A LABOUR MODEL FOR SOUTH AFRICA: "JOBLESS GROWTH" OR NOT?

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Abstract:

The purpose of this paper is to investigate whether unemployment is to a large extent structural in nature and whether the phenomenon of *jobless growth* is true for South Africa. The state of affairs may be caused by various factors, such as the rapid growth of the work force, the use of capital or skill-intensive technology and an inflexible labour market. Other likely causes of structural unemployment in South Africa are the mismatch between the skills offered and demanded and the mismatch between the geographical locations where these skills are offered and demanded (Barker 1992:73). It is also argued that labour union activities are responsible for a substantial degree of unemployment, since they prevent wages from declining to a market-clearing level.

In this paper a neoclassical labour market model of the South African economy is developed. The labour market is divided into two parts: a skilled and an unskilled labour market. The distinction is based on differences in the wage determination processes and differences in the demand for skilled and unskilled labour, which is the result of different levels of productivity and the role of labour unions. An attempt is also made to model the labour participants in the informal sector separately from the formal labour market activities.

The modelling of wages and employment, essentially according to a systems approach to ensure consistency in a neoclassical framework, is based on the work of Layard and Nickell (1985, 1986) and Nickell (1988). They use a framework of wage bargaining under imperfect competition, emphasising labour market interactions. Their approach also includes the role of labour unions and labour taxes on employers.

The estimation technique employed for estimation of the long-run relationships of behavioural equations is the Johansen maximum likelihood estimation methodology (Johansen 1988, 1989 and Johansen & Juselius 1990). Error correction models then account for short-run dynamics in the system.