
**THE DYNAMICS OF EMPLOYMENT AND POVERTY IN SOUTH AFRICA: an
empirical enquiry based on the KwaZulu-Natal Income Dynamics Survey.**

Likani Lebani

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ABSTRACT

This study explores the dynamics of employment and poverty in South Africa. Specifically, it is aimed at understanding, over time, the change in household well-being that occurs as a result of the employment types of household members. Secondly, the study explores the relationship between household worker combination and self employment activities, in other words, what are the odds of a household getting better as a result of income accrued from self-employment activities and how is this linked, if at all, to employment of other members of the household. This study will contribute to the debate on poverty and the labour market and that on the relationship between the formal and informal economies.

The study relied on secondary data analysis from the KwaZulu-Natal Income Dynamics Survey. Instead of establishing a poverty line, the entire distribution was ranked on the basis of deciles. Decile transitions were then established with respect to household worker combinations and participation in self-employment activities.

The analysis of the data revealed a range of worker types. The dominant household worker combinations have workers in regular employment, casual employment, self-employment, and the unemployed. The number of people following the self-employment route is generally low despite the substantial number of people who remain unemployed. Seemingly, self-employment is not a desirable destination.

The period 1993-1998 saw little variation with respect to household worker type. Though the number of regularly employed workers increased during the same period, there were an equally considerable number of unemployed people. The general trend shows few people assuming regular or formal work employment. This trend could not bring about a significant change in total income decile transition and hence a change in household well-being.

With respect to self-employment, most activities are associated with households with at least a regularly employed member. In a majority of cases, there is a close association between self-employment and workers in the formal economy. The relationship suggests an intra-household transfer of resources to self-employment initiatives or the fact that households participate in self-employment activities in an effort to supplement income from regular employment that is inadequate to meet household needs.

There was little variation in household rank order between the two years. It was therefore increasingly difficult for households to experience a change in income, at least, as expressed by their decile transitions. Households with regularly employed members had a greater chance of improving their decile transition. Income from labour earnings therefore played a substantial role in determining the change in household welfare.

Though households engaged in a range of self-employment activities, income from these activities had little impact with respect to decile transitions. Income from self-employment is therefore inadequate to bring about a meaningful change in total household income.

In conclusion, the study notes that household welfare and its improvement is dependant upon the employment types of its members. It therefore calls into question the expectation that the unemployed and those in unstable employment should subsist on their own. Secondly, there is a close linkage between the informal economy (i.e. self-employment) and the formal economy. In light of the links between the two economies, the analysis of the informal economy as a separate entity needs revision.

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DECLARATION

I declare that *The dynamics of employment and poverty in South Africa: an empirical enquiry based on the KwaZulu-Natal Income Dynamics Survey* is entirely my own work, that it has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by completed references.

The findings of this study are based on the author's own calculations and analysis and should not be attributed to any of the collaborators of the KwaZulu-Natal Income Dynamics Survey, namely, the International Food Policy Research Institute, the University of KwaZulu-Natal (Howard College), the University of Wisconsin-Madison, and the Southern Africa Labour and Development Research Unit at the University of Cape Town.

Full name..... Likani Lebani Date..... 27/09/04

Signed..... 

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Chapter one Introduction

1.1 Introduction

South Africa like other developing countries is confronted with a number of development policy challenges. One major challenge relates to the labour market where a substantial number of people remain unemployed. The current unemployment challenge has its roots in the apartheid policies that saw the emergence of social divides namely those of a geographical and racial nature. According to Borat et al (2001:1) the South African labour market shows a “strong geographical dimension with insiders being largely urban and outsiders rural”. Though unemployment is traditionally measured at the individual level whilst poverty is measured at the household level it is widely accepted that there is a close link between the “functioning of the labour market and the generation of poverty and inequality at the household level” (Bhorat et al 2001, Borat and Leibbrandt, 1999:12).

Seemingly, access to wage employment is one determinant of the level of household income and hence the level of poverty. If labour earnings are such a key issue, the thrust of policy debates should lie in understanding the capacity of households to access labour income through their various members. Given this premise, there is need to explore, at the household level, the change in income that arises as a result of the association between the formally employed, self-employed, the unemployed and other forms of employment. Borat et al (2001:209) in a first South African study of its kind that focuses on poverty and inequality within the labour market identified five household factors that determine the nature and extent to which a household is deprived. Such factors encompass the “unemployment rate of household members, the dependency ratio within households, the bargaining power of household members, the skills of the average household working member and the quality of the job”.

Households are expected to experience a change in poverty levels as members either lose jobs or move into different forms of employment. The fundamental question

relates to understanding, over time, the magnitude of change in income and hence poverty levels that occur as a result of a change in household worker combination. Another issue of particular interest in this study is the relationship between household worker combination and self-employment activities. In other words what are the odds of a household getting better as a result of income accrued from self-employment activities and how is this linked, if at all, to employment of other members of the household?

The study is based on the KwaZulu-Natal Income Dynamics Survey (KIDS). In contrast to fixing a poverty line, an income decile ranking of the entire distribution is preferred. Decile transitions are then established with respect to household worker combinations and participation in self-employment activities.

This study explores, at the household level, the employment-poverty nexus from three perspectives. Firstly, is the exploration of the magnitude of change in household poverty levels as a result of different household worker combinations? The study shows that a substantial number of households in KwaZulu-Natal comprise workers in regular employment. It is the households that have a significant number of regularly employed workers that have seen a change in poverty rankings, at least, as expressed by a change in income decile location between the two years. All in all, there was no change in decile ranking for a sizeable number of households. Secondly, is the association between self-employment activities and the type of workers found in a household? The study shows that households engage in a diverse range of activities from collection to manufacturing. In all forms of self-employment activities, a significant number of these are run by households with regularly employed members. This suggests an intra-household transfer of resources to these activities and to some extent the inadequacy of income from regular employment. Households without regularly employed members seemingly face financial constraints to even engage in self-employment activities. The third area of focus deals with the subsequent change in poverty that arises out of participating in self-employment activities. The study shows that self-employment activities have not

been able to bring about a significant change in household welfare at least as expressed by a change in household rank order.

1.2 Definitions of employment and poverty

Some common concepts that attempt to show the extent to which people are unemployed include *open unemployment, involuntary unemployment, disguised unemployment, narrow unemployment and broad unemployment*. Poverty on the other hand is generally viewed as being either of a *relative* or *absolute nature*. This section offers some widely used definitions of these concepts.

1.2.1 Open unemployment

According to Hofmeyr (1985:4) open unemployment “arises where a person is without remunerative work, but would like such work at going wage rates. Related to this is open underemployment, where a person does not have as much work as he or she would like at the going wage rates”. The implication is that underemployed people look for extra work in addition to what they would already be doing.

1.2.2 Involuntary unemployment

Involuntary employment obtains when unemployed people are willing to accept jobs at whatever wage rate is paid to them. Involuntary unemployment is therefore associated with a slow down in productive activities such that those with a desire to work fail to do so even if they would accept any job offer at whatever wage rate (Standing et al, 1996). Kingdon and Knight (2001:13) dispute the prevalence of involuntary unemployment in South Africa on the basis that the unemployed are generally worse than both the formally and informally employed in terms of their “income, expenditure and well-being”.

1.2.3 Disguised unemployment

Disguised unemployment occurs when the productivity of the workforce is low. This is because an excessive number of workers are employed than what is optimally desirable (Todaro, 1994:229). Assuming a shirt making self-employment activity has a capacity to employ 5 people and the actual number of people employed exceeds

this limit e.g. 8, the balance of 3 workers is disguisedly unemployed. The implication is that though the 3 workers appear to be employed; their services are not optimally used. Their productivity is so low such that even if they were removed from the shirt making activity, the total output, say in terms of the number of shirts ~~seen~~, would actually remain unaltered. Disguised unemployment therefore exists when there is excess labour.

