

SECOND CARNEGIE INQUIRY INTO POVERTY AND DEVELOPMENT IN SOUTHERN AFRICA

WHAT'S NEW IN THE UNEMPLOYMENT DEBATE:
A Review of Nine Papers Presented to the
Carnegie Conference

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The nine papers on unemployment presented to the recent Carnegie conference dealt with four main topics:

- (a) a historical analysis of trends in and causes of unemployment since the 1960s
- (b) evidence for and against two major hypotheses used in the explanation of unemployment viz (i) that workers are unemployed because they are searching for jobs in a very imperfect market or (ii) that workers are unemployed because there is a shortage of jobs - a demand deficiency - and therefore those at the back of a hiring queue fail to find work.
- (c) the experienced consequences of unemployment
- (d) the influence of various institutions in the labour market on unemployment: internal labour markets, trade unions and the Unemployment Insurance Fund. These areas will be considered in turn.

I The interest of the Bell and Padayachee paper is that its conclusions are both definite and novel. They argue 'that the predominant cause of rising Black and Non-Black unemployment rates has been a decline in the rate of growth of the demand for labour and that this has been due primarily to a fall in the rate of economic growth in general rather than to an increase in the capital intensity of production' (OCP 119 : 13, my emphasis). In addition to the evidence they cite for this view, one might observe that the ratio of growth in employment to growth in output has not dropped in recent years. This view contradicts the widely held opinion that unemployment arises from factor market distortions which lower the price of capital relative to the price of labour and therefore encourage capital intensification and a reduction in the demand for labour.

In seeking to explain low economic growth rates one's attention is inevitably focussed on international factors since there has been a long global downswing since the late 1960s. In fact, Bell and Padayachee show striking similarities between the evolution of unemployment in South Africa (according to the Simkins series) and in Britain. They ascribe rising unemployment almost everywhere to, inter alia, the rise in raw materials prices from the mid-sixties and a drop in the relative price of manufactured goods as markets become more competitive consequent on the global spread of industrial activity. Industrial

countries faced depressed profitability and supply side shocks (e.g. rises in oil prices) both of which affected growth. These factors also applied to South Africa.

If this analysis is correct, then a whole series of policies proposed to reduce unemployment will have little or no effect. These include encouragement of the informal sector, raising the relative price of capital, reducing inflation, running a tight fiscal and monetary policy or privatising state-owned industries. Industrial decentralisation is a doubled-edged sword: by making certain parts of the country more attractive to investors one risks jeopardising the performance of the metropolitan areas. Bell and Padayachee argue that, given the importance of international factors, policies relating to foreign exchange markets and foreign trade need to be carefully scrutinised. They suggest that present goals of establishing completely freely floating exchange rates and of moving to 'a more open, outward-orientated' (CCP 119 : 19) trade regime may well not have been considered in respect of their unemployment implications; indeed, these policies may worsen unemployment. They conclude by calling for an open debate on these questions.

All this makes perfect sense when one thinks about it. Discussions of unemployment in Western Europe always bring in the international dimension and the reasons which compel them to do so are compelling for us too. It is nonetheless the case that discussions of South African unemployment have become concerned solely with domestic variables (none of the remaining eight papers reviewed here discuss anything else) and the Bell and Padayachee paper contains timely warnings of the consequences of this preoccupation.

- II The papers by Loots (CCP 118), Gilmour and Roux (CCP 120) and Hofmeyr (CCP 123) are concerned to shed empirical light on the appropriateness of two models of unemployment, one of which asserts that unemployment is due to a deficient demand for labour and the other which asserts that it is a supply phenomenon. As Hofmeyr puts it: 'what we are discussing is the question of whether unemployment is essentially frictional in character, with those who are unemployed choosing to engage in further search rather than accepting the

first job opportunity which presents itself, or whether the unemployed have simply not been able to find jobs of any sort' (CCP 123 : 30). In the latter case employers choose from a pool or queue of jobseekers according to some criterion; those seekers not possessing generally desired characteristics will be left unemployed.

