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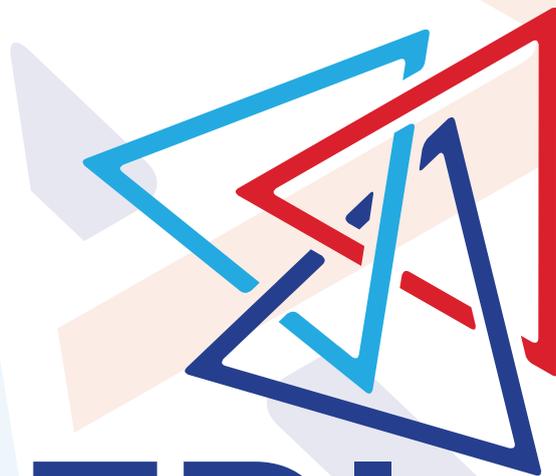
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Research Project on Employment, Income Distribution & Inclusive Growth

Towards an integrated response to unemployment, inequality and poverty

Unemployment: state of knowledge, gaps and research priorities for an integrated approach

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CONTENTS

- 1. INTRODUCTION 1

- 2. THE THREE DISCOURSES: TEXTURE AND DIAGNOSIS..... 1
 - 2.1 A brief summary of the three discourses1
 - The labour market cluster1
 - The macro and macro-sectoral cluster1
 - 2.2 Diagnosis 1: Fragmentation.....3
 - 2.3 Diagnosis 2: Fundamental gaps and the need for cross-discourse integration3

- 3. THE STATE OF KNOWLEDGE: A CROSS-DISCOURSE DISTILLATION4

- 4. ANALYTICAL AND RESEARCH CHALLENGES..... 4

- 5. TOWARDS A RESEARCH AGENDA 6
 - 5.1 Conceptual approach.....6
 - 5.2 Provisional list of research gaps and topics7

- 6. CONCLUSION 9

- References9

12. Skills-related barriers to employment and self-employment in the informal and formal sectors. Aspects may include the following:

- a. Which skills are most relevant to employment and transitions between livelihood states? Literacy, English language skills, numeracy, work-environment functional skills, specific job skills, artisan skills, management skills, entrepreneurial skills, formal education (primary/secondary/tertiary)?
- b. Which of these skills can be 'taught', how and where?
- c. Returns to, and employment probability increases due to, various types of schooling, practical training, and skills transfer,
- d. The role of language skills, search culture and capacity, inherited household skills, capabilities, and experiential-cognitive preparedness in enabling transitions to improved livelihood and employment states (or between segments), and
- e. The role of direct labour market policy projects to impart sustainable skills.

13. Reforming the measurement of unemployment, underemployment, employment, and related livelihood states. Aspects may include the following:

- a. Developing a consistent set of time-series and cross-section data from existing data sets on unemployment, employment, and different livelihood states – also reconciling various public and private sector data sets, methodologies, and findings (e.g. AdCorp vs StatsSA),
- b. Developing new measures that adequately grasp the texture of the range of livelihood, employment, and unemployment states in ways possibly better suited to a developing country context – informing analysis, informing policy-making, and improving monitoring, and
- c. Wage rates, income from self-employment, and their changes over time.

6. CONCLUSION

Because of the fragmentation and resultant narrowness of the public discourse, only some of the available information and knowledge is being used – as evidenced in the media debate and even in major policy initiatives (such as the New Growth Path and the National Development Plan). Interest groups, or purveyors of conventional wisdom, tend to bark up one tree. Meanwhile, there are several important trees with intertwined roots and branches.

The many analytical gaps and problems identified in this chapter suggest that policy prescriptions, design, and implementation that rely largely on one discourse are unlikely to make headway in addressing unemployment and poverty. Such policies will be fundamentally constrained.

The suggested research agenda is intimately related to the noted dimensions of employment and unemployment in the developing country context of South Africa – and to explicitly adopting an integrated approach that draws on insights from all the discourses.

It is argued that the outcomes of such a research agenda could lead to more successful, multipronged, and integrated policy responses – and possible policy remedies – regarding unemployment, poverty, and inequality.