1.2.4 Narrow unemployment

The narrow definition of unemployment is the equivalent of the ‘official’ definition used by Statistics South Africa (Stats SA) to capture the level of unemployment in the country. The narrow perspective views the unemployed from three angles, firstly, as “those people within the *economically active population* who did not work during the seven days prior to the interview”, secondly, such people “want to work and are available to start work within a week of the interview”, and thirdly, they “have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview” (Stats SA, 2001: x). This definition assumes that those who are not actively looking for employment do so out of choice and are hence voluntarily unemployed. This perspective tends to overlook a number of underlying factors explaining why people remain unemployed especially in situations where the unemployment rate is high.

1.2.5 Broad unemployment

The broad definition has all the aspects of narrow unemployment except that it drops the condition of having looked for work or started some form of self-employment. The broad definition of unemployment includes the so-called discouraged workers who have given up looking for employment but still have the desire to at least secure some form of employment in the future (Stats SA, 2001:x).

1.2.6 Poverty

According to the United Nations Development Programme (1998:106) the measurement of poverty dates back to the 1800s when “Booth and (1889-92) and Rowntree (1901) tried to measure the extent of urban poverty in London and York”.

Their primary aim was to determine a poverty level that would in turn facilitate the separation of the poor from the non-poor.

In contemporary development studies poverty is viewed as being either of a *relative* or *absolute* nature (Todaro, 1994:145; Lanjouw, undated). The common approach to the measurement of poverty using absolute measures is to “specify a minimum calorie intake which is then converted into food stuffs adequate to meet the level, given typical consumption patterns in a society. The cost of this amount of food is then determined to yield a poverty level” (United Nations Development Programme, 1998:106). The *relative* measurement of poverty tends to be more “socio-cultural than narrowly physiological” since it endeavours to define those requirements needed for one to “lead a full life as a member of the community”. Another dimension of relative poverty is to define it “as a function of average earnings, which implies that wage or salary employment is the predominant way of earning income” (United Nations Development Programme, 1998:106).

Both these measures of poverty though widely used remain inadequate to a great extent. Firstly, consumption trends of the poor may differ depending on what they have at particular points in time. The United Nations Development Programme (1998:107) notes that “looking at what the poor actually consume rather than what they could consume if they had the resources gives a distorted consumption pattern”. The use of money metric measures may also underestimate income from the informal economy where a substantial number of people in developing countries are employed. The current thinking is that measurements of poverty should go beyond income and look at human capabilities (Human Development Report, 1992; Dreze and Sen, 1989:9-10).

The capability measurement approach was developed on the premise of two connected factors namely the entitlements of a person and the associated ability to transform commodities into functionings. Entitlements include that group of optional bundles of commodities over which an individual is able to establish control. To note is the element of choice and command and also the fact that entitlements can be

traded on the open market hence the term exchange entitlements (Dreze and Sen, 1989:9-10). Endowments on the other hand relate to primary resource ownership. According to Sen (1993:31 as quoted in Brandolin and D'Alessio (1998:4)

Functionings represent parts of the state of a person in particular the various things he or she manages to do or be in leading a life. The capability of a person reflects the alternative combinations of functionings the person can achieve, and from which he or she can choose one collection. The approach is based on a view of living as a combination of various 'doings and beings' with quality of life to be assessed in terms of the capability to achieve valuable functionings.

The term functioning is broad and is hence not restricted to any bundle of commodities. Some of the things included within the domain of functionings are being well nourished and preventing oneself from disease contamination in addition to abstract things like being involved in community initiatives (Laderchi, 2001:3). Evidently, functionings are bound to be situational and context dependent since it is not possible to assess the combinations of functionings and contrast them across diverse population groups.

The conversion of commodities into functionings heavily relies on the characteristics of the individual. It is argued that a disabled person may not necessarily convert his/her bundle of commodities with the same ease as an able-bodied person. There is hence no objectivity as regards the abilities of different people to convert commodities into functionings (Brandolin and D'Allesio, 1998:10). Associated with this is the ability to "evaluate the extent to which the same bundle of commodities generates different functionings for persons with different characteristics (Brandolin and D'Allesio, 1998:10). Drawing from the above, it is imperative to not only adequately separate functionings but also establish a structure that depicts pertinent functionings and their relationship. The ideal measure of capability should therefore reveal a reciprocal relationship that obtains amongst alternative functionings. The extent to which this is possible is still an area of concern.

It is apparent that the limitations to some functionings are real and subjective to time variations (e.g. a woman getting pregnant and hence limiting the attainment of some functionings despite the issue of choice. The nature of capabilities approach therefore highlights the fact that “increases of well being might well get along with limitations in some dimensions (Brandolin and D’Allesio, 1998:13). The impact of exogenous factors also plays an influential role. An example is sustainable child nutrition whose attainment is not only dependant on food availability but also other factors like availability of safe water, sanitation, health services and care.

Despite such short comings the capability approach draws a sharp focus on human life and the manner in which it can be led rather than commodities. To this end, the collapse of human capabilities that are critical to a person’s survival may lead to increased poverty in terms of either extent or severity. Following this line of thought, poverty is therefore viewed as not only as an acute breakdown of fundamental capabilities but also those that are “ultimately important” (Dreze and Sen, 1989:15).

In terms of poverty alleviation the capability approach is driven by two objectives namely that of strengthening basic capabilities on the one hand and that of avoiding dispossession of the same on the other. The role of the capability approach in development therefore entails the “expansion of human capabilities to play agency roles” and secondly to increase their entitlements on the basis that inadequate resources limit the ranges of choices people have in order to lead valued lives (Sen 1999:3 and Dreze and Sen, 1998:11 as quoted in Jensen 2001). The expansion of capabilities is based on “constructive public action” in an effort to spread “economic opportunities through adequate supportive social background” (Dreze and Sen, 1989:257). Elements providing an ideal social background include the quality of education, health care, medical services, political/legal privilege and regulated employment condition between employer and employee. The capability approach hopes such an investment in the abilities of agents would be a driver in the “process of expanding the capabilities of disadvantaged (poor) people” (Nausbaum and Sen, 1993:1, Sen, 1983:755 as quoted in Jensen, 2001:26). The essence of development is therefore to stimulate the effectiveness of substantially dormant human capabilities

through “constructive public action” and hence offer a hedging mechanism against capability deprivation (Dreze and Sen, 1998:11 as quoted in Jensen, 2001:26).

1.3 The informal economy

1.3.1 Conceptualising the informal economy (self-employment)

There is no one definition of the informal economy. Martins and Ligthelm (1995:3) note that definitions tend to be context specific and may not necessarily apply to other studies. The International Labour Organisation’s (ILO) definition dates back to 1972 and “like the character of the phenomenon it aims to describe” it has evolved over the years (Devey et al 2003a:8). As of 1992 the ILO viewed the informal economy as that comprising “the aggregate of activities that result from the need for generating one’s own employment to earn a living because other sectors of the economy are unable to provide a sufficient number of adequate employment and income opportunities for a rapidly growing labour force and there are no, or only rudimentary social benefits to fall back on” (ILO, 1992 in Martins and Ligthelm, 1995:3).

One important definition is that agreed upon at the 15th International Conference for Labour Statistics (ICLS). The ICLS definition advocates for a definition that takes into account the following: “non-registration of the enterprise in terms of national legislation such as taxation or other commercial legislation, non-registration of employees of the enterprise in terms of labour registration and small size in terms of the numbers of people employed” (Devey et al, 2003a: 11). The important condition for the ICLS definition is that “employment in the informal economy is based on the characteristics of the enterprise in which the person is employed instead of the characteristics of the worker employed” (Devey et al, 2003a: 11). Devey et al (2003a: 4) in a critical analysis of the definitions, data and the informal economy in South Africa showed that “significant proportions of the workers classified as informal display characteristics of formal work, and an increasing number of formal workers jobs are characterised by conditions that are typical of informal work”. It is

for this reason that the authors argue for a “definition based on work characteristics, rather than an enterprise based definition” (Devey et al, 2003a: 4).

