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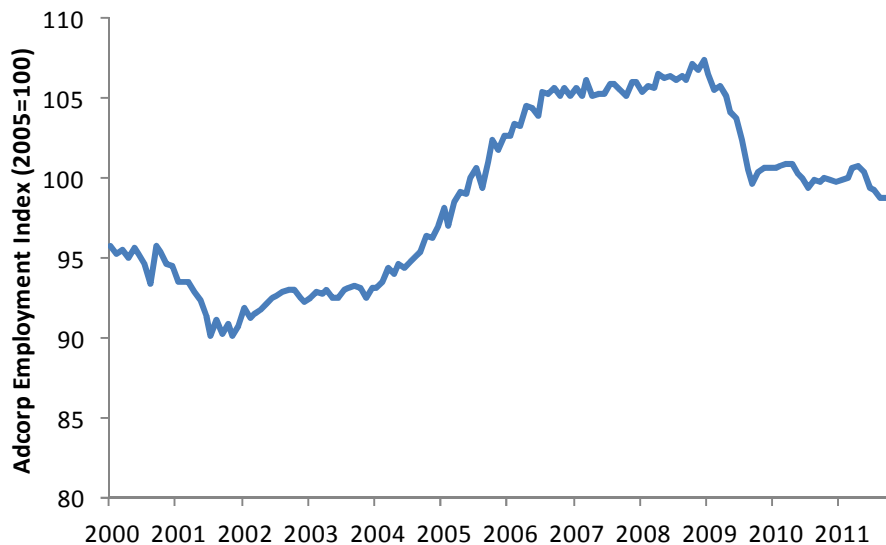
Adcorp Employment Index, November 2011

Release date: Thursday, 8 December 2011

Salient features

- Total employment grew at an annual rate of 3.41% in November, the fastest rate of growth in eight months. All employment categories reported growth, the fastest being the informal sector (+4.0%), temporary work (+3.8%) and permanent jobs (+2.8%). Agency work lagged behind at +2.0%, possibly reflecting legislative and regulatory uncertainties regarding “labour broking”.
- Significant job growth was recorded in the distribution and logistics sector (+18.1%) and the retail (+8.7%) and financial services (+8.2%) sectors. By contrast, sharp declines in employment were observed in the mining (-15.7%) and manufacturing (-5.4%) sectors.
- Demand for skilled workers increased sharply, notably managers (+12.4%) and professionals (+6.8%), reflecting the economy’s ongoing re-orientation toward high value-added services sectors. Demand for clerks (+9.1%) and service workers (+4.7%) increased as well.
- This month we take a closer look at labour productivity, specifically the laws and regulations which adversely affect productivity in the workplace. We argue that those laws which undermine labour productivity need urgent reassessment and reform.

Adcorp Employment Index



Source: Adcorp Analytics (2011)

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Analysis

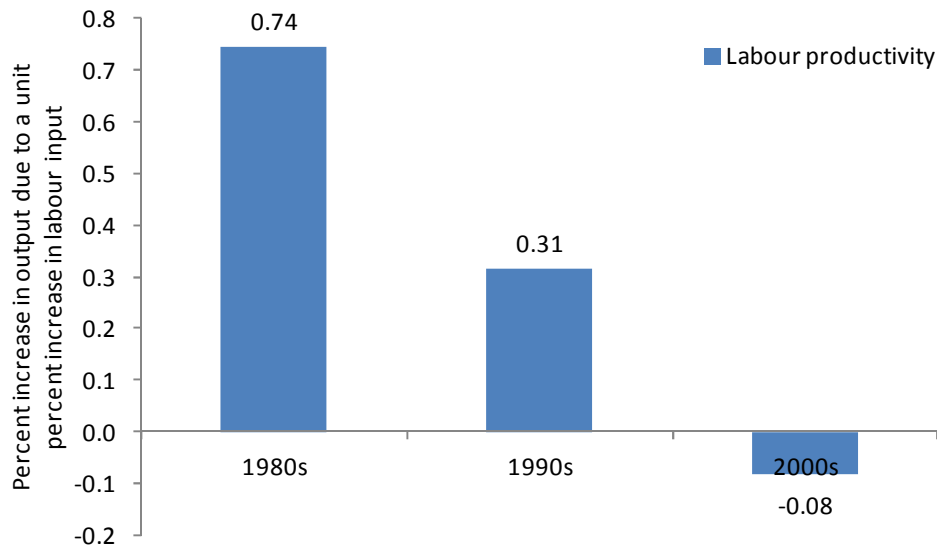
By any measure, South Africa's labour market is a shambles. Using a broad definition of unemployment (i.e. unemployed, discouraged and underutilised), the equivalent of about 8.5 million people are out of work or underemployed. Last year, South Africa lost nearly double the number of work-days due to strikes and work stoppages than at the height of rolling mass-action under apartheid. This year, labour productivity (i.e. labour's unique contribution, separating out the productivity that is rightly attributable to capital equipment and machinery) fell to the lowest level in 40 years. Currently, labour's share of national income (i.e. wages as a percentage of total factor income) is at a 50-year low. Over the past three years, wages have risen by 11.5% per annum on average – treble the consumer inflation rate over the period. Growing numbers of employers are using automation, mechanisation and other labour-saving methods as an alternative to labour, with the result that the economy's capital intensity has risen sharply.