Sustainable and consistent policy remedies for unemployment and poverty will require an integrated response that covers the formal sector, the informal economy, *and* survivalist and subsistence activities, and especially the various linkages and transitions between these segments. Such remedies will need to integrate insights from labour-economics, macro-economics, and poverty/development studies.

In effect, what is required – in tackling the problems of unemployment, together with poverty and inequality – is two types of integration: across discourses/subdisciplines *and* across segments of the economy. There is plenty of room for detailed, narrower work within this broad framework. Indeed, even within this note, the conceptualisation of a broader framework was followed by the tabling of a range of gaps and specific research questions. What is important though, is that at least some researchers have analytic eyes focused on the relationship between the whole and the sum of the parts.

One should not be so naïve as to believe that the South African unemployment problem is a jigsaw puzzle that we may be solved by simply finding which piece fits into which section of the puzzle. However, it is also true that substantial progress will not be made on this problem without a joint assault by the research community. This will require collegial respect by all researchers across the disciplines, in order to facilitate the hard discussions about the implications of the research that is produced. Also, it requires that researchers take themselves seriously enough to contribute their work to this joint endeavour and to join in this discussion through their research.

References

- ▶ Fourie, F.C.v.N. 2011. *The South African unemployment debate: three worlds, three discourses?* Working Paper 63 (June), SALDRU, University of Cape Town.
- ▶ Fourie, F.C.v.N. 2012. *The South African unemployment debate: three worlds, three discourses? (Revised version)*. Paper presented at the Towards Carnegie III Conference, University of Cape Town, 4 September 2012.

1. INTRODUCTION

South African unemployment, in its inter-relatedness with poverty and inequality, is a complex, multifaceted problem. This may explain its intractability and resistance to a variety of (piecemeal) policy initiatives.

Unfortunately, the South African unemployment knowledge base is fragmented. A recent survey (Fourie 2011) reveals that three major discourse ‘worlds’ – labour, poverty/inequality/development, and macroeconomic – can be distinguished. Debate occurs within these ‘silos’, but not much between them. Insights produced in the different discourses often are disconnected. As a result, a coherent analytical picture or nuanced, encompassing diagnosis of unemployment has not been generated. Many gaps are apparent. Similar divisions and gaps exist in the policy debate.

This paper tells the story of an initiative to start filling these gaps.

2. THE THREE DISCOURSES: TEXTURE AND DIAGNOSIS

The unemployment debate ‘landscape’ can be depicted as in **diagram 1**. Three discourses (perhaps with some sub-discourses) can be distinguished. Only a brief summary of the main thrust of each discourse will be provided here.

2.1 A brief summary of the three discourses ¹

The labour market cluster

From labour economists come repeated findings that the labour market is characterised by segmentation and dualism, such as between apartheid-designated ‘homeland’ and ‘non-homeland’ areas, between rural and urban areas, between the informal economy and the formal sector, and within the informal economy. Various factors create structural barriers, preventing unemployed people from moving between these segments or entering labour markets. There are many constraints on job searches and transitions into secure employment are not easy.

The impacts of social policy elements are complex. The presence of old-age pensioners may release credit constraints that allow for job search and migration to labour markets or discourage poor working-age household members from searching for a job. Education (grade 12, in particular) encourages labour force participation and job search, and increases employment prospects. However, at the same time, one finds growing unemployment of matriculants and even

graduate unemployment. Better education cannot increase employment without limit – higher levels of education for all is not a simple cure for high unemployment levels.

The poverty-development cluster

Development and poverty analysts highlight the existence, alongside the formal and informal sectors, of the worlds of subsistence and survivalist activities, both urban and rural. Several kinds of poverty traps exist and survival strategies often take people further away from job markets.

Very different dynamics operate in these worlds, mostly due to various forms of exclusion and marginalisation. Access to formal labour markets becomes very difficult. Barriers include adverse geographical location, and thus high transport costs; a lack of social networks to pass on information about jobs and to logistically support job search in cities; and a general lack of formal labour market information and modern economy know-how. These make job searches expensive and high-risk for those with no assets and little cash. Psychological and motivational problems, due to prolonged periods of joblessness and poverty, also significantly affect the job search effort and success.