The self-employment activities reviewed in this study are restricted to the household and generally of a small-scale nature in addition to being unregistered. They also cut across a number of sectors and as Becker (2004:8) notes, reflect “the existence of a continuum from the informal to the formal ends of the economy and thus the interdependence between the two sides”. In light of these characteristics the ICLS definition though not exhaustive will guide this study.

1.3.2 The measurement of informal (self employment) activities

Eardley and Corden (1996:12) identified four problems associated with the measurement of informal economy activities. Firstly, the lack of a universal definition could mean that some activities are underestimated or go unmeasured. Secondly, is the under reporting of income by those involved in such activities. Some enterprises are closely linked to the household resulting in a hazy partition between enterprise and household activities. The fourth challenge relates to the “lag time between accounting and the survey period” which implies captured data may only reflect activities close to the survey period. Lastly is the “concept of earnings and measurement of profit” which is either under or over stated due to the overlap with household activities (Eardley and Corden, 1996:13). The manner in which the income variable was captured in the KwaZulu-Natal Income Dynamics Survey is one area of concern that may need revision for future studies (Cichello et al, 2002).

1.4 The current study

The aim of this study is to analyse the labour market -poverty nexus using panel data from the KwaZulu-Natal Income Dynamics Survey (KIDS). The study is based on the premise that wage employment is one of the major exit routes out of poverty. Households with members in regular work and stable income are therefore likely to get ahead over time compared to those whose members are either unemployed or occupy casual and unstable jobs. The thrust of the study is that household worker combination plays a significant role in determining the extent to which a household

either gets better off or worse-off over time. It is also this combination of workers, at the household level, that subsequently determines whether a household is able or unable to engage in other activities (e.g. self-employment) that have a potential of improving its overall welfare.

The study begins by outlining the literature on poverty and inequality within the South African labour market. The literature shows that differential access to employment opportunities explains to a great extent the current inequality and poverty across and with population groups in the labour force. Conceptual underpinnings explaining employment trends and how such trends have evolved over time are also discussed. Of particular note is whether the South African economy has been able to create jobs and if not, what explains the participation or reluctance of the unemployed to engage in self-employment activities. Given such a conceptual underpinning, the study will deduce the extent to which current theoretical concepts have been able to explain or not explain the change in household worker combination and associated change in poverty ranking.

1.4.1 Rationale

Low earnings and unemployment are a common phenomenon for a number of South Africans especially those with peripheral skills. The challenge for a number of people, especially Africans, is that being unemployed is closely associated with living in poverty since a substantial number of people rely on cash income to purchase goods from either the formal or informal economy (Baumann, 2001). The accepted thinking is that wage employment remains one of the fundamental conditions for improving the quality of life for both individuals and households than any other form of employment (Bhorat et al, 2001, Bhorat and Leibbrandt, 1999, Cichello et al, 2002). Indeed the number of people employed has been on the increase in the last couple of years. Worthy noting is that employment in the informal economy is known to have increased in far greater proportions than the formal economy (Devey et al 2003a). The growth in informal economy jobs has however been contested on the basis that such a trend has been realised more out of an improvement in data capture than the creation of actual jobs. Another dimension

of informal economy activities is that people involved in these activities reflect characteristics of formal economy worker (see Devey et al, 2003a) such that it increasingly becomes difficult to infer the extent to which a household may get better on the basis of the classification of workers in it. Nonetheless, there exists a general consensus that people working in the informal economy are by and large worse-off than their formal economy workers (Castell and Portes, 1989; Carr and Chen, 2001).

Though the number of people employed has increased, an area of concern is that the rate of employment creation has not been able to absorb all those in need of employment. The implication is that those failing to assume vacancies in their preferred employment destinations end up engaging in other forms of employment. It is for this reason that one needs to understand the change in household well being that occurs as members take up employment in different sectors especially those sectors associated with instability of jobs. With self-employment as one of the options for those outside formal employment, a fundamental question relates to understanding whether there is an association between household change in poverty ranking and self-employment activities? It is for this reason that both a change in the type of workers within a household and participation in self-employment initiatives, *ceteris paribus*, inevitably have an impact on household well being.

1.4.2 *Research objectives*

This study has 3 objectives. Firstly to explore changes in income levels (at least as expressed by household rank orders) associated with the existence of different types of workers within households. Between the period 1993 and 1998 it is expected that working household members might have changed their employment sectors leading to an associated change in income. The primary concern relates to exploring changes in employment and subsequently income (and hence poverty rankings) associated with changes in worker combinations at the household level. Secondly, is the exploration of a possible relationship between secondary sources of income (income from self-employment activities) and household worker combinations? The study strives to understand whether self-employment activities are linked to any particular

household worker combinations and if so what other associations can be established. The third objective relates to determining the impact of secondary sources of income in influencing household poverty rankings. In other words, what are the odds of a household with secondary income to either drop or improve its poverty rank relative to other households?

1.4.3 *Research questions*

Given the rationale and objectives, this study explores the following research questions:

1. Is employment a key driver for household income growth? In other words, what (forms of employment) combinations drive changes in household income growth and hence change in poverty? Over a period of time household members move over to different forms of employment as a result of personal choice or due to external factors like economic structural changes. A change in employment by a member of the household means a subsequent change in total household income. A move over to secure and stable jobs usually imply increased income. The greater the number of household members in such jobs the higher the income. A question that arises is what type of household worker combinations is likely to drive income changes?
2. What is the relationship between self-employment sources of income and the type of workers in a household? Households engage in different types of activities for different reasons. This question seeks to understand whether the types of activities pursued by households are in any way linked to the type of workers that live in the household? Is there a chance that workers within a household drive self-employment activities pursued by other household members?
3. Is there a relationship between household self-employment sources of income and change in poverty ranking? Households generally pursue self-employment activities of a different nature and magnitude. This question

strives to understand the magnitude of change in poverty levels brought about by income earned from these activities.

1.4.4 Outline of the study

This dissertation is organised into five chapters. Chapter One introduces the study by looking at various concepts and definitions within the discipline of labour and poverty studies. Chapter Two is the conceptual framework of poverty and inequality within the South African labour market. This chapter is followed by the methodology of the study. The results are discussed in Chapter Four. Chapter Five concludes the study and recommends future policy directions for issues in the domain of employment and poverty.

Chapter Two Conceptual Framework – poverty and inequality in the South African labour market

2.1 Introduction

This chapter reviews literature on the South African labour market with respect to poverty and inequality. The study recognises that different surveys measure different things such that unemployment/employment may be seen to be going up or down depending on which survey is used. Structural changes experienced between the years also make the comparison of different years problematic in that one may actually be comparing different economies. On the basis that the KwaZulu-Natal Income Dynamics Survey utilises data from two years, 1993 and 1998, this study in addition to looking at the most recent literature also reviews literature from the same years on the premise that the economic context under which the study was conducted reflects those particular years.

2.2 Selected historical developments in the South African labour market

1970s – 1994

The 1970s were associated with the end of the economic boom associated with the 1960s. According to McCord and Borat (2002:114) the 1970s decade also marked the “beginning of a recession and a structural crisis”. As a result of international and domestic pressure (namely sanctions and demands of labour unions), this period saw a considerable change in labour market policies. Of particular note were those policies that prevented “blacks from accumulating human capital” and improving their potential to accrue higher earnings (McCord and Borat, 2002:114). As a result of such policies a number of blacks were excluded from certain sectors of the economy.

In sum, the 1970s were associated with a decline in “primary sector employment” (McCord and Borat, 2003:115). This decline in employment had a negative impact on Africans who at this time constituted a greater part of workers employed in this sector. As employment in the primary sector decreased there was a corresponding

increase in the demand for employment in the services sector. Since the services sector employed non-Africans, this meant a corresponding increase in employment opportunities for non-Africans. It is noted that the “structural shift away from the primary sector accounted for two-thirds of the fall in African labour demand between 1970 and 1995. The rest of the decline in demand was “accounted for by technology changes” (McCord and Borat, 2003:115). The relevance of technology changes lie in their ability to influence the type of worker demanded. As technology changes gain momentum the demand for workers with specialised skills also increased in tandem. The greatest impact of these changes was felt by Africans especially those without the requisite skills to engage in technically demanding jobs.

