets are the 95 per cent confidence interval

points to a worsening in the distribution of formal sector remuneration in real terms amongst low-skilled workers between 2000 and 2003, and although the proportions of individuals earning incomes of up to about R6 000 per annum have remained stable, the absolute number of formal sector workers earning below R6 000 has increased substantially, and this change is statistically significant.

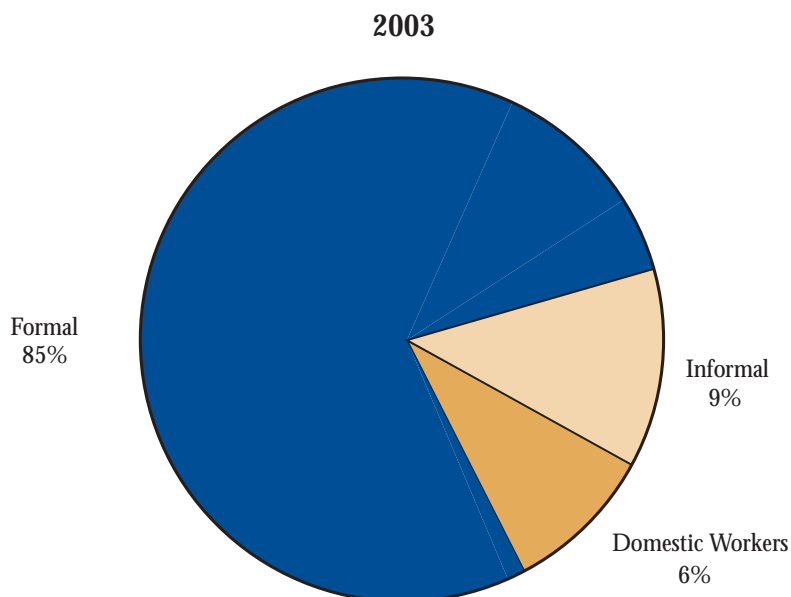
5. Informal Sector

5.1. Employment in the informal sector

The informal sector has been credited with creating a substantial proportion of all new jobs in the South African economy since the early 1990s. Unfortunately, apart from the informal sector being notoriously difficult to quantify, the OHS of 1995 was not structured in such a way as to allow the derivation of informal sector employment levels in that year. Later OHSs were increasingly well designed, allowing them to identify informal sector employment better.

This means that comparisons are very difficult, because it is impossible to quantify how much of the rise in the estimates of informal sector employment was due to the better questionnaire, and how much was real growth of the sector. The advent of the LFSs has facilitated the analysis of employment change in this sector, and conclusions reached are more reliable than in the past.

Figure 17 Composition of Western Cape Total Employment, 2003



[Source: Statistics South Africa LFS, September 2000 and September 2003]

Table 8 provides estimates of the relative sizes of Western Cape's formal and informal sectors in 2003. Domestic workers are neither truly formal sector nor informal sector and they are therefore presented separately, totalling 100 000, or six per cent, of all Provincial jobs.

Based on these figures, it appears that around nine per cent of all Western Cape jobs were found in the informal sector, a proportion that was substantially lower than one-quarter of all jobs for the country as a whole. Although the proportion declined from around 14 per cent in 2000, the actual figures are not statistically different from each other and it is therefore not possible to say for certain that the informal sector has declined over the period. The Province's formal sector, on the other hand, has performed extremely well according to the LFSs, creating 268 000 net new jobs at an average annual rate of 7,0 per cent, raising the formal sector's share of total employment. While a similar pattern of formal sector growth is evident on a national scale, it has been less rapid at 3,4 per cent per annum.

The informal sector, as mentioned, is a difficult sector to quantify. Its activities are varied and range from manufacturing to roadside retail to subsistence agriculture. Technically, the informal sector even includes illegal activities such as prostitution and the illegal drug trade, although these are unlikely to be picked up in household surveys. By 2003, the informal sector employed 2,2-million workers or roughly 20 per cent of total employment in South Africa. In the Western Cape, the informal sector is small relative to the rest of the country, accounting for only 9,3 per cent of Provincial employment, or 161 000 workers.