From these hypotheses must be deduced testable consequences if meaning is to be extracted from empirical data. Hofmeyr and Loots are in essential agreement about what one would expect to find in either case. If the search model is appropriate, then the ability of an unemployed workseeker to engage in search depends on the resources available to him from sources other than his own earnings, notably the income and consumption claims in the household from which he comes. This would suggest that the unemployed come from households relatively well able to finance search until a good job is found, i.e. that certain employee characteristics are important. In that respect there would be a difference between employed and unemployed. If the queue model is the right one 'we may expect the preferences of employers to be reflected in unemployment characteristics, such as age, educational qualification, previous experience, health and other qualities which may be desirable to the employer' (CCP 118 : 4, my emphasis). This provides an initial orientation for testing.

Gilmour and Roux approach the problem in a somewhat different way opposing a structuralist to a voluntarist explanation of unemployment. They identify the structuralist hypothesis with what Hofmeyr and Loots call the queueing model. On the other hand they characterise the voluntarist position as claiming 'that unemployment is primarily a consequence of individual choice and that, all things being the same with respect to abilities and the like, the unemployed are those unwilling to do the kinds of jobs done by the employed. Voluntarists also maintain that the demand for labour is not influenced at all by structural factors because labour and other markets are efficient' (CCP 120 : 17). This has things in common with the search hypothesis but is not identical with it, being both broader in scope and less precise. Gilmour and Roux state at the outset that neither approach to unemployment is theoretically satisfactory, but offer nothing which can be described as a theory of their own.

Loots' empirical evidence comes from the Current Population Survey (excluding homelands), Gilmour and Roux's material from sample surveys conducted in Port Elizabeth and Grahamstown and Hofmeyr's data from Vulindlela near Pietermaritzburg. Black individuals and households only were interviewed in each case. It is an indication of how tricky the empirical discrimination between the hypotheses is, that Loots finds that his evidence supports the queue model better than the search model, that Hofmeyr finds evidence which will be adduced in support of the search model and that Gilmour and Roux find the evidence inconclusive. It is instructive to consider some of the main arguments.

All three studies find unemployment to be higher among women and the young, confirming what we already know from the published Current Population Survey. This can be taken to represent employer preferences for male workers and workers over the age of 25 and in itself can be interpreted as consistent with a job queue model. Looking at unmarried males 16-25 years of age, Loots (with a large sample) could not find a statistically significant difference in education between the employed and the unemployed which rules out a job queue model in which educational qualification is the critical factor for selection. Gilmour and Roux come to much the same conclusion and so does Hofmeyr who writes: 'It might be expected that the unemployed would include a significantly higher proportion of better-educated younger people with high job expectations. This is not supported by the evidence presented here' (CCP 123 : 42).

The position of unemployed individuals in their households is a matter of interest which has several aspects. Gilmour and Roux observe that unemployment is more widespread among young, single, childless and junior members of households and go on to observe: 'Evidence of this kind might at first sight seem to provide strong confirmation of the choice model. Individuals with fewer responsibilities are better able to hold out for good jobs and are therefore more likely to be unemployed' (CCP 120 : 18). The trouble is that, since age is a selection criterion for employers, the data have to be analysed controlling for age. When this is done, it turns out that position in the household is not significantly different for employed and unemployed women, but it is different for young males, giving support to the choice hypothesis as explaining behaviour among the latter group.

Loots and Hofmeyr consider incomes in households of the employed and the unemployed. They compare different things: Loots' source enables him to compare the unemployed and employed workseekers, whereas in Hofmeyr's data the distinction between the workseeking and non-workseeking employed is not made, so his comparison is between the unemployed and all employed. Loots' findings are clear. Taking into account information on household incomes and earners per household he concludes that 'unemployed workseekers generally come from poorer households and are thus less likely to afford a full-time job search than the employed workers These findings are clearly inconsistent with a job search model while, at the same time, at least neutral to, if not supportive of a job queue explanation of unemployment' (CCP 118 : 12-13). This is so, whether or not the incomes of the employed workers under consideration were excluded from the incomes of their households. Hofmeyr, on the other hand, finds the opposite i.e. the households of the employed are significantly poorer than the households of the unemployed and therefore draws the opposite conclusion. This finding is supported by Gilmour and Roux. There are two possible reasons for the difference in findings. Loots considers only employed workseekers whereas Hofmeyr and Gilmour and Roux consider all the employed; and the types of area studied are dissimilar. Clearly more analysis is needed here. In the end, however, it may be more relevant to consider not a contrast between the position of the employed workseeker and the unemployed but the absolute capacity of each to finance search. Given a distribution of earnings associated with vacant jobs and given search costs there will be an optimum search strategy and the question is whether this can be afforded or not; ability to finance beyond this point is irrelevant.