1995-2001

The period after 1995-2001 has two points of significance. Firstly, it is the second year after the end of apartheid which means equality of opportunities for all population groups, at least as expressed in various pieces of legislation like the employment equity act and the affirmative action act. Secondly, it saw a major shift in policy orientation with major emphasis on a market driven economy. Major policy shifts focussed on “trade and tariff liberalisation, the accelerated adoption of new technologies and the restructuring of the public sector. These policy shifts like those of the 1990s meant a “loss of bottom end jobs” (Bhorat and McCord, 2003:116). The loss of jobs was further exacerbated by the neo-liberal Growth Employment and Redistribution programme (GEAR) (Bhorat and McCord, 2003:116). GEAR emphasised efficiency and fiscal austerity, which meant the public service had to shed off some of its workforce if it was to operate within the stipulated budgets.

According to Poswell (2002:10) “attrition in the public sector” significantly accounts for the change in labour patterns for the period between 1995 and 1999. The decrease in the ability of the state to absorb the unemployed in addition to new entrants in the labour market inevitably put pressure on other sectors of the economy to create employment opportunities. The issue at the heart of policy development is the extent to which other sectors create employment opportunities and are hence in a position to absorb the unemployed especially those in poorer provinces like

KwaZulu-Natal and similar provinces (cf. Roberts, 2000; 2001; Rogerson, 1996; Schlemmer and Moller, 1997; Hirschowitz et al, 2000; Klassen, 1997 and May, 2000). The second question concerns the existence of ideal human capacity to take up any job offers, otherwise those in unemployment and those with a desire to move to higher earning jobs may remain unemployed for considerable periods of time despite the opening up of job opportunities.

2.3 The contemporary South African labour market

A review of labour statistics indicates an official unemployment rate of 28.2 per cent as of September 2003 (Stats SA, 2004). The official figure is generally lower than the broad rate of unemployment (36.2%) because it excludes discouraged workers who are not taken as part of the unemployed. The implication is that the unemployed may actually be much higher than what is captured in the 'official' rate of unemployment. This is highly likely in the rural areas where a significant number of people not only lack access to employment opportunities but also lack the required skills for absorption into the core economy. Stats SA acknowledges that broad unemployment is relatively higher in rural areas than it is in urban areas. Bhorat and McCord (2003:126) note that, though "narrow rural unemployment rates are similar to urban rates, broad unemployment in rural areas is approximately 10 percentage points higher, implying that in rural areas employment is generally less available". This view is also recognized by Standing et al (1996:114) who notes that "unemployment is actually far more widespread in rural areas than in urban areas". A policy issue associated with this discrepancy lies in creating strategies for increasing the employment absorption rate in rural areas where a majority of people arguably possess obsolete skills or peripheral skills.

The distribution of the labour force across different sectors of the economy is shown in table 2.1 for the period 1997-2001.

Table 1: Formal and informal economy labour market trends, 1997-2001

	OHS 1997	OHS 1998	OHS 1999	LFS Feb 2000	LFS Sep 2000	LSF Feb 2001	LFS Sep 2001
Formal	6 405 953	6 527 120	6 812 647	6 677 923	6 841 877	6 678 219	6 872 924
Commercial Agriculture	495 530	726 249	804 034	756 984	666 940	698 879	665 941
Subsistence agriculture	163 422	202 290	286 856	1 508 264	964 837	653 428	358 983
Informal	965 669	1 077 017	1 573 986	1 820 350	1 933 675	2 665 227	1 873 136
Domestic work	992 341	749 303	798 524	1 001 108	999 438	914 478	915 831
Unspecified	70 986	107 966	92 905	115 106	305 797	227 013	146 000
Total employed	9 093 901	9 389 946	10 368 951	11 879 734	11 712 565	11 837 244	10 832 816
Unemployed	2 450 738	3 162 662	3 157 605	4 333 104	4 082 248	4 240 034	4 525 309
Not eco active	13 960 772	13 156 940	12 752 967	10 241 611	11 100 135	11 043 527	12 006 413
Total not employed	16 411 510	16 319 602	15 910 572	14 574 715	15 182 383	15 283 561	16 531 722
Total Pop, age 15-65	25 505 411	25 709 548	26 279 523	26 454 449	26 894 948	27 120 805	27 354 538

Source: Devey et al (2003a: 5)

The data shows that employment in the formal economy increased slightly between 1997 and 2001. On the overall there is an aggregate increase across the years. The increase though small actually dispels the 'notion of jobless growth' whereby the economy is assumed to have experienced an increase in growth but without a corresponding creation of jobs. The above figures suggest that the economy was actually creating jobs though at a rate not adequate enough to absorb those in need of employment. The findings of Borat and McCord (2003:117) using data from both the October Household Survey (OHS) and Labour Force Surveys (LFS) also coincide with this trend and confirm the creation of jobs over the same period.

With respect to the informal economy the table shows a marked increase of almost 50 per cent though declining in 2001. The employment growth in the informal economy raises a number of questions especially with respect to its reliability in terms of reflecting what actually obtains in this particular economy. Devey et al (2003b) in a review of the informal economy argue that the increase in the number of jobs in the informal economy could be due to an improvement in data capture as compared to the actual increase in the number of jobs. To this end, further in-depth

probing needs to be done in order to determine the actual growth in the informal economy and associated impact on household welfare. Of note is the close association between informal economy activities and the type of people working in it namely their social and demographic characteristics? Amuedo-Dorantes (2004:354) argues that the odds of one being employed in the informal economy does not in the end lie in the establishments supporting a segmentation between the formal and informal economies but tends to be influenced by individual worker characteristics and the additional increase in output that respective individuals may or may not contribute in a particular economy. It is for this reason that one needs a broad understanding of who actually participates in informal activities (self-employment) before elucidating the reasons behind such engagements.

2.3.1 What are the characteristics of the self-employed?

Africans comprise 84.5 per cent of all workers in the informal economy whilst whites make up 6.5 per cent (Devey *et al*, 2003:147). Like in the formal economy there are more men than women working in the informal economy (Stats SA, 2002). The difference is however less severe than that in the corresponding formal economy such that more or less the same number of men and women participate in self-employment or informal economy activities.

With respect to educational attainments “over 80.3 per cent of informal economy workers do not have a matric, and over 10.1 per cent report no education at all (Devey *et al*, 2003:154). It is argued that “higher levels of education may have “no discernable impact given the elementary nature of work” involved. Though having a higher education level may increase income it is noted that “37.8 per cent of people with matriculation qualification report an income below R500 per month” (Devey *et al*, 2003:154). Seemingly, at higher education levels income levels are above R500 per month though such an association is not that significant. For incomes above R11 000 per month, more education does help. An analysis of the informal economy shows that “73 per cent of those earning above R11 000 per month have a post-matriculation qualification (Devey *et al*. 2003:155). All in all, “there are significant

returns to education for secondary and higher education, higher education showing the best returns” (Devey et al. 2003:155). The issue is that whilst non-tertiary education encourages participation it does not on its own guarantee employment. Studies by Borat and Leibbrandt (1999:7-10) also note that the role of education does not seem to be significant in terms of influencing participation decisions. This is especially true for African males who seemingly have low levels of tertiary education.