Africans and Coloureds dominate the Provincial informal sector. Each group accounts for almost two-fifths of employment. Approximately 31 000 Whites are engaged in informal sector activities and in 2003 represented around 19 per cent of informal sector employment. The nature of the activities engaged in seems differentiated by race if the skills distribution is considered. The bulk of African informal sector employment is low-skilled (57%) with one-third in skilled occupations. For Coloureds, skilled workers dominate the skills distribution (50%), with nearly two-fifths being low-skilled. In contrast, while relatively few Whites are engaged in the informal sector, those who are tend to be engaged in high-skilled occupations: two-thirds of White informal sector workers are high-skilled. African and Coloured informal sector workers are, therefore, likely to be engaged in relatively low-productivity, low-paying activities.

In-depth analysis of the Provincial informal sector using the national household surveys is very difficult due to the small number of observations, and Figure 18 presents the cumulative informal sector real remuneration distribution for the Western Cape. Once again, the picture is clouded by the increase in the number of individuals who did not report their incomes – 6,6 per cent in 2000 and 11,5 per cent in 2003.

Table 8 Racial distribution of informal sector employment, 2003

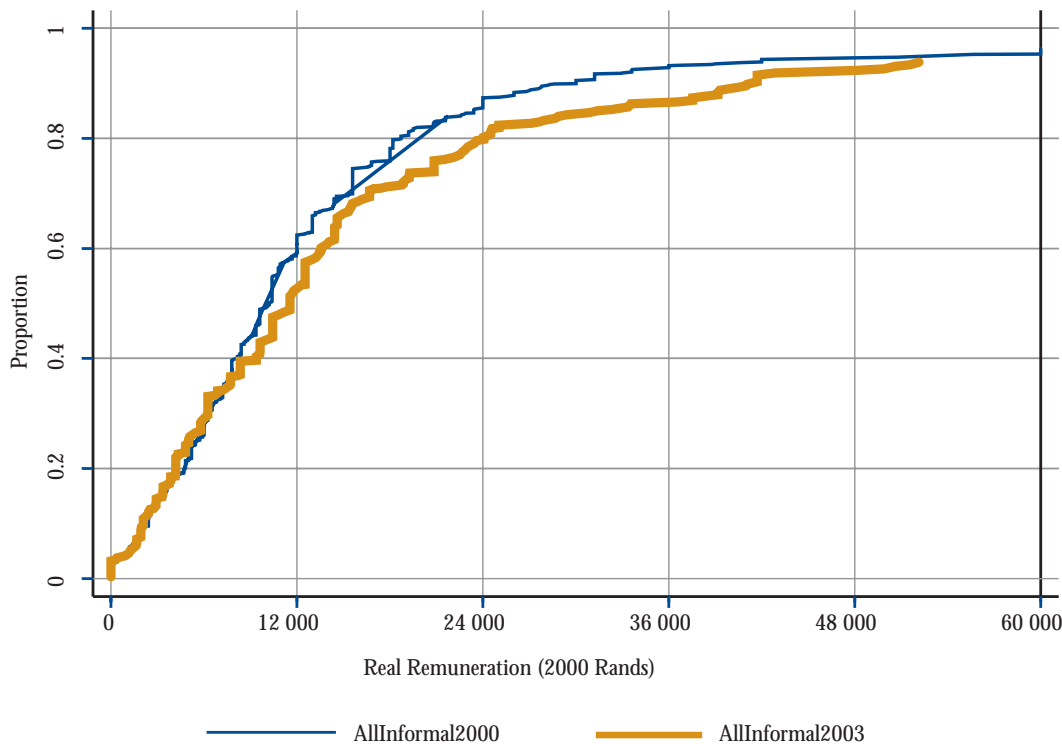
	African		Coloured		White	
	Number ('000s)	Share (%)	Number ('000s)	Share (%)	Number ('000s)	Share (%)
High Skilled	5,1*	18,4*	2,1*	7,6*	18,8	66,7
Skilled	23,1	32,7	35,2	49,8	9,6*	13,5*
Low Skilled	35,4	57,3	24,0	38,9	2,4*	3,8*
Total	63,8	39,7	61,5	38,2	30,8	19,1

[Source: Statistics South Africa LFS, September 2003.]

Note: Figures marked by an asterisk (*) are too small to draw conclusions from.