Hofmeyr and Loots both observe that unemployed workseekers search more intensively for jobs than employed workseekers and Hofmeyr goes on to suggest that unemployment is a necessary condition for intensive job search - 'in order to avail himself of an opportunity, it is crucial that a job seeker be physically present at the employer's gate, or at the labour bureau at the appropriate moment' (CCP 123 : 58). Loots uses observations of this sort as a point of departure for a new interpretation which postulates that job search is conducted by way of queueing. The more support an unemployed person has from his household the greater his choices about where to queue. This has consequences for the way in which the relationship between unemployment

and poverty is conceived. Unemployment is normally thought of as leading to poverty but 'it is conceivable that a workseeker can queue where the probability of job offers are small, and desired (attractive) offers even less likely (e.g. labour bureau) not because he chooses to be there but because he cannot afford (in relation to spatial realities) to be in another queue' (CCP 118 : 19). Thus poverty causes unemployment because poor unemployed cannot afford (in some circumstances at least) to choose the best queue.

Hofmeyr, on the other hand, prefers a dual labour market explanation in terms of which 'there is a high wage sector where wages are set without regard to supply and demand and a low wage sector where wages are competitively determined. Since wages in the high wage sector are not competitively determined, there is a queue of workseekers who would like such jobs, but cannot find them' (CCP 123 : 54). This explains two things:

- (i) given the considerations of the preceding paragraph, one would expect to find some unemployed refusing low-wage jobs in order to be available for a high wage job when one is offered
- (ii) some employed are in low-wage jobs because they could no longer finance a wait for a high wage job. This point would also be made by Loots.

What do we conclude from all this? Mainly, that both demand and supply side factors cause unemployment and that policy must deal with both. It is clear that more jobs need to be created; it is also clear that the government needs to make a much more substantial effort in this regard than it has done to date. It is equally clear (and research of the type reviewed here demonstrates it) that state-created institutions in the labour market make things worse. They do so by making privately optimal decisions suboptimal from the point of view of the economy as a whole and by imposing costs on workers which would be absent if the worker-employer contracts could be entered into without state intervention. On this front too, government policy needs alteration. It is only by making progress on both fronts together that one can expect to reduce the present high level of unemployment substantially.

III We now turn to describing unemployment from the 'inside' rather than from the outside as in the first two sections. Irvine reports on 13 interviews with Coloured people on the Cape Flats, all of whom were unemployed. He uses the

notion of a 'transitional cycle' developed by Harrison as a framework for understanding the psychological reaction of his respondents to their unemployment. The cycle is in fact a sequence of experience:

- (i) shock at hearing of the termination of employment
- (ii) optimism about finding a new job and an 'idea that things will turn out all right' (CCP 126 : 13)
- (iii) pessimism as the difficulties of finding a new job become real: 'the individual's identity comes under pressure and often appears to be associated with depression and withdrawal' (CCP 126 : 13).
- (iv) fatalism, if the period of unemployment is prolonged.

Irvine lists a series of 'functions of work' - it structures one's day, it enables interaction beyond that with household members, it links an individual to wider purposes, it defines aspects of status and identity, it enforces activity, it may be a source of creativity and mastery - which take us well away from the shallow orthodox economic view of work as disutility. Not one of Irvine's respondents displayed a cheerful 'Andy Capp' attitude towards unemployment: feelings of worthlessness, depression, inability to fulfil responsibilities, social isolation, boredom and desperation are what surfaced.

Thabane and Guy's study is even starker. They studied conditions in Lesotho, traditionally a large supplier of labour to the South African mines. The context of their study is a large drop in recruitments in the late 1970s followed by stabilisation in the 1980s (while population increase is about 2,5% p.a.) as well as the imposition of strict border controls by South Africa from December 1982 which have made individual job search without a labour contract virtually impossible for Masotho.