When viewed from an economic sector point of view there is a concentration of retail and wholesale activities “with just over half (50.1%) of all informal workers located in this sector” (Devey *et al*, 2003b: 147). An activity worth noting in the informal economy is ‘manufacturing’ for the simple reason that it has a value-adding aspect and may hence increase the total value product of the informal economy. The study by Devey et al (2003b: 148) indicates that only 10.7 per cent of those working in the informal economy are engaged in manufacturing activities. One explanation given by the same authors is that there is “relatively little value-adding occurring in the South African informal economy”. The limited value adding occurring in the informal economy may explain to a great extent why those working in the formal economy accrue less income and are in most instances associated with living in poverty. Within South Africa those working in the informal economy are seemingly trapped in it with very slim chances of ever leaving despite the apparently low earnings.

2.3.2 Why self-employment?

A number of interpretations have been put forward to explain why individuals and households partake in self-employment activities. One interpretation is that related to the limited capacity of the economy to absorb surplus labour. According to Becker (2004:9) the “informal economy tends to absorb most of the growing labour force in the urban areas when the manufacturing industry and off-farm activities in general do not grow at the same pace”. Put differently, there are barriers to entry into the formal economy and hence not everybody gets to participate in this economy. Other explanations include the loss of public sector jobs (due to privatisation and related

policies), global integration that favours capital at the disadvantage of workers, especially the unskilled who in most instances cannot easily migrate (Rodrick, 1997 in Becker, 2004:9). Lastly, are the issues related to weak institutions and the lack of commitment by governments (cf. Congress of South African Trade Unions' strategy to organise the informal sector and atypical workers , 2000).

Self-employment activities as captured in the KIDS encompass those business activities conducted by household members irrespective of their age. These activities may arise as a result of “push effects created by the search for alternative forms of work or the need to supplement income. It could also imply a ‘pull’ afforded by greater economic opportunities, particularly in those business activities with a high income turnover” (Eardley and Corden, 1996:4). An observation by Funkhouser (1996:1737) is that the informal sector “has a dynamic, entrepreneurial character that contrasts with the traditional view of the informal sector as a source of refuge employment.” Given the perverse poverty associated with self -employment activities in South Africa, this perception is highly unlikely except for professionals who after accumulating human and financial capital quit their jobs and establish their own businesses. Self-employment is therefore a desirable destination only for those who voluntarily leave formal employment (Maloney, 1998a: 4).

One question that arises time and again is the need to understand why self-employment levels are as low as they are despite the relatively high incidences of poverty. The other question relates to exploring the extent to which self-employment activities are driven by pull factors. If pull factors are dominant, there exists a need to determine the extent to which “income from self-employment activities gives a fair indication of the actual standard of living” (Eardley and Corden, 1996:12). In other words, to what extent are households expected to get better as a result of income accrued from self-employment activities. The other side of the coin relates to exploring the role of poverty in influencing households to partake in self-employment business activities. Indeed the number of households engaged in self-employment activities has over the years seen a tremendous increase as indicated in the table 1.

One other explanation of why people engage in self-employment as advanced by Amuedo-Dorantes (2004:349) is that “individuals resort to these activities when they need to work and can not find a job in the formal sector because of their personal characteristics, institutional barriers and labour market discrimination”. According to Amuedo-Dorantes (2004:349) informal activities are “demand led and involuntary”. Household members engage in these activities when they face constraints associated with meeting their basic requirements like food, shelter and clothing. Individuals within households “need a job”, not necessarily that these activities are preferred. These ventures are therefore ‘a second choice of employment to which households turn when they are unable to find a job in the formal sector’ (Amuedo-Dorantes, 2004:349).

Within South Africa, whilst the number of households participating in informal economy activities may have increased the associated income has not increased in tandem or at least at the desired rate. The explanation lies in the nature of new self-employment activities, which are seemingly associated with lower income categories (Eardley and Corden, 1996:12). By virtue of the type of activities (retailing/sole trading) that households engage in, it is unlikely that most self-employment activities in South Africa are a result of the “enterprise culture” because they are largely insecure and financially unrewarding.

A study of the informal sector in Mexico, El Salvador and Chile also identified “retail trade as by far the largest single activity of informal sector workers in all the 3 countries” (Marcouiller *et al*, 1997). A difference of the South American to the South African case is that whilst self-employment in the former is a desirable destination, it is not so with the later. Maloney (1998b: 1) in a review of the duality of labour markets in LDCs argues that as a result of the “instability of wages, income in the informal economy... this sector is not the entry point and perhaps the training area for the unemployed”. Workers in the informal economy just like the unemployed continue to queue for jobs in the formal economy with a substantial number having given up due to the limited opportunities available. A greater

majority of the youth seem to constitute those who have given up searching for employment (Bhorat and Leibbrandt, 1999). The implication is that such people may never get to effectively participate in the labour force.

2.4 Employment and poverty in the labour market

This discussion of employment and poverty in the labour market is based on the premise that labour is one asset that poor people possess. The World Development Report, 1990 in Leavy and White (undated: 1) emphasise the need for the poor to “participate in growth through remunerative uses of their labour, which for the poor, who truly have no other assets, means selling their labour through the market”. The critical question is do opportunities exist for the poor to sell their labour in the contemporary South Africa? And if yes, is the income realised adequate? Though market wage equilibrium is not necessarily the equivalent of household income adequacy, the view of this study is that individual households by way of participating in the labour market should at the minimum earn enough income to meet their basic needs. Closely, associated with the lexicon of market equilibrium is the notion that informal economy wages should actually “rise above those in the formal sector to compensate for the expected value of benefits received by formal sector workers” (Maloney, 1997:6). This is however more of an exception than the norm since markets generally operate towards the equilibrium.

Unemployment generally translates into higher incidences of poverty and inequality. The tendency to equate the level of poverty with that of unemployment may however be erroneous “since the poor are not necessarily the unemployed” (Standing et al, 1996:110). Poverty and inequality are also closely related concepts such that one may not be discussed at the exclusion of the other. The level of inequality is captured through the use the Gini coefficient. Barker (2003:4) notes that the Gini coefficient for South Africa is 0.6 “compared to 0.4 of western countries”. The same measure when calculated excluding the informal and unemployed sectors drops to 0.41. This is a clear indication of the magnitude of inequality arising out of either being unemployed or working in the informal economy. The formal economy is associated with less inequality and hence its attractiveness for those outside its confines. To a

great extent the formal economy remains a desirable destination for those external to it as it offers greater opportunities for improving ones welfare.

There is a substantial magnitude of household poverty and inequality that is explained by either participating or not participating in the labour market (Bhorat et al, 2001:205). When the labour market is viewed as the most important source of inequality, an analysis of the same has to focus on both “access to employment and the remuneration attached to such employment” (van der Berg and Bhorat, 1999:1). Of particular note is that remuneration income is only one of the sources of income that contributes to overall household income. It is acknowledged that non-remuneration income from other factors of production like “land, rent, interest on capital, profits on entrepreneurship and transfer income” may significantly contribute to household income (Bhorat and van der Berg, 1999:1). Within South Africa other sources of regular non-remuneration income include old age pension, private pension, private provident fund, government, civil service pensions, government disability grant, interest earnings or unemployment insurance pension funds. In a study by the same authors, three factors are identified as the key drivers of income change. These include “changes in wage levels in the formal economy, changes in employment relative to population and changes in non-remuneration income mainly income from property or entrepreneurship” (van der Berg and Bhorat, 1999:2).

Earnings in the labour market on the other hand are a function of a multitude of factors. It is recognised that “there are different determinants of earnings in different sectors of the labour market, but it is not clear how these differences can be attributed to segmentation between the formal and informal sectors (Funkhouser, 1996:1744). A four-country study of Indonesia, South Africa, Spain and Venezuela by Fields *et al* (2001) and utilising the KIDS data as part of its sources identifies “change in labour earnings as the most important cause of change in household income than changes in all other income sources combined”. In a study of rural labour markets and poverty in Sub-Saharan Africa Leavy and White (undated: 15) also acknowledge that “access to wage employment is the major determinant of the level of household income with remittances playing an important but not dominant

role". Given this backdrop it is evident that wage employment plays a significant role in determining the extent to which households can improve their way of life. Seemingly, employment remains one of the major exit routes out of poverty.