These dynamics of chronic poverty constitute a ‘powerlessness trap’. As such, the condition of poverty debilitates and discourages job search and access to labour markets. This means that, whereas unemployment causes much poverty, poverty in turn contributes to high and sustained unemployment. Such vicious circles must be, at least, part of the reason that high unemployment in South Africa is so persistent.

The macro and macro-sectoral cluster

The macro discourse reflects an almost exclusive focus on economic growth and the production side of the macro-economy – and on employment, rather than unemployment. Thus, at an aggregate level, it deals with the demand for labour.

A first finding is that the significant increase in unemployment in the 1990s appears to be a structural shift in the long-run level of unemployment. It is unlikely to return to earlier levels by itself, i.e. without active policy measures.

A second is that formal sector growth can only produce a limited total absorption of labour (given the average output elasticity of employment of approximately 0.5). And the long-run trend is one of declining labour absorption relative to aggregate output (i.e. labour intensity of output).

Sectoral shifts, e.g. sub-par manufacturing growth as opposed to strong tertiary sector growth, can be an important cause of unemployment. Coupled with different low-skills labour intensities it has significant implications for labour absorption.

1. See Fourie (2011) for a complete diagram and an exposition of the findings of the core contributions in the three clusters or discourses. Fourie (2012) offers a somewhat consolidated version.

The negative real wage elasticity of the demand for labour has important implications for the potential role of real labour cost trends in future employment and unemployment. Contested findings relate to whether labour market legislation causes wage rigidity that prevents labour markets from clearing and resolving the unemployment problem – and whether excessive real wage growth has been a major

cause of declining formal sector employment. Regarding the latter, the more sophisticated analyses suggest that this was not the case in the 1990s.

Historical-institutional analyses demonstrate how a combination of well-intended economic, industrial, and labour market policies could undermine employment when they are intrinsically contradictory and inconsistent.



Diagram 1: The unemployment debate landscape: three discourses

As has become clear – also from policy recommendations – this discourse takes little note of the findings of labour market and poverty analysts.

2.2 Diagnosis 1: Fragmentation

The three discourses that have been reported here do not provide a coherent picture of unemployment. The meta-analysis suggests a significant degree of separation, although less in some cases. Three very different perspectives on unemployment prevail. Recognising the differences is important, because they shape employment-oriented policy proposals emanating from the respective discourses. The following characterisation (somewhat over-simplified) of the basic views on unemployment is suggested:

Macro: Unemployment (and low employment growth) is due primarily to a lack of economic growth, aggravated by wage inflexibilities (excessive wages) – and perhaps growth in the ‘wrong’ sectors, in terms of labour intensity. The focus is on the demand for labour at the aggregate or the meso levels.

Labour: Unemployment is a labour market problem and occurs primarily due to labour market factors, segmentation, and worker characteristics such as education and gender. The focus is on the supply of labour, at the micro level.

Poverty: Unemployment is a serious problem, but part of a larger problem of inequality, structural and chronic poverty, as well as powerlessness and underdevelopment – which also undermine access to labour markets. The focus is much broader than labour demand or supply.

Most macroeconomists in South Africa rarely incorporate the implications of the details from labour, household, and poverty studies into their analyses. Policy proposals tend to focus on growth enhancement (e.g. stimulating investment, addressing growth constraints), sectoral stimulation, and wage moderation/flexibility to stimulate employment (*and* growth).

Almost in turn, most labour market analysts and inequality analysts are less concerned with growth issues or macroeconomic policy variables/instruments. Proposed policies address segmentation, discrimination, skills and education backlogs, and so forth. There is limited explicit engagement with the details and implications of poverty and marginalisation analysis – although there are some exceptions. (In any case, these two discourses are closer to each other than to the macro discourse, despite the fact that different paradigms, data, and especially research methods make them uncomfortable with engaging with each other’s work).

Poverty-marginalisation analysts are skeptical of the standard style of labour market analysis and of macro-economic growth analysis, since none of these capture, recognise or address the powerlessness of the unemployed poor. “Whatever the growth rate, the poor, marginalised, and unemployed do not benefit much from the economy and are powerless to change their position.” More fundamental restructuring of the economy would be necessary to counter marginalisation and non-inclusive growth. The implications of e.g. a negative wage elasticity of labour demand and the importance (if constrained) of economic growth for employment growth are rarely discussed.