A consequence of this has been an accumulation of men in Maseru who, while waiting for contracts to work in South Africa, gather at a number of places in the hope of obtaining daily employment as casual labourers. Thabane interviewed a number of these men at a major traffic circle. Their perceptions of unemployment are grouped by Thabane and Guy under similar headings to those used by Irvine. There is the sense of having failed others, of dashed hopes for the future, of squalor (men were found sleeping in the open and

rummaging in dustbins for food when they had not been able to find casual work) and an even more dreadful future: '..... we will eat each other - the people of Lesotho - that is if we do not get jobs because others steal, others kill people, some do all these bad things. For what reason? - just because of hunger

(CCP 124 :23). Some men hope, others drifted towards despair. Some had given up altogether. Links with their households have been ruptured, queuing at the recruitment office has been given up and 'they have drifted away from being normal people' (CCP 124 :23). Unwashed, sleeping rough, malnourished, sometimes seemingly or actually insane, they are 'just sitting here', utterly marginal. Guy and Thabane show us most clearly what is at stake if unemployment continues to rise and people are barred from finding work.

- IV This final section deals with institutional factors (apart from the influx control/labour bureau system) which affect the operation of the labour market. McCartan interviewed 43 large and medium-sized firms in the Port Elizabeth and East London metropolitan areas. In this study he seeks to establish how far there can be said to be an 'internal labour market', insulated to a considerable degree from supply and demand factors in the external market, in these firms. He found a considerable degree of internal recruitment of semi-skilled workers and supervisors in these firms, with 'ports of entry' at the unskilled, artisan, clerical and managerial levels (though 59% of firms recruited more than half of their skilled workers internally, the corresponding figures for clerical and managerial workers being 40% and 39%). In addition, unskilled workers were very often recruited by word of mouth, extending a screening process into the external market. Additional evidence for the existence of internal labour markets is the finding that '93% of firms interviewed reflected either 'very stable' or 'relatively stable' wage structures over the past few years' (CCP 121 : 9) suggesting a degree of insulation from wider supply and demand vagaries. This tendency was less marked among the smaller firms. Unionisation is relatively advanced in McCartan's sample, with 54% of firms determining wages and employment conditions by collective bargaining. There is more internal recruiting where independent unions are established. The implication of this for unemployment is stated by McCartan at the end of this paper: 'As these forces entrench themselves over time the labour market can be expected to display deepening levels of

segmentation and more powerful barriers to mobility between the high-wage, capital-intensive sector, the more competitive, low-wage sector and the unemployed sector' (CCP 121 : 14). The link between this finding and that of Hofmeyr is clear. Both authors have yet to explain however quite why it is in the interests of firms to adopt relatively high wage policies if there is a supply of labour willing to work for less.

Maree's paper considers how trade unions can respond to the threat of loss of jobs among their members consequent upon the introduction of new technology. The main principle of New Technology Agreement (NTA) is that management and workers should negotiate a phased plan of introduction and of retraining so that retrenchment should be avoided or minimised, that loss of earnings should be avoided and that the benefits of the new technology should be distributed fairly to all workers. While negotiations of NTAs are likely to protect union members' pay and jobs more than unilateral introduction of new technology by management, such agreements constitute another step in the development of internal labour markets and thus decrease opportunities for workseekers beyond the gates. Every indication is, however, that this is the direction in which South Africa has been moving and will continue to move.

Nicholson's paper catalogues the inadequacies of unemployment insurance as administered by the Unemployment Insurance Fund. The problems include failure to pay benefits promptly, irregular payments (especially in the rural areas), the penalty system and its unjust administration, the influx control problem and procedures to claim illness benefits. Nicholson cites the National Manpower Commission statistic that 'a mere 0,3% of unemployed Africans derive their main support from Unemployment benefits' (CCP 125 : 17). Whatever the causes of unemployment in South Africa, we can be certain that an overgenerous and well-administered unemployment insurance system is not one of them.

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(Throughout CCP stands for Carnegie Conference Paper. All are dated April 1984 and were published in Cape Town.)

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