Fields *et al* (2001:11) came to the conclusion that "the change in household head employment status accounts" for a greater part of the observed "inequality in income changes". It further suggests that the "initial income and job changes of the head are consistently the most important variables in explaining household per capita income changes". The implication is that the "labour market should be the principal focus of mobility changes". Within the same study human capital characteristics like the head of household education level were observed to have little impact on income changes. The four-country study notes that "education does not guarantee employment but is important for income changes for those already in employment" (Field *et al*, 2001:11). This finding is consistent with that of Borat *et al* (2001:85) who argue that "education is more important in determining the income from employment, rather than whether an individual gets a job or not".

Bhorat and Leibbrandt (1999:12) whilst modelling issues of vulnerability and low earnings argue that the "greater the value of other household income available to an individual, male or female, in a household reduces the probability of their participation in the labour market. Access to income within a household is an important determinant in an individual's decision to participate in the labour market". Whilst this may be the case there is conclusive evidence that "some workers enter the labour force or remain in it for longer than intended precisely because relatives are unemployed, the implication being that they would withdraw if those relatives found employment" (Standing *et al*, 1996:104). With South Africa experiencing such high unemployment rates it is likely that some members of the household may remain in employment as a way of cushioning the household from sinking into poverty.

A recommendation by Borat *et al* (2001:10) propose the "decomposition of the South African labour market into 3 groups if one is to appreciate the impact of the

poor performance of the economy on the composition of employment and income distribution” (and hence poverty and inequality) at either individual or household level. The 3 groups comprise the core consumer economy, the marginal modern sector and the peripheral labour force. The core consumer economy comprises the “dominant high wage modern sectors of manufacturing, government services and other industries and services” Borat et al (2001:10). The marginal economy on the other hand is made up of the “two low wage sectors of commercial agriculture and mining” (Bhorat et al, 2001:10). A point worthy noting as suggested by the same authors is that though mining is “no longer a low wage sector...many dependants of mining workers resident in mining compounds do not fully participate in the modern economy. The peripheral economy “signifies subsistence job scarcity and is made up of subsistence agriculture, the informal sector and the unemployed” (Bhorat et al, 2001:10). The nature and extent of poverty is most pronounced in the peripheral sector where a majority of the people remain either underemployed or go for considerable lengths of time without any form of stable employment. The characteristics of workers in the informal economy as identified by Devey (2003) also confine such workers to perpetual poverty since most are unable to get out due to individual characteristics.

The participation by a majority of people in the core economy is critical if a significant number of people are to benefit from the mainstream economy and possibly get out of poverty. Over the last couple of years this has not been the case as the core economy has “virtually been stagnant” (Bhorat et al, 2001:11). Conversely, the informal and agricultural economies are increasingly associated with high poverty incidences such that poverty reduction for now and the future will depend on the capacity of the core economy to create more jobs.

2.4.1 Who are the unemployed?

As discussed earlier the likelihood of being unemployed or assuming employment in either the formal or informal economies is dependant upon personal characteristics in addition to macro-economic fundamentals. Klassen and Woolard (2000) in McCord

and Borat (2003:128) identified 6 categories of the unemployed and their chances of moving between unemployment and employment.

The largest group comprises the young unemployed with no labour market experience. The next largest is the poorly educated rural unemployed. This group is followed by the poorly educated urban unemployed, those with labour market experience and some education, the long term unemployed with no labour market experience and finally, the highly educated unemployed poor.

On the basis of this categorisation it is noted that the “young unemployed and with no labour market experience and the poorly educated rural unemployed” face the greatest difficulty in gaining employment” (Klassen and Woolard, 2000 in McCord and Borat, 2003:128. The young who leave school for various reasons especially before obtaining a school leaving qualification also add to the increasing unemployment rates (Poswell, 2002:9). The rural unemployed tend to be predominantly African and are mostly found in the provinces of KwaZulu-Natal, the Eastern Cape, Limpopo and the North West. These provinces have the highest levels of poverty on the basis of either the circumstances or infrastructure index used by Stats SA to compare the poverty levels of provinces. One issue worthy noting is that the “poorly educated rural unemployed is a group that may be characterised as the ‘unemployable’ due to the lack of market demand for their labour” (Bhorat and McCord, 2003:129).

Poswell (2002:4) in a study of the post apartheid labour market also notes that there has been a “relative increase in the share of highly skilled workers demanded, almost stationary demand for the share of semi-skilled workers but a relative decline in the share of unskilled and elementary workers demanded”. One apparent phenomenon is that “for the older unskilled labour pool, it is highly unlikely that they will ever be able to find a long term formal sector job. Fifty-six per cent (56%) of the unemployed who are between 35 and 64 have either no schooling or only primary education and only 2 per cent have a tertiary degree” (Poswell, 2002:11). Given this phenomenon, herein lies the role of the informal economy and public works programmes. On the assumption that the informal economy produces value added

products/services, those unable to find formal jobs may assume the entrepreneurial route and equally produce competitive products.

2.5 Conceptualising formal-informal economy linkages

The informal sector concept dates back to the early 1970s decade when Hart (1973:68) initially used the term whilst studying *informal income opportunities and urban employment in Ghana*. The term informal sector has over the years been interchangeably used with the term informal economy. Moser (1994) uses the term informal sector whilst the ILO (2002) and Castells and Portes (1994) use the term informal economy. Peattie (1987) in Rakowski (1994:32) argues that despite the use of multiple terms like self employment, subcontracting, black market economy and casual work, more effort has in the last couple of years been channelled towards “understanding the phenomena” irrespective of what it is called.

The term ‘informal economy’ is much broader than ‘informal sector’ and tends to encompass a “variety of enterprise and employment relations that occur in industrialised, transition and developing economies (ILO, 2002:10). It is for these reasons that the term informal economy is preferred.

2.5.1 Models of the informal economy

Models of the informal economy centre upon four perspectives. The four perspectives as discussed by Rawkowski (1994:32-47) are the dualist approach, the underground approach (both of a structuralist nature), the legalist approach and the micro enterprise approach (both of a neo-liberal nature). A summary of the four perspectives with respect to their similarities and differences is shown in the table 2.

Table 2: A comparison of informal economy models based on selected dimensions

Dimension	ILO-PREALC	Underground	Legalist	Micro enterprise
Unit of study	Surveys, size and type of employment	Sub contracting, conditions of work not regulated, not legal, status of labour, form of management	Small firms, entrepreneurs	Entrepreneur group, community
Theoretical model and methods	Segmentation, case studies, surveys	Production chains, firm linkages	Neo-liberal	Neo-liberal
Origin of sector	Nature of development	Nature of capitalism, informalisation	Excessive legal costs, bureaucratisation, poverty	Poverty
Nature of sector	Dualistic, marginal, heterogeneous	Subordinate, heterogeneous	Rational, moral, dualistic	Rational
Function	Survival strategy, absorb surplus labour	Keep labour costs, competitiveness high	Survival strategy, avoid costs	Survival strategy
Focus	Nature of linkages, industrialisation, labour market change	Nature of production economy	Cost of regulation, firm organisation	The poor
Role of sector in development	Safety net for crisis, income for poor, capable of growth	Accumulate capital, impoverish workers, capable of growth	Create wealth, reduce costs	Create jobs and income, supply goods and services
Role of state	Stimulate macro-economy, social welfare, support entrepreneurship	Application of labour standards	Reform institutions, promote small firm	Appropriate policy environment for massification, support NGO work.

Source: Rakowski (1994:34)

2.5.1.1 *The ILO approach*

The ILO model acknowledges the existence of two separate economies, the informal and formal economies. In essence this model is dualistic in nature. Some of the key features of this model relate to labour market segmentation, which is seen as an essential element for analysing labour markets, compared to human capital models (Mezzer, 1990; Marquez and Portela, 1991 in Rakowski (1994:35). The ILO model acknowledges that the informal economy is heterogeneous such that the activities and characteristics of those engaged in it differ from one place to the next.