The high degree of fragmentation between the discourses constitutes a major limitation of the literature. It is the cumulative effect of a pattern of discourse-confined analysis that restricts the range of questions, aspects, and issues being considered in specialised research. A policy-maker should be alert to these patterns and needs to be wary of the limitations of discourse-specific policy advice.

2.3 Diagnosis 2: Fundamental gaps and the need for cross-discourse integration

Two fundamental gaps that flow from the fragmentation and limited engagement between discourses must be overcome in what would be, essentially, a cross-discourse *integrated approach to unemployment*.

One gap lies in the treatment of the formal economy and the distinction between the formal and informal sectors. Many South African economists don’t seem to find informal sector employment – or linkages between the formal and informal sectors – relevant as a topic for theoretical or empirical analysis. Growth-oriented discourses focus on the formal sector: formal sector growth is the ‘engine of employment growth’, absorbing (or ‘sucking in’) the unemployed and the poor into formal employment. The unemployment problem is implicitly equated to a lack of employment creation in the formal sector (due to inadequate growth or low labour intensity). The same occurs in large government employment-oriented policy initiatives launched recently.

Meanwhile, 30% of the employed are in the informal sector and perhaps 60% of employment is created there. And while sectoral stimulation or wage flexibility (moderation/reduction) in formal sector labour markets is often seen as a solution for the unemployment and poverty problems; many of the unemployed poor cannot transition even into the informal sector and are outside the reach of any ‘labour market’. Indeed, the informal sector and the so-

called second economy may be key to understanding (and addressing) unemployment and poverty.

This almost exclusive focus on the formal sector is part of the second major weakness, i.e. a broader denial of segmentation and dualism as well as employment barriers. Both labour market and poverty analyses highlight evidence of segmentation and dualism (including poverty traps, both rural and urban) that inhibit labour market functioning and employment. Moreover, a multitude of factors and barriers affect access to opportunities for employment and self-employment – notably from a condition of poverty and marginalisation. A deep analysis and understanding of South African unemployment requires the analytical incorporation of segmentation, the informal sector, entry and mobility barriers and the impact of poverty conditions, and marginalisation. In particular, macro, macro-sectoral and industrial analyses should incorporate pertinent aspects highlighted by the labour market and poverty discourses.

More generally, in analysing a problem as complex and as intractable as unemployment in South Africa – and considering policies to address this problem – it is imperative to be open to insights from all discourses and to go to great lengths to learn from, and integrate, such insights. Narrow, discourse-specific analyses are unlikely to bear fruit.

3. THE STATE OF KNOWLEDGE: A CROSS-DISCOURSE DISTILLATION

Despite the fragmentation, analytical insights that could anchor a coherent analytical picture can be distilled from a simultaneous scrutiny of the discourses – suggesting *elements of a coherent picture*.

In searching for an integrated perspective, the following analytical conclusions can be distilled:

1. The South African labour market is characterised by cross-cutting segmentations. These include classic informal-formal and rural-urban dualisms, and also subtle segmentations within these dualisms. Alongside the formal and informal economies are survivalist (or subsistence) segments, where large numbers of poor households and unemployed individuals live. The nature of such segmentation, the nature of labour market linkages between segments, and factors enabling or disabling persons to transition to a better segment certainly are critical to understanding poverty and inequality. The central claim is that they are critical to addressing unemployment, too.