Figure 18 appears to provide some evidence that informal sector incomes are somewhat higher in 2003: the proportion of workers earning up to R12 000 per annum (R1 000 per month) has decreased and the curve as a whole for 2003 seems to have moved lower, indicating an improvement. Comparisons of the informal sector remuneration structure and that of the formal sector reveal, as expected, that informal sector employment is significantly lower paying than formal sector employment. For example, around 20 per cent of formal sector workers who reported their incomes in 2000 earned up to R12 000 per annum, compared to around 60 per cent of informal sector workers.

Figure 18 Cumulative Real Income Distributions for Informal Sector Workers, 2000 and 2003

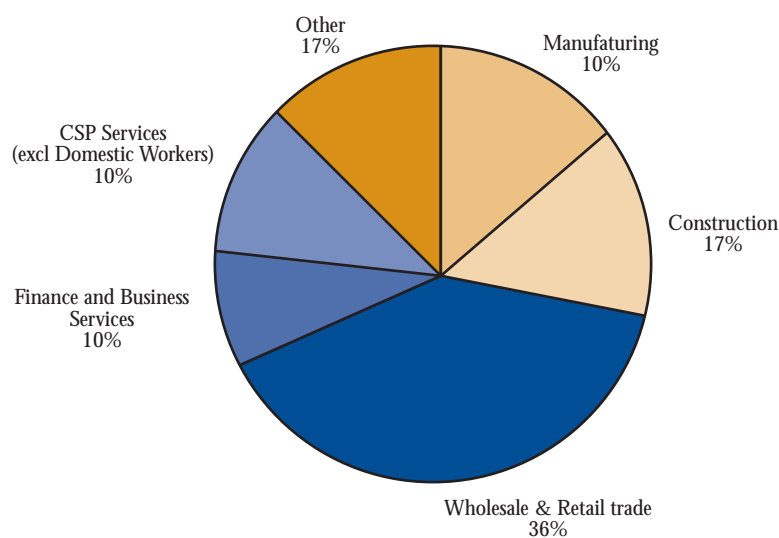


[Source: Statistics South Africa Labour Force Survey, September 2000 and September 2003]

It appears that more than half of informal sector employment is concentrated in two economic sectors, namely internal trade (36%) and construction (17%). Three other sectors account for 10 per cent of informal sector employment each, namely manufacturing, finance and CSP services. Of these five major sectors, three are services sectors, while the other two are secondary sectors.

The fact that a large proportion of informal sector employment is located in the services sectors is encouraging, since it is these kinds of sectors that are most accessible to women. It is clear that further study of the Province's informal sector is required, particularly on issues surrounding the longevity of informal sector businesses, the extent to which informal businesses make the transition to the formal sector, and the factors promoting and retarding the process of formalisation.

Figure 19 Sectoral distribution of informal sector employment, 2003



[Source: Statistics South Africa LFS, September 2003.]

Although the informal sector appears to have shrunk in both absolute terms and relative to the rest of the Provincial economy if one looks at employment, the LFS are unable to provide conclusive evidence of this. On the surface, such a decline, if real, may seem to be a positive development in that there are fewer individuals employed in low-paying, unprotected informal sector jobs. However, it is essential that the processes underlying this change be better understood. Is there a process of formalisation underway, with informal businesses moving into the formal sector, thereby creating the illusion of a shrinking informal sector? Or is the formal sector growing while the informal sector is being throttled?

Whatever the situation, one of the most important considerations is the impact of these changes at individual and household levels. In this regard, it is important to ascertain whether individuals previously employed in informal businesses are being re-employed in the formal sector or whether they merely become unemployed while others are employed in the formal sector. The answer to this question has important implications for poverty levels and inequality in the Province.

In terms of the structure of informal sector remuneration, the bias is, unsurprisingly, towards lower income categories, and it is particularly pronounced when compared to the structure of formal sector remuneration. Such a distribution is likely to have negative consequences for inequality within the Province. Further, although it is not possible to accurately gauge directly, the racial and skills composition of informal sector employment points to the likelihood that Africans are most likely to be earning incomes at the lower end of the informal sector remuneration distribution, while Whites are likely to be earning incomes at the top end of the distribution, with Coloureds to be found somewhere in between. Clearly, this situation can only compound past inequalities.