In addition to the perception that the two economies occur side-by-side is the recognition of at least 2 types of workers and corresponding activities. Firstly, are the survival strategies of the chronically poor that as a result of their characteristics (namely inadequate skills and knowledge) occupy peripheral jobs? The second set of workers are those who have either lost their jobs or whose income has substantially declined as a result of economic structural changes (Tokman, 1987; Mezzera, 1987, 1990, 1991, Marquez and Portela, 1981 in Rakowski, 1994:35).

Another significant attribute of the informal sector identified by proponents of the ILO school of thought relates to the fact that it is viewed as a “safety net” for the unemployed especially in those countries without a social security system. Closely associated with this is its role in national development namely the alleviation of poverty by way of “expanding the modern sector through employment and increased incomes (Rakowski, 1994:35).

2.5.1.2 The underground approach

The underground model is alternatively viewed as the “black market approach, the world systems approach and even the Portes approach” (Cartaya, 1987, 1988, Berger, 1988, Murphy, 1990 in Rakowski, 1994:35). One key feature of the underground model is its ability to separate informal activities from criminal activities on the basis of the “manner in which goods are produced and exchanged rather than their characteristics” (Castells and Portes, 1989: 12). The justification is that whilst products like curios (wood and stone works) may be perfectly legal, they could also be associated with origins and production processes that are illegal. Castells and Portes (1989) have also attributed the underground model to the exposure of inequalities and exploitation as expressed by the “uneven nature of capitalist development in peripheral economies” that by and large results in the exploitation of labour. The implication is that in situations where unemployment is high workers may easily be exploited due to skewed power relations.

Just like the ILO model the underground perspective “identifies economic restructuring or crises as factors behind the expansion of informality” (Rakowski, 1994:35). As countries implement economic structural changes like structural adjustment programmes (SAPS), some people lose their jobs and ultimately find themselves employed in the informal economy. The other similarity between the underground and ILO models is that both models recognise the link between working in the informal economy and the levels of deprivation that befalls workers. According to Castells and Portes (1982:12) as cited in Rakowski (1994:36) the informal economy is not a set of survival strategies preformed by destitute people on the margins of society...it is a specific form of relationship of production, while poverty is an attribute linked to the process of distribution”.

Some differences of the underground model from the ILO one are that the underground model recognises that informality is present in “both peripheral and advanced economies and that peripheral economies are themselves modern”. Firms also “go underground” and engage in illegal hiring activities as a way of reducing costs” (Rakowski, 1994:36). Firms deliberately informalise and in the process weaken the bargaining power of workers. Ultimately workers receive limited benefits and low incomes and hence experience a higher likelihood of becoming poorer.

2.5.1.3 *The legalist model*

The legalist model differs from the ILO and underground models in terms of the causes of informality and the manner which such informality manifests itself overtime. According to the legalist model informality arises because of a discriminatory state regulations and costs that advantage powerful economic interest groups” Rakowski (1994:35). The focus of the legalist approach lies in the exploration of “entrepreneurs and the institutional constraints that make informality a rational economic strategy”. De Soto (1989:xiv-xv) in Rakowski (1994:40) a proponent of the legalist approach has argued that “informality is the peoples ‘spontaneous and creative response to the states incapacity to satisfy the basic needs of the impoverished masses and to the system that has traditionally made them

victims of a kind of legal and economic apartheid”. Examples of informal traders deliberately defying authorities to go about with their activities were a common phenomenon in the apartheid years (Nesvag, 1992:287).

A similarity of the legalist approach with the underground approach is that of “selective informality whereby firms and informals break only specific (unfair and exceedingly disadvantageous) laws and regulations” (De Soto 1989:12 in Rakowski, 1994:42). In sum, De Soto and other legalists are credited with raising the concerns of “institutions, power and politics” in the development of the informal economy (Rakowski, 1994:42).

2.5.1.4 The micro enterprise approach

The micro enterprise approach is practical oriented and focuses on addressing the needs of the poor. By virtue of the practical nature of the approach this model “incorporates those elements of each approach that can contribute to poverty alleviation” Rakowski (1994). According to Rakowski (1994:43) this approach is less “concerned with conceptual issues and only marginally concerned with theories of the origin of micro enterprises”. In addition to the above this approach basically views the informal economy as that striving to improve the productivity and income of individual entrepreneurs and groups.

2.6 Summary

Literature and theory suggest a close association between various forms of employment and living in poverty. Given the current poverty levels, inequality and formal and informal economy labour market trends the study explores the change in household welfare, if any, that occurs as a result of the association between the regularly (formally) employed, unemployed, the self-employed, the casually employed and other forms of self-employment. The issue is what does the KwaZulu-Natal Income Dynamics tell us about the transitions in poverty and employment.

Evidently, employment in the contemporary South Africa is one of the major exit routes out of poverty. Some of the issues arising from the conceptual framework on

poverty and employment and linked to this study include the association between the formal and informal economies. Is viewing employment/self-employment through the traditional models a viable option for effective policy? Lastly, to what extent can people in different employment types subsist on their own? This is particularly true for the unemployed and those in unstable and unreliable jobs.

Chapter Three Methodology

This chapter focuses on the methodology of the study. The first section deals with the theoretical considerations of social science research. The survey approach, a discussion of panel and longitudinal surveys and the range of surveys that have been conducted in contemporary South Africa follow this. The last sections specifically discuss the datasets used in this study, namely, the Project for Statistics on Living Standards and Development (PSLSD) and the KwaZulu-Natal Income Dynamics Survey (KIDS). A description of variables and data analysis concludes the chapter.

3.1 Theoretical considerations

Crotty (1998:2) in a chapter, *Introduction to the Research Process*, identified 4 elements essential to any research process. The four elements being epistemology, the theoretical perspective, methodology and methods. The methods are the “techniques or procedures used to gather and analyse data related to some research question, the methodology is the strategy lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes, the theoretical perspective relates to the philosophical stance informing the methodology, finally, the epistemology is the theory of knowledge embedded in the theoretical perspective and thereby in the methodology” (Crotty, 1998:3). One epistemology is that of objectivism which assumes that “things exist as meaningful entities independently of consciousness and experience... that they have ...’objective truth and meaning...and scientific research can attain that objective truth and meaning”. In sum, “research done in positivist spirit might select to engage in survey research and employ the quantitative method of statistical analysis (Crotty, 1998:6). Given the nature of the KwaZulu-Natal Income Dynamics Survey, the author just like Devey (2003) locates this research within the positivist theoretical perspective and objectivist epistemology.

3.2 The Survey Approach

According to Babbie and Mouton (2001: 232) survey research is a method that is used to “collect original data for describing a population too large to observe directly”. In essence the survey approach is used to for “descriptive, explanatory and exploratory purposes (Babbie and Mouton, 2001:232). Descriptive surveys are driven by the need to ‘count’ a given phenomena and hence answer questions like “how many...” or “what proportion...” (Devey, 2003:30). Exploratory questions on the other hand focus on explaining relationships between variables.

Within South Africa, the use of surveys as an instrument of research has gained popularity though increasingly questioned by a number of researchers. The area of contestation is that surveys fail to capture the South African context and how it has evolved over time and space (Russel and Mugenyi in Babbie and Mouton, 2001:231). Nonetheless, surveys remain an important instrument for providing statistics that guide development programmes like the Reconstruction and Development Programme (RDP) of 1994 and the current Growth, Employment and Redistribution programme (GEAR).

The key advantage of surveys is that they are “useful in describing the characteristics of a large population” (Babbie and Mouton, 2001:263). Closely related with this broad coverage are savings on cost and time (Descombe, 1998:127). The other advantages relate to the flexibility of surveys which allow “many questions to be asked on a given topic” and the fact that “questionnaires are standardized”. The standardization of questions throughout the entire research process also reduces the ambiguity associated with some concepts (Descombe, 1998:127; Babbie and Mouton 2001:263).

