

# ERSA Research Brief

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## Underemployment in South Africa

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### Introduction

When reference is made to the South African labour market it is often described as being inflexible, characterised by the shortage of skilled labour and over-supply of semi-skilled and unskilled labour. Other structural issues also bring to mind the mismatch of skills possessed by the labour force in relation to skills required by the economy. As a result, for many years, South African economic policy has been centred on the reduction of unemployment. Despite this, one of the major socio-economic issues South Africa is still grappling with to date remains the persistently high level of unemployment (5.5 million of the labour force were unemployed, while unemployment rate was 26.3% in the first quarter of 2015).

Nonetheless, simply making distinctions between the employed and unemployed is no longer adequate with regard to labour market analysis, as the labour market itself has grown in complexity. Little attention is paid to the extent to which people occupy jobs in terms of hours and the way in which it utilises their skills and qualifications. The capacity of the labour force is therefore often disregarded.

With the introduction of the Quarterly Labour Force Survey (QLFS) since 2008, two new variables were derived by Statistics South Africa (Stats SA). One of them is the *underemployment* variable, which for further investigation into the nature of employment in South Africa.

### Types of underemployment

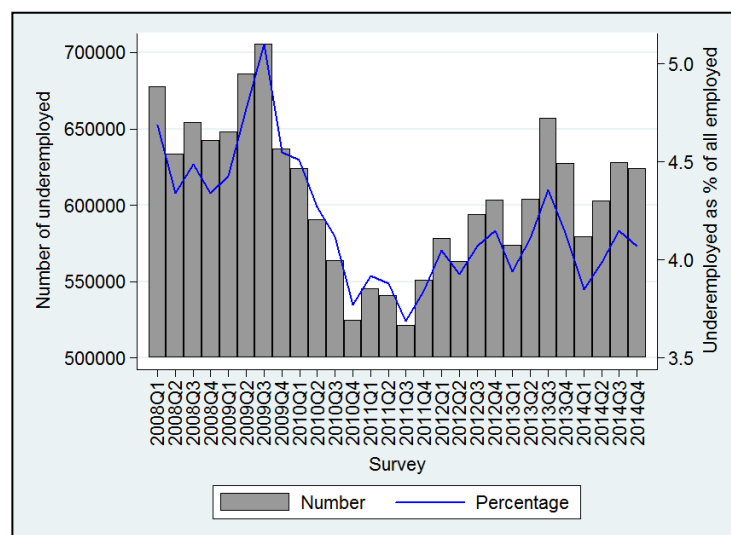
This study examines underemployment according to two definitions referred to as the (a) time-based approach and (b) the inadequate employment situations approach. In the former approach, underemployed stand for a worker who is willing and available to work additional hours, only actually worked fewer than 35 hours during the reference week, and could work extra hours within the next four weeks; in the latter approach, underemployed represent an employed whose the years of education is at least one standard deviation above the mean of the employed in the relevant occupation category.

### Key Findings

#### (1) Number of underemployed

According to the time-based approach, it was found that the under-employed accounts for 4-5% of all employed since 2008. In absolute terms, the number of underemployed fluctuated between 520 000 and 700 000 in 2008-2014. It is not possible to derive underemployed under the time-based approach before 2008.

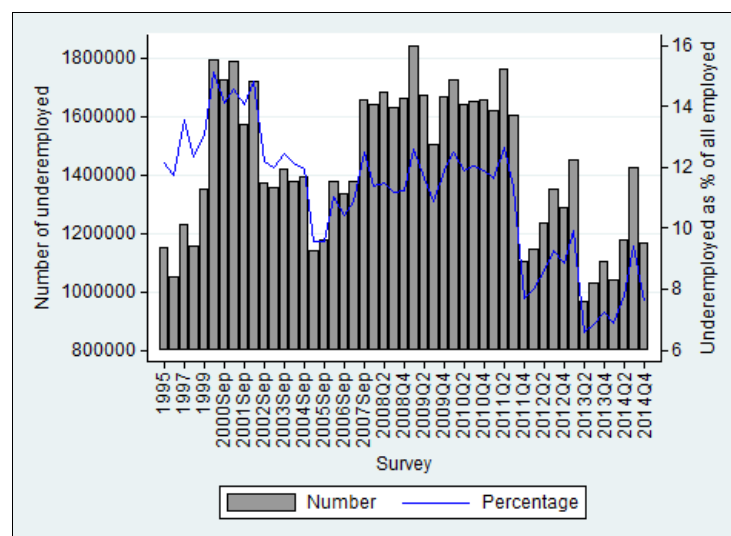
**Figure 1: Underemployment derived from the time-based approach, 2008-2014**



Source: Own calculations using QLFS 2008-2014 data.

Under the inadequate employment situations approach, the number of underemployed ranged between 970 000 and 1 840 000 during the period under study (1995-2014). These underemployed as a share of the all employed fluctuated between 6% and 15% of employed.

**Figure 2: Underemployment derived from inadequate employment situations approach, 1995-2014**



Source: Own calculations using OHS 1995-1999, LFS 2000-2007 and QLFS 2008-2014 data.

## (2) Profile of underemployed

In terms of race, underemployment is found to be more prevalent among the black population when compared to the other race groups for both approaches of underemployment. With regard to gender, females are more likely to be underemployed in both approaches. Furthermore, urban formal dwellers, those who obtained a secondary education, working as domestic workers or elementary workers as the main occupation, in the manufacturing, wholesale and retail, transport and private household industries, and in the informal sector are more likely to be underemployed.

### **Policy Implications**

The over-qualification approach to measuring underemployment as seen in the paper, in particular highlights the prevalence of structural underemployment within the South African labour market. Labour market policies aiming at job creation should look beyond focusing on the number of jobs created per year and rather focus on the quality of jobs being created. In other words, the focus should shift to the sources of job growth and the actual types of jobs being created in accordance to the needs of the economy versus the supply of skills the labour force are able to offer.

Moreover, as the results indicate the prevalence of underemployment amongst blacks, females and those individuals occupying jobs in certain industries, a proper analysis of the profile of the underemployed should be conducted to provide deeper insight and can inform policy makers. Furthermore guidance should be given to individuals when choosing particular fields of study to meet the requirements of the economy.

Finally, unemployment and underemployment could both be strongly associated with the business cycle as the demand and supply of labour fluctuate accordingly. Short-run policy which focuses on stimulating labour demand during depressed periods may only result in employment of a temporary nature, associated with short tenure, non-permanent employment contracts and even low earnings. In other words, underemployment could still lead to poverty to some extent.