Against this backdrop, there is considerable disagreement over whether South Africa's labour laws are restrictive or not. For example, according to the Organisation for Economic Cooperation and Development (a grouping of mainly developed-country regulators), the local labour market is only moderately regulated. Yet, according to the World Economic Forum (a grouping of global multinationals), some aspects of South African labour law are among the most restrictive in the world. The International Monetary Fund believes that some aspects of South African labour laws need to be relaxed (Business Day, 26 August 2011), and even the drafters of the Labour Relations Act have called for labour law reforms (Business Day, 15 November 2011).

To some extent, these surveys and views are beside the point. Labour market outcomes – including the most important one, unemployment – are terribly poor, and some kind of re-think of the South African labour market is surely in order.

For employers, labour is just one of several alternative factors of production. Employers only employ additional workers if it is economically sensible (i.e. profitable) to do so. On an economy-wide level, the existence of widespread unemployment implies that businesses cannot profitably employ people. Indeed, in the 2000s, South African labour productivity was actually negative, meaning that, for every additional person employed, the economy produced less output (see chart).

South Africa Labour Productivity, 1970-2010



Sources: Statistics SA, South African Reserve Bank, Adcorp Analytics (2011)

As far as labour productivity is concerned, two labour laws are particularly problematic. The first involves protections for workers against performance-related dismissals. Using the Commission for Conciliation, Mediation and Arbitration (CCMA) Codes of Good Practice as a guide, an employer must demonstrate either that an employee is incapable, under all reasonable scenarios, of performing adequately in the job (“dismissal for incapacity”), or alternatively, that an employee has consistently and wilfully withheld his/her performance (“dismissal for misconduct”). The employer is obliged to have provided training, to have recruited the employee correctly, to have explicit performance standards in place, among many other obligations, before the CCMA will consider a dismissal for poor performance. The employee, by contrast, has very few reciprocal obligations in practice. The net effect is that many employees shrug off their workplace duties, often boldly citing the CCMA, and hide behind the law, in which situation employers – especially small employers who do not possess the legal means – are helpless. It appears that many of the 1 million-odd jobs lost during the 2009 recession “for operational requirements” (i.e. due to an employer’s poor economic circumstances) were, in fact, dismissals for poor performance that had cumulated over the preceding years and for which the recession provided a helpful guise. At any rate, the post-recession economic rebound did not appear to be curtailed in any way by the economy’s failure to re-absorb those employees retrenched during the recession, presumably implying that the employees were, in some important sense, surplus to requirements.

The second law involves collective bargaining, which forces wages to rise at an agreed rate for an entire industry or sector, irrespective of labour productivity. Included, here, is the statutory (and likely unconstitutional) extension of bargaining council agreements to non-parties, effectively preventing non-party employees from offering their labour to employers at market-related (i.e.

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productivity-related) wages. In the 15 years since the Labour Relations Act was introduced, after-inflation wages increased by 28.8%, which is nearly treble the increase in the preceding 25 years. Per unit of productivity, real wages have increased at an average annual rate of 7.6% - or 200% in total – since the LRA was introduced.

There are, no doubt, other laws that need to be revisited. Closed-shop agreements (which compel individuals to join a specific trade union as a prerequisite for getting a job) and agency-shop agreements (which compel non-union members to pay union dues) are probably unconstitutional. Trade unions' open (as opposed to secret) balloting of members ahead of a strike probably gives rise to intimidation and coercion, since union bosses can attempt to influence members' voting behaviour in favour of a strike, which would at least explain why so many strikes occur that are not in members' financial interests.

The business of business is profitability. So long as labour cannot be employed in profitable ways, businesses will continue to introduce labour-saving alternatives. Those laws and regulations which undermine labour productivity need urgent reassessment and reform.

Additional Data

Employment by Type

Occupation	Employment Nov 2011	Percentage change vs. Oct 2011*
Unofficial sector	6,251,271	4.04
Official sector	12,765,282	3.10
Typical (permanent, full-time)	8,942,125	2.79
Atypical (temporary, part-time)	3,823,157	3.83
- of which agencies	999,821	1.99
Total	19,016,553	3.41

* Annualized

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Employment by Sector

Sector	Employment Nov 2011 (000s)	Percentage change vs. Oct 2011*
Mining	301	-15.74
Manufacturing	1,332	-5.38
Electricity, gas and water supply	88	-13.48
Construction	511	-4.68
Wholesale and retail trade	1,669	8.69
Transport, storage and communication	539	18.08
Financial intermediation, insurance, real estate and business services	1,627	8.17
Community, social and personal services	2,664	3.16

* Annualized

Employment by Occupation

Occupation	Employment Nov 2011 (000s)	Percentage change vs. Oct 2011*
Legislators, senior officials and managers	1,076	12.39
Professionals	710	6.80
Technical and associate professionals	1,602	3.76
Clerks	1,470	9.05
Service workers and shop and market sales workers	1,801	4.68
Skilled agricultural and fishery workers	98	12.37
Craft and related trades workers	1,402	-5.11
Plant and machine operators and assemblers	994	-3.61
Elementary occupation	2,349	-1.02
Domestic workers	836	10.13

* Annualized