One major weakness of surveys is that they “are somewhat artificial and potentially superficial” in that they tend to be external to the day to day lives of the subjects unlike participatory approaches which strive to get an in-depth understanding of the target group’s way of life (Babbie and Mouton, 2001:264). The same authors note that “it is difficult to gain a full sense of social processes in their natural settings

through the use of surveys". The reality is that surveys rely on "recalled past action or some hypothetical action" and hence cannot capture current "people's attitudes, orientation, circumstances and experiences" (Babbie and Mouton, 2001:264).

3.3 Cross sectional vs. longitudinal surveys in research.

Cross sectional surveys are conducted at a single point in time. Assuming the "sample frame is current, this type of survey is representative of the overall population at the time of the survey... and the temporal aspects of a specific individual's attributes is not necessarily available" (Yee and Niemer, 1996:1). A type of cross sectional survey referred to as the repeated cross sectional survey has in the last couple of years been implemented by "Statistics South Africa (Stats SA) in their annual October Household Survey (OHS) (May et al, 1999:4). Other cross sectional surveys include the PSLSD and the Income and Expenditure Survey of 1995. These surveys give "representative snap shots" and are by all means essential for purposes of establishing trends in issues like employment and poverty (May et al, 1999:4). One shortcoming with cross sectional surveys is that they "cannot answer a number of important dynamic questions" especially those related to entry into and exit out of employment and poverty. Given this backdrop, one needs an alternative type of survey, the 'longitudinal or panel survey'. This type of survey identifies and measures observations on the same individuals such that it is "possible to focus on changes occurring within subjects and to make population inferences that are not as sensitive to between-subject variation (Yee and Niemer, 1996:2).

All in all, longitudinal or panel surveys strive to provide answers to dynamic issues in that "households interviewed in the first survey are re-interviewed in the subsequent survey". With information from panel surveys it is possible to verify "whether the same or different households are in poverty in the two periods and an examination of the processes underlying these transitions can be made" (May et al, 1999:4-5). Another advantage is the "increased statistical power and the capability to estimate a greater range of conditional probabilities" (Yee and Niemer, 1996:6). This is not achievable with "standard cross sectional surveys" (May et al, 1999:5). The major draw back of panel surveys has to do with coverage, as defined by issues

“associated with both selecting and tracking individual sample respondents”. Specifically the shortcomings include the fact that “the study is restricted to the members of that sample although changes in the population may occur”. Secondly, despite attempts to locate households from wave to wave, there is invariably a fair amount of attrition” (Yee and Niemer, 1996:4). As a result of maintaining the same sample “there is a risk of making inaccurate conclusions about the true population which may have changed as a result of influx or out flux of residents with different behavioural characteristics than the indigenous population” (Yee and Niemer, 1996:4).

Though panel surveys are hardly conducted in LDCs, May et al (1994:4) notes that researchers like Grootaert and Kanbur (1995) and Gaiha and Deolalikar (1993) have respectively, analysed the determinants of income mobility using data sets from the “Cote d’Ivoire Living Standards Survey” and access to rural assets using the International Crops Research Institute Semi-Arid Tropics village level studies in India.

3.4 Surveys in contemporary South Africa

The use of surveys in South Africa “dates back to the late seventeenth century when demographic data was collected in the Cape (Shell, 1994:439 in Babbie and Mouton, 2001:230). Babbie and Mouton (2001:230) after excluding population censuses identify the “first large scale survey in South Africa” as that “conducted by the Carnegie Commission to research the *poor white question*”. Indeed, South African surveys have in the past been a function of the political environment (Devey, 2003:30 citing Mfono, 2001:527). The apartheid driven racial segregation culminated in the use of demographic surveys for purposes of deliberately protecting white interests. The exclusion of ‘homelands’ from these surveys made them even less representative of reality. Since the demise of apartheid a number of national surveys have been conducted in an effort to show the nature and extent of poverty in the contemporary South Africa.

Some of the important cross sectional studies that explain the current inequality include the Central Statistics Office (now Stats SA) October Household (OHS) survey of 1993, the 1995 Income and Expenditure Survey conducted at the same time with the OHS and the 1995/96 South African Participatory Poverty Assessment. The OHS has since become an annual survey that collects a variety of household data on education, housing types and work status (Stats SA, 1995a; Stats SA, 1995b; Stats SA, 1995c). The participatory survey on the other hand was driven by the need to get a fuller understanding of poverty especially from those people facing deprivation.

One of the important revelations of the level of inequality in South Africa comes from the *Poverty and Inequality Report* (PIR, 1998). According to this report the level of inequality is strikingly conspicuous and is shown by the fact that “the poorest 40% of households, equivalent to 50% of the population accounts for only 11% of total income whilst the richest 10% households, equivalent to only 7% of the population account for over 40% of the total income. It is on the basis of these revelations by the PIR among others that this study uses KIDS to explore poverty and inequality through the labour market.

3.5 The use of secondary data in research – PSLSD and KIDS

Secondary data analysis involves the manipulation of data by individuals not involved in the initial collection and at times for purposes other than those for which it was originally gathered. Analysis either relies on the original or processed data sets (Church, 2001). The benefits of using secondary data are numerous and relate to the time and money saved since others collect the data. Other benefits include the inspiration to conduct new studies using the data sets and the fact that analysis and interpretation can begin immediately. Despite the benefits associated with secondary data analysis, one disadvantage relates to the quality of the data available. Research questions may therefore have to be redesigned around the available data. The data from secondary data sources may also need verification (Church, 2001).

In this study the analysis relies on secondary quantitative analysis of information collected from one national survey in 1993 and another one conducted in the province of KwaZulu-Natal in 1998. The initial study is a quantitative baseline survey, the Project for Statistics on Living Standards and Development (PSLSD). This is “the first South African national household survey undertaken by a consortium of South African survey groups and universities under the leadership of the South African Labour and Development Research Unit (SALDRU) at the University of Cape Town” (May et al, 1999:2). The PSLSD was driven by the need “to collect hard statistical information about the conditions under which South Africans live in order to provide policy makers with the data required for planning strategies to implement such goals as those outlined in the Government of National Unity’s Reconstruction and Development Programme (RDP) (PSLSD 1994 in May et al, 1999:2).

The second survey, the KwaZulu-Natal Income Dynamics Survey (KIDS), “was a collaborative project of the International Food Policy Research Institute, the University of Natal-Durban, the University of Wisconsin-Madison, and the Southern Africa Labour and Development Research Unit at the University of Cape Town” (Carter et al, 2003:3). The KIDS was concerned with the dynamics of poverty in South Africa and re-surveyed those households surveyed by the PSLD in the KwaZulu-Natal province (May et al, 1999:5).

The 1998 survey had “1075 household level observations¹” and focused on Africans and Indians only (Carter et al, 2003:9). The sample size of the other ethnic groups was not only too small but “households in these groups were entirely located in a small number of clusters” (May et al, 1999:6). In an effort to ensure ease of comparisons the same questionnaire was utilised for both years. The 1998 questionnaire however focused on “individual (as opposed to household) ownership of assets and control over their use so that gender-differentiated analysis is possible”. Other changes focussed on those individuals living outside the household but

¹ “There were 33 original 1993 households that split into two in 1998 and 3 original 1993 households that split into 3 in 1998 yielding $33+6+1036=1075$ ” (Carter et al, 2003:9).

“economically linked to it” (May et al, 1999:10). The other four additions encompassed “economic shocks, social capital, assets brought to marriage and household decision making” (May et al, 1999:10). Despite the significance of these variables these are beyond the scope of this study. In sum, the KwaZulu-Natal Income Dynamics Survey has 14 sections namely, household roster, household services, food spending and consumption, non-food spending and assets, remittances, household income from non-employment sources, economic shocks, social capital, agriculture, employment, health, household decision making and trust, assets to marriage and anthropometry. For this study the author relies on the employment data and constructed