Small, Medium and Micro Enterprises (SMMEs) ⁸

A sector that has received much attention recently is that of smaller businesses, referred to as small, medium and micro enterprises, or SMMEs. This sector is a highly heterogeneous group, cutting across industries and the formal-informal sector divide, and varying in size, turnover and purpose, amongst other things. SMMEs are relatively difficult to accurately quantify accurately due to the fact that many registered firms are not actively trading and many active firms are not required to register for VAT purposes (for example, firms with VAT turnover of less than R300 000). However, it is believed that there are between 1,8-million and 2,6-million trading small businesses in South Africa.

Of the formal sector SMMEs, approximately 46 per cent are located in Gauteng and 18 per cent in the Western Cape. It is estimated that there are around 336 000 owner-managers in the Western Cape in 2003, who are starting or running 189 000 businesses. Established businesses are in the minority (23 000) representing 12 per cent of businesses in the Province, while 100 000 (53%) are start-ups and 67 000 (35%) are new businesses⁹. Compared to the national figures, small businesses in the Western Cape are less likely to be established businesses.

Table 8 shows that the contribution of SMMEs to overall employment is considerable. Excluding owner-managers, SMMEs account for 21 per cent of total Provincial employment and this proportion nearly doubles to 40 per cent if owner-managers are included. Apart from the owner-managers, new businesses employ 2,3 people on average nationally and 2,4 people on average in the Western Cape.

⁸ This section draws heavily on Orford and Wood (2004).

⁹ The GEM survey classifies businesses into three categories according to their level of development. Start-up businesses have paid wages/salaries for less than three months, new businesses have paid wages/salaries for three to 42 months and established businesses have been paying wages/salaries for more than 42 months.

For established businesses, the gap between the national and Western Cape is substantial, with 4,5 and 8,1 additional people employed respectively. The low propensity of start-up businesses to employ additional workers apart from the owner-manager is clear from Table 9, with one additional worker employed for every 10 owner-managers. However, older businesses employ significantly more additional workers, with each owner-manager of an established business employing about 19 additional workers on average, a clear indication of the importance of setting up a policy framework that will promote the development of businesses from start-ups to established businesses. In fact, “welfare gains will be maximised by increasing survival rates amongst businesses rather than by increasing the start-up rate” (Orford and Wood, 2004).

Table 9 SMMes’ contribution to provincial employment, 2003

	Excluding Owner-Managers		Including Owner-Managers	
	Number	%	Number	%
Start-ups	21 000	6	229 000	33
New businesses	157 000	43	249 000	36
Established businesses	183 000	51	221 000	31
Total	362 000	100	698 000	100
Proportion of 2003 total employment		21 %		40 %

[Source: Orford and Wood, 2004, and own calculations.]

There are two main reasons for starting up a small business: first, a business may be started to take advantage of some opportunity that exists in the market or, secondly, an individual may have no other option but to start some kind of business in order to support themselves and their families. Accordingly, SMMes are either opportunity-motivated or necessity-motivated, and these two groups of businesses are likely to be quite dissimilar in their characteristics and requirements.

Intuitively, though, necessity-motivated businesses are likely to be engaged in less productive, lower remunerating activities than opportunity-motivated businesses. Necessity is more likely to motivate women in the Western Cape than men when starting businesses, while Whites and Coloureds most often found opportunity-motivated businesses. Amongst businesses started by African entrepreneurs, though, necessity and opportunity motives are equally prevalent. As a result, one can expect that the returns on their businesses for Africans and females will be lower than for Whites, Coloureds and males. In terms of income inequalities in the Province, this pattern is likely to reinforce the inequalities inherited from the *apartheid* era.

Efficiently targeted policy requires the identification of entrepreneurs: who starts businesses? Men are 1,4 times more likely than women to be self-employed, with the September 2003 LFS estimating that 6,8 per cent of men between the ages of 15 and 65 years are self-employed. However, this average is biased by the gender profile of African entrepreneurs, amongst whom women are just as likely as men to be self-employed. Amongst Coloureds, Asians and Whites, males are three times more likely than females to be self-employed, on average.

According to the GEM survey, in South Africa approximately eight per cent of men between the ages of 16 and 64 years are either starting up or operating existing businesses, as are 5,5 per cent of women, making men 1,5 times more likely than women to be doing so. The difference in propensity to start up or operate a

business between men and women is slightly more pronounced in the Western Cape than it is nationally, with men's likelihood being 1,7 times that of women. Provincially, in terms of race, Whites are most likely to be owner-managers than other groups (16% of individuals aged 16 to 64 years), compared to less than six per cent of Africans and nine per cent of Coloureds.