2. A range of factors – information, entry, and mobility barriers, inter alia due to the condition of poverty as well as marginalisation – structurally inhibit job searching and entry into labour markets, both from a condition of poverty and from one segment to another. These factors intrinsically limit the reach and smoothness of the functioning of labour markets. Such factors also explain the category of discouraged (non-searching) unemployed, whose existence is a real and integral element of labour markets and of broad unemployment, joblessness, and poverty problems – even if statistical practitioners may want to exclude them from official measures of unemployment.
3. As a result of all these factors, transitions between the three segments – i.e. from the survivalist sector into employment in either the informal or formal sectors, or from the informal to the formal sector – can be quite difficult, even if there is growth in the demand for labour from employers in these sectors. Something like ‘excessive wage levels and labour market regulation’ cannot adequately capture all of the various barriers that have been identified (although they may have some role to play, of course).
4. Understanding South African unemployment and labour market marginalisation requires dealing with the real wage elasticity of the demand for labour (= approximately -0.7 being the most quoted number), in particular the likely negative versus positive impact on employment, of sustained real labour cost increases or decreases, especially on sectoral or sub-sectoral level.
5. The output-elasticity of employment is another key parameter. This relates to the important, though constrained impact on (un)employment of formal sector growth, given a value of 0.5 (approximately). No matter how high the GDP growth rate, formal sector employment growth will consistently be significantly lower. This is visible in a steady, long-run decline in labour intensity (aggregate labour absorption relative to GDP), which underlies much of the observed increase in unemployment. This probably reflects, to a large extent, trends in technology and cost management techniques rather than increases in (skills-adjusted) real labour costs – alternatively, an inter-related combination of these.
 - ▶ Whatever the cause(s) may be, *the downward trend in labour absorption is a fundamental reality that all but dominates any consideration of ways of increasing employment intensity.*
6. Little is known about the current and potential labour absorption (for both employment and self-employment) in the informal sector. However, a large number of people are making a living in that sector and cannot be left out of (un)employment policy analysis.

7. The impact of skills and education on poverty, inequality, and unemployment respectively may be dissimilar and complex. Education only appears to have a significant impact on (un)employment once working-age persons have a grade 12 qualification or higher. Sectoral shifts that imply changes in the demand for labour of different skill levels can be a significant cause of unemployment of e.g. lower-skilled workers (amid perceived shortages of high-skilled labour).
8. Pensions and social grants constitute a critical policy nexus that links poverty, marginalisation, inequality, labour supply, (un)employment, and macro-fiscal considerations. Complex incentive and disincentive effects may be present.
9. Gender, race, age, and generational aspects influence, in complex ways, the causal relationships surrounding aspects such as vulnerability, job search, migrancy, grants, and education. These aspects need careful, nuanced analysis.
10. There are indications of a bi-directional causality between unemployment and poverty. Unemployment causes poverty, but in turn the condition of poverty contributes to unemployment and, notably, its persistence. This may contribute to the apparent permanent, or structural, nature of high unemployment in South Africa. The implications for policy to facilitate access of poor people to labour markets can be very important.

This list, derived from the survey and meta-analysis, is not meant to constitute a definitive integrated analytical picture, but captures aspects that should be central to such a picture. A deep understanding of South African unemployment requires the explicit consideration and unpacking of these issues.

4. ANALYTICAL AND RESEARCH CHALLENGES

The findings on gaps and key messages raise issues and questions, such as the following:

- a. The nature of dualism and segmentation – and a spectrum of segments, e.g. a primary sector, a secondary sector, and a third segment (survivalist and subsistence).
- b. How to understand wage flexibility in the context of multiple labour market segments and entry barriers. What role do, or can, wage levels, wage flexibility, and optimal labour market regulation play in unemployment, given a spectrum of segments and mobility barriers? How, and how well, do labour markets function in such conditions? Can the concept of labour market clearing be applied in all, some, or none of these labour market segments?
- c. How to analyse transitions between segments or between employment states or livelihood states (subsistence, informal and formal), amid segmentation and mobility barriers – given that getting employment, or better employment, is about transitions. Can policy interventions create effective ‘transition enablers’ and thereby increase employment?
- d. Can the analysis and policy promotion of employment and self-employment be combined, or should they be distinguished and differentially targeted?
- e. How to integrate mobility and entry barriers into one’s analysis, whether micro- or macroeconomic. Are barriers mostly on the labour supply side (i.e. personal, household, and locational characteristics) or also on the labour demand side (employer and firm characteristics) – or in labour market functioning, as such? Do these include only economic barriers or also social and power relations and psychological factors?
- f. How to view (and model) the secondary (or informal) sector.
 - ▶ Is it a problem sector – i.e. an aberration – or rather, a promising sector and basis for people to be economically productive and generate income?
 - ▶ Can a diversified, vibrant informal economy in rural, as well as urban/peri-urban ‘village economies’, generate substantial income-generating opportunities? Can labour absorption and employment intensity in the informal economy be increased?
 - ▶ Is the informal economy competitive and accessible – or full of barriers to entry for both workers and entrepreneurs? (Is there sufficient data to analyse the dynamics and linkages of this sector?)
- g. How to model and integrate marginalisation, exclusion and powerlessness – and thus the related issues of human capabilities and empowerment – into the analysis of labour markets and unemployment. What is the nature and significance of the concept of poverty traps for unemployment analysis, whether in rural or urban settings, and how do they differ in these contexts?
- h. How to incorporate the information, search, and access problems caused by poverty and various segmentations into a macroeconomic analysis of employment and unemployment.
- i. What is the relationship between social grants and productive economic activity (including job search and self-employment initiatives) in the context of marginalisation and multiple segments? Also, why does the significant growth in social grant payments not stimulate village economies? Is the money spent outside these villages and townships, or are the majority of businesses and shops in the townships national chain stores (limiting local impact and multiplier effects)?

