

JEL Classification Numbers:
E24, J23, J31

Summary of
WP/94/108

"Disequilibrium in the Labor Market in South Africa" by Bankim Chadha

This paper characterizes wages, employment and unemployment in South Africa from a macroeconomic viewpoint. Unemployment is decomposed into a Keynesian or cyclical component that can be identified with deficient aggregate demand, and a classical or structural component that can be identified with aggregate supply. The evidence suggests that unemployment is largely structural and associated with supply factors rather than due to cyclical factors associated with the recent recession.

Alternative explanations for the persistence of deviations of market wages from full-employment levels are explored. Three models are discussed: a nutrition-efficiency-wage model; a wage-incentive model; and a model of collective bargaining. Each is shown to be empirically capable of generating the kinds of wage and employment gaps observed in South Africa. While the models are, therefore, observationally equivalent at an aggregate level, it is useful to examine the different models because they stress alternative factors in creating a wage gap and thus unemployment.

The predictions of the models for wages and employment are discussed in light of recent and prospective developments in South Africa. These developments include: the effects of increases in the capital stock and improvements in multifactor productivity; the redistribution of social expenditures that is underway; reductions in effective transportation costs associated with the removal of apartheid; structural measures that increase labor market flexibility; and changes in union membership.