The gap between Whites and non-Whites seems to be related to the age of the business: the ratio in the Province rises from 2,0 times in start-ups to 5,1 times in new businesses and 5,7 times in established businesses. At the same time, individuals in possession of matric certificates are more likely to be owner-managers than individuals without. The former are twice as likely as the latter to be involved in start-ups, and this ratio rises to 2,3 times in new businesses and 20,7 times in established businesses.

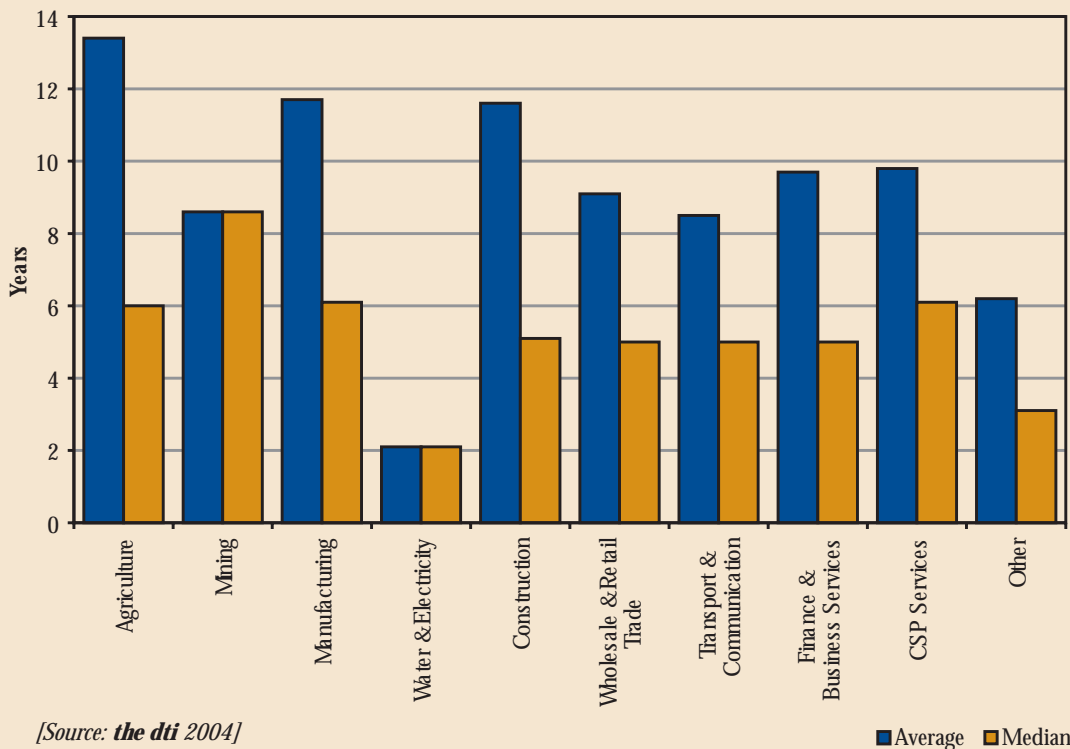
Owner-managers with matric certificates also tend to employ more additional workers than those without (**the dti**, 2004). Finally, 25- to 34-year olds in the Province are most likely to be involved in start-up and new businesses, while 45- to 54-year olds are most likely to be engaged in established business activities.

The survival of small businesses is to be seen as a key criterion according to which pro-SMME policy can be judged, as well as being crucial to the expansion of employment in this sector. Although it is not possible to track small businesses accurately over time at a national level, the Western Cape is fortunate to have a relatively good source of information on small business survival in the form of the Regional Services Council (RSC) Levy data for the Cape Town Unicity, containing 40 000 accounts of businesses and institutions paying the levy. While almost 4 000 new levy-payers are added to the database annually, equivalent to about one-tenth of the total, a similar number is dropped due to de-registrations, liquidations or dormancy (**the dti**, 2004). On average, though, the database grows by between one per cent and four per cent per year, a range that may be under-estimated due to the inclusion of low turnover institutions such as schools and hospitals.