- j. What is the relationship between education and productive economic activity, given the condition of poverty, marginalisation, and multiple segments? To what extent is more education a good recipe for increasing employment? Which skills are most relevant to employment and transitions between livelihood states? What is the role of language skills, search culture and capacity, inherited household skills, individual capabilities, and experiential-cognitive preparedness in enabling transitions to improved livelihood and employment states (or between segments)? Which of these skills can be ‘taught’, and how and where?
- k. The labour demand side of the unemployment picture, which has received limited attention at a micro-economic (firm or market) level, compared to the labour supply side. And: how should one model, analyse, and measure labour demand and firm behaviour, given formal and informal sectors, urban and rural segments, etc.?
- l. What are the implications of cyclical changes in the macro-economy for employment in various segments. Are all segments equally affected? Do marginalisation analysts and anti-poverty policy designers – *and* labour analysts and macroeconomists – take sufficient notice of the impact of cyclical or other ‘macroeconomic’ shocks and policy steps on the vulnerable and the poor – particularly if there is hysteresis, which could significantly prolong the impact of shocks on employment?
- m. What are the implications of macroeconomic growth for employment in various segments? In which segment(s) does the growth originate, does participation spread through linkages, where do the employment and other benefits of growth go?
- n. How should a growth-oriented employment analysis (or an employment-oriented growth strategy) deal with
- ▶ The constrained employment-creation capacity of formal sector growth, *and*
 - ▶ The growth potential (and constraints) in the intrinsically-linked worlds of *informal* production/employment and various types of *survivalist* activities, *as well as*
 - ▶ The implications of segmentation, poverty conditions and marginalisation for the flow of labour into the formal sector, even one with ‘flexible’ labour markets?
- To what extent is a strategy attempting to prime and fine-tune the ‘engine of job growth’ to absorb more labour fundamentally constrained, as long as large sections of the working-age population are structurally excluded from accessing employment opportunities in the formal sector?
- o. Do poverty-oriented or inequality-oriented policy analyses of unemployment and wages engage

sufficiently with the importance of formal sector growth (even if constrained)? Equally, what about engagement with the presence, nature, and implications of a negative wage elasticity of the demand for labour (also in a segmented market context)?

- p. To what extent can macroeconomic policy measures – e.g. interest rate and exchange rate policy – shoulder the burden of explaining and resolving unemployment, without any attention to e.g. insider-outsider dualisms and the informal and survivalist worlds?
- q. To what extent can a proper policy evaluation of labour regulations primarily be based on a stylised model of (flexible) formal-sector labour markets, given a context of highly-segmented labour markets, various job search and labour market access barriers, and so forth? How should regulation be conceptualised?

It is highly unlikely that one discourse can provide the analytical insights and policy options necessary to devise measures and policies that could lead to a significant reduction of unemployment (and poverty) in South Africa. Therefore, if such questions are not addressed, the South African unemployment debate is likely to continue to be divided and intrinsically blinkered by separate discourses.