The RSC Levy data is also able to provide information on the ages of around 2 500 de-registered or dormant firms, as seen in Figure 20 below. Those firms with the longest lifespans are generally found in agriculture (13,4 years), manufacturing (11,7 years) and construction (11,6 years). At the other end of the scale, firms that do not survive for very long tend to operate in transport & communication (8,5 years), internal trade (9,1 years) and finance (9,7 years). **The dti** (2004) finds that the most vulnerable firms, as defined by being those with the shortest average lifespans, are restaurants and businesses operating in the leisure and information technology sub-sectors, where the average lifespan is, at most, between four and five years.

What seems to be clear from **the dti's** analysis is that, irrespective of age, small businesses face an important challenge in the instability of their turnover from year to year. In fact, "[stability] is the least probable scenario [and] even older enterprises rarely maintain their turnover in a +/- 5% range". This is identified as one of the major differences between SMMEs and large businesses. The evidence suggests that while younger firms tend to grow fastest (possibly related to low bases), older firms are often able to grow their turnover by more than 25 per cent. Similarly, a firm's age does not seem impact on likelihood that it would experience significant declines in turnover.

Figure 20 Average lifespan of deactivated accounts by main sector, Cape Town



[Source: *the dti* 2004]

This brief overview of SMMEs points to several focus areas for policy. First, it is evident that steps need to be taken to encourage individuals to establish small businesses and raise the rate of participation in this sector. Clearly, though, quality should not be sacrificed for quantity, and policy should seek to promote the most viable and sustainable forms of small business activities where possible. The Province's Human Resource Development Strategy is also key in this regard, as it should help to foster entrepreneurial talents and help to equip individuals to identify opportunities.

Secondly, the differences between established businesses on the one hand and new and start-up businesses on the other in terms of employment are substantial, and this clearly illustrates the importance of ensuring that younger businesses reach the established phase of development. In order to do so, it is essential that policy-makers are informed of the key factors that lead to the failure of younger businesses, as well as those factors that act as constraints on employment expansion amongst established businesses.

Thirdly, not only is participation in the SMME sector uneven across gender and race groups, but females and Africans are more likely than others to engage in necessity-motivated business activities. Lower participation in the sector by females and Africans must be seen in the light of higher unemployment rates for these groups in the Province, and their participation in small business activities ought to be promoted. The fact that female and African participation in this sector is more often motivated by necessity has important implications for the SMME sector's impact on overall income inequality within the Province, and likely services to exacerbate the existing income inequalities.

6. Conclusion

The labour market challenges facing the Western Cape labour market are clear. The labour force is likely to experience continued growth as the number of young individuals joining the working age population exceeds the number of older individuals leaving this group. Further, migration is likely to continue to play an important role by impacting on the demographic composition of the population, as well as the skills distribution of the labour force.

The main areas from which working-age migrants come to the Western Cape are the Eastern Cape, Gauteng and KwaZulu-Natal. The stream from the Eastern Cape is the dominant stream and does not exhibit as proficient an educational profile as the other migrant streams. Conversely, better-educated in-migrants to the Western Cape tend to be older and therefore often do not represent a long-term addition of skilled labour to the Provincial labour market.

Migration is one of the important challenges facing policy-makers, particularly since a large proportion of migrants slot in at the 'lower end' of the socio-economic distribution of the population, making the absorption and re-skilling of lower skilled labour key to the realisation of Government's ideals for the Province.

Although unemployment in the Western Cape is less severe than in the rest of the country, it is growing rapidly and this is likely to continue for as long as there are perceptions of superior economic opportunity in the Western Cape relative to neighbouring provinces.

The uneven distribution of employment and unemployment across various socio-economically defined groups has highlighted a number of key focus areas for policy consideration:

Africans do not enjoy the same level of access to employment opportunities enjoyed by Coloureds and especially Whites in the Province, and around 43 per cent of African labour force members are unemployed. This is at least partially related to the relatively lower education levels of Africans in the Province, as well as the fact that, largely due to historical reasons, agricultural employment is dominated by Coloureds. Women also appear to find it more difficult than men to secure employment.

Crucially, though, the youth appear to be marginalised from the growth in job opportunities in the Province, as is the case nationally. This is cause for great concern, not least because young labour force members are not able to use the skills they have, leading to an erosion of skills and preventing a transfer of knowledge and expertise from older workers through employment experience. Further research is required as to the exact reasons for this phenomenon, particularly given that the South African economy is

claimed to be skills constrained and young people today are arguably better educated on average than they were in the past.

Throughout the policy formulation and implementation aimed at addressing these key issues, it is important that the spatial aspects of economic concentrations and population concentrations are kept in mind. The City of Cape Town's dominant position within the Provincial economy is illustrated by its almost two-thirds share of Provincial employment. The Central Karoo and the City of Cape Town have the highest unemployment rates in the Province and it is clear that different sets of policies need to be used in these two very different regions.

It is here where Provincial Government also needs to make important decisions as to its focus: does it want to spend more time, energy and resources on addressing the highest unemployment rates or the highest unemployment shares? If the latter is the case, then clearly Cape Town in general, and Kuils River, Mitchell's Plain and Wynberg in particular, should be the focus for policy. If the former is true, then unemployment in the Central Karoo should receive highest priority. At the same time, policy needs to be alert to the spatial consequences of changes in sectoral economic and employment experiences.

It appears to have been little change in the distribution of formal sector workers across remuneration categories since 2000, with what little change there has been occurring at the lowest income categories. However, racially, there appears to have been significant change amongst Africans and Whites employed in the formal sector, possibly due to the extension of minimum wage legislation in the case of the former and improvements in remuneration in high-skilled occupations in the case of the latter, although each race group appears to be better off in 2003 than they were in 2000.

Geographically, income inequality amongst formal sector workers appears to be less in Cape Town than it is in the other five districts in the Province. It is difficult to predict with certainty the future trends in inequality as influenced via the labour market. However, in general, employment growth is required across the skills spectrum and particularly amongst less skilled occupations if inequality levels are to be reduced via the labour market. What is clear, is that disproportionate involvement in the informal sector by Africans in particular is likely to exacerbate existing income inequalities. Further, as long as Provincial unemployment increases and disproportionately afflicts Africans, the upward pressure on inequality will continue.

Appendix A

Broad unemployment rates in the Western Cape and South Africa, 2000 and 2003

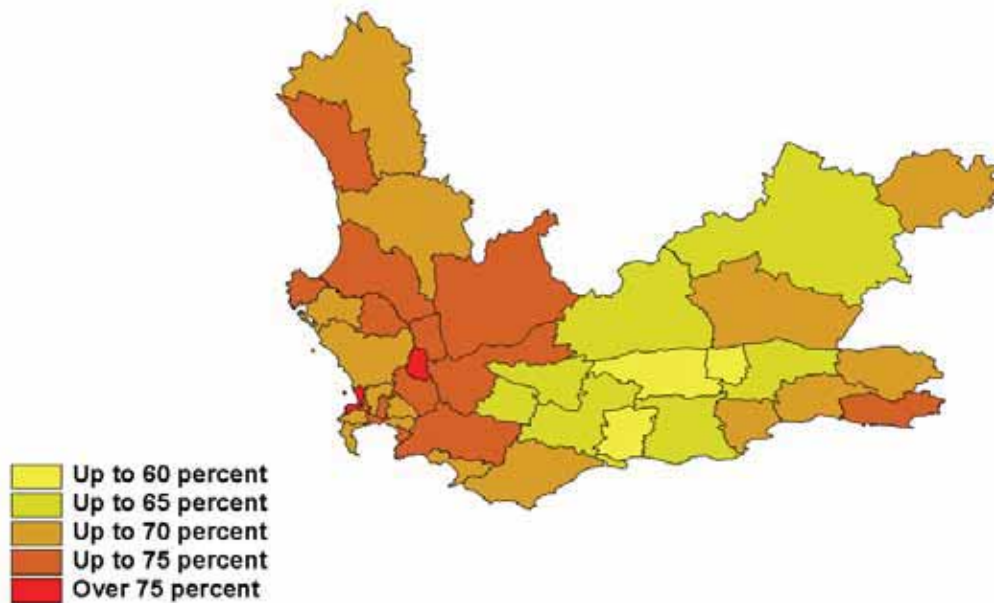
	2000		2003	
	Western Cape	South Africa	Western Cape	South Africa
Total	22,6 [20,2; 25]	35,9 [35,0; 36,8]	26,1 [23,6; 28,7]	41,7 [40,8; 42,6]
- African	39,1 [35,0; 43,1]	41,9 [41,1; 42,8]	42,9 [38,6; 47,2]	48,7 [47,8; 49,7]
- Coloured	21,9 [19,4; 24,4]	27,5 [25,5; 29,5]	24,2 [21,5; 27,0]	29,3 [27,0; 31,7]
- Asian	5,9 [-5,9; 17,6]	20,0 [17,1; 23,0]	6,5 [-2,2; 15,3]	20,7 [17,3; 24,1]
- White	5,8 [3,3; 8,2]	8,3 [6,9; 9,7]	9,4 [6,8; 12,0]	7,6 [6,6; 8,5]
- Male	19,2 [16,6; 21,8]	30,8 [29,8; 31,8]	23,3 [20,5; 26,2]	35,7 [34,6; 36,8]
- Female	26,4 [23,4; 29,4]	41,1 [40,1; 42,1]	29,2 [26,3; 32,2]	47,7 [46,7; 48,8]
- 16-25 years	43,8 [39,2; 48,4]	59,3 [57,9; 60,8]	49,4 [45; 53,7]	69,2 [67,8; 70,6]
- 26-35 years	19,9 [17,1; 22,7]	38,7 [37,5; 39,9]	23,7 [20,2; 27,2]	43,1 [41,9; 44,4]
- 36-45 years	14,2 [11,7; 16,7]	24,2 [23,1; 25,3]	16,8 [14,1; 19,5]	28,3 [27,1; 29,5]
- 46-55 years	14,8 [11,2; 18,3]	19,4 [18,1; 20,7]	13,1 [10,3; 15,9]	23,4 [22,0; 24,7]
- 56-64 years	10,3 [5,6; 15,0]	13,2 [11,7; 14,8]	14,1 [9,2; 19,0]	15,5 [13,7; 17,3]