5. TOWARDS A RESEARCH AGENDA

A set of proposed research priorities on unemployment will be mapped out, which start to address the questions listed above. The potential list of topics is daunting, given that unemployment is such a broad and complex phenomenon. The topics discussed here form the initial unemployment-related research agenda of one focus area of the recently constituted Research Project on Employment, Income Distribution and Inclusive Growth, based at SALDRU and supported by the National Treasury. While new research questions are likely to come to the fore as research uncovers new insights, but also puzzles, initially the research will focus on topics below.

5.1 Conceptual approach

To a large extent, this is about generating a novel and robust ‘developing-economy labour market analysis’ and then also integrating that into macroeconomic models. In other words, conceptually and theoretically, the aim is to:

- ▶ Integrate development and sustainable-livelihood perspectives with and into labour market analyses,
- ▶ Integrate such an ‘integrated livelihood-labour package’ into macroeconomic analyses, and

- ▶ Derive multipronged policy proposals based on such an integrated perspective on unemployment, poverty, and inequality.

In particular, the following pertinent dimensions of employment and unemployment in the developing country context of South Africa explicitly need to be considered all the time:

- ▶ The entire economy, not just the formal sector. This encompasses the full spectrum of livelihoods: from surviving on grants and intra-family transfers only, to rural subsistence/livelihoods (agricultural *and* non-agricultural), and urban subsistence and livelihoods, to various types of informal economy livelihoods/self-employment/employment, and on various types/sectors of formal sector livelihoods and (self-)employment – in effect, three segments: formal, informal, and survivalist. These categories reveal substantive segmentation and various entry and mobility barriers, including geographical-spatial dualism and related barriers – as well as various linkages and articulations.
- ▶ The full complexity of ‘access to labour markets’ amid segmentation and various entry and mobility barriers between segments.
- ▶ Marginalisation and the ‘condition of poverty’, which appear to constitute substantial discouragement factors as well as barriers to access and mobility.
- ▶ The full complexity of firm behaviour and dynamics (including entry and exit) and labour demand dynamics in a similar multi-sector and multi-segment context: public/private; formal/informal; large/medium/SME; traditional sectors (manufacturing, mining, agriculture, etc.).

Unemployment, together with poverty and inequality, intrinsically are complex phenomena. No single causal factor or singular solution to any of these should be sought, or is likely to be found in such cases. Nuanced and complex research and analytical processes – and subsequent policy design – are required.

Focused, specialised research will be important. However, what is required additionally is an increasing awareness of the need to bridge discourses, and how such studies feed into, can be enriched by, and linked into, the broader conceptual framework of an integrated approach and labour market model. Researchers need to be asking new questions, informed by a cross-discourse awareness; using new data or multiple sources of data and multiple methodologies (triangulation) – and getting new answers.

5.2 Provisional list of research gaps and topics

1. An appropriate labour market model for South Africa that explicitly engages with the developmental, multi-segment, and multi-livelihoods contexts (also clarifying the concept of structural unemployment in such a context). This could increasingly form the conceptual organising framework for research in this area.
2. Developing macroeconomic and growth models that incorporate the micro reality of South African labour markets, such as segmentation and entry barriers, as well as a spectrum of livelihoods. This will help in analysing the following:
 - a. The differential impact of demand and supply shocks (macroeconomic cycles) on employment and unemployment in different labour market segments and sectors, and
 - b. How labour market structural conditions (segmentation; entry barriers) can soften or aggravate this impact,
 - c. The impact of macroeconomic growth on employment (and unemployment) in different labour market segments and sectors, and
 - d. The impact of labour market structural conditions (segmentation; entry barriers, wage differentials) on the employment effect of macroeconomic growth, and
 - e. The extent to which labour market structural conditions are a constraint on macroeconomic growth.
3. Giving content to ‘inclusive growth’ from a broad, spectrum-of-livelihoods (survivalist/ subsistence, informal, formal) perspective – activating positive linkages and transitions between different labour market and livelihood states, so that benefits are felt across the spectrum – i.e. between segments (survivalist/ subsistence, informal, formal), and both rural (farm and non-farm) and urban areas.
4. Labour demand and firm behaviour in the formal *and* informal sectors, urban and rural, in various sectors of the economy. Aspects may include the following:
 - a. Firm entry: factors that constrain or enable entry (firm size, market structure, local product space, costs, risks, skills, etc.) – including entry through self-employment,
 - b. What determines, enables, and constrains firm growth, survival and exit (firm size, product space, costs, risks, skills, market structure, competition, etc.)?