[Source: Statistics South Africa LFS, September 2000 and September 2003]

Note: Figures in square brackets are the 95 per cent confidence intervals. Where changes over the period are statistically significant, the relevant cells are shaded.

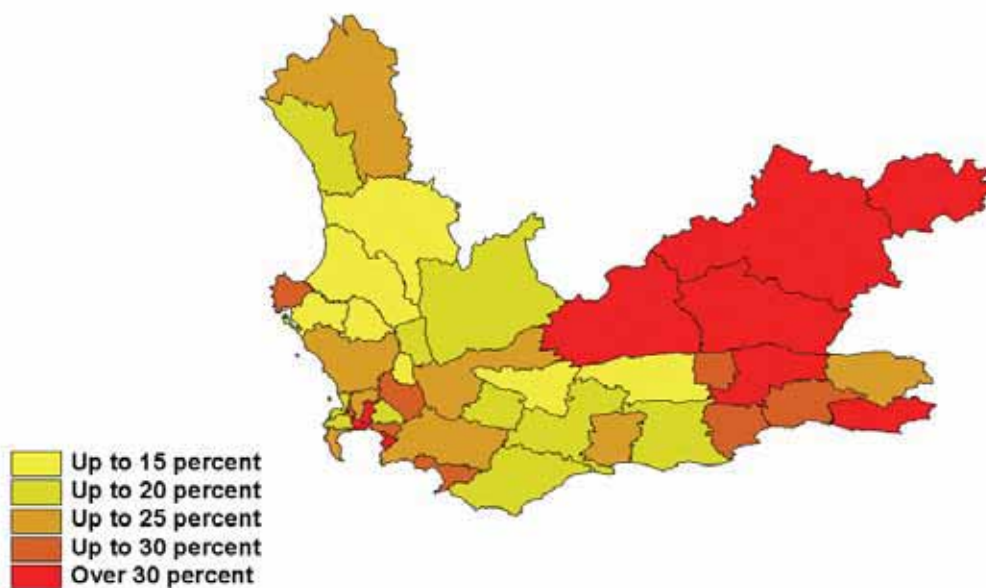
Appendix B

Labour force participation rates by magisterial district, 2001



[Source: Statistics South Africa Census 2001]

Expanded unemployment rates by magisterial district, 2001



[Source: Statistics South Africa Census 2001]