- c. What constrains entry into and growth within the export market?
 - d. What determines the employment scope and choice of technology (including capital and labour intensity) within a firm?
 - e. The relevance and estimation of the elasticity of the demand for labour in a segmented-market context.
 - f. Systematic and regular, formal, and informal firm data surveys (NiDS for firms) to underpin good research in this area in the future.
5. A critical review of policy initiatives in the post-apartheid period, with regard to employment generation and the persistence of unemployment. Some recent examples:
 - a. Land reform and employment,
 - b. Large infrastructure projects and employment transitions:
 - ▶ Direct and indirect employment effects in the formal sector,
 - ▶ Indirect employment and self-employment effects in the informal economy,
 - ▶ Broader impact on the survivalist segment of affected/local communities.
 6. Evaluating the potential role of industrial and other policies to increase employment multipliers, labour-intensity and -absorption (i.e. the employment co-efficient) in various parts of the formal sector – given international trends in management techniques and technology to decrease labour usage. Aspects may include the following:
 - a. Price of capital – the legacy of capital subsidies,
 - b. Labour intensity subsidies?
 - c. Cost of doing business,
 - d. Lack of worker training by firms,
 - e. Sectoral patterns, differences and opportunities.
 7. The optimal role of labour market regulation and other employment-related policies in the formal *and* informal economies. Aspects may include the following:
 - a. Active labour market policy,
 - b. Overcoming employment barriers,
 - c. Job search assistance, networks, and, information,
 - d. Wage and transport subsidies, and
 - e. Labour market institutions: what should which institution do?
 8. Livelihood, employment, and (self-)employment strategies/potential (and barriers) in rural, peri-urban, and urban areas, including aspects such as
 - a. Agriculture (commercial, co-operative and small-scale),
 - b. Housing construction, upgrading, and maintenance as employment generators,
 - c. Franchising as a mode of entry and success,
 - d. The role of intermediaries in informal-formal interfacing (in e.g. marketing),
 - e. The impact of an expanding formal sector presence in such areas on the scope for viable small-scale business opportunities,
 - f. The impact of housing location, spatial barriers, and transport costs,
 - g. The impact of crime on livelihood strategies / crime as a livelihood strategy?
 - h. Institutions (e.g. SEDA), policies (e.g. LED) and regulation that can facilitate these strategies.
9. Labour market dynamics and transitions between employment states or livelihood states (survivalist, informal, and formal), amid segmentation and mobility barriers: Why are some people successful and others not? Aspects may include the following:
 - a. Role of (absence of) social networks; facilitating networks,
 - b. Discrimination,
 - c. Unemployment duration and employability (due to e.g. skills depreciation),
 - d. Impact on employability and transition probability of individuals, of PWPs, and CWPs,
 - e. Impact of poverty and segmentation on participation, flows in and out of participation,
 - f. The extent to which poverty traps and marginalisation of the poor/women/youth constrain upward transitions between these sectors,
 - g. Reservation wages and employment expectations in informal and formal sectors,
 - h. Self-employment 'reservation expected income' in informal and formal sectors,
 - i. Models for analysing self-employment behaviour/ patterns in formal and especially informal settings (excluding the professions) – and the relevance of labour market and search models for self-employment, and
 - j. Access to credit markets (start-up or bridging finance) and other barriers.
 10. Job search in a developing country, segmented-market, and spectrum-of-livelihoods context: nature, obstacles, and facilitation. Aspects may include the following:
 - a. The role of labour services or labour brokers,
 - b. Impact of spatial barriers and transport costs (subsidies),
 - c. Reservation wages (and wage subsidies), and
 - d. 'Caring labour' (child care, care of the sick and elderly) as a constraint on job search?
 11. The impact of UIF, social grants, and other household resources/transfers on livelihood strategies and on individual labour supply decisions and outcomes in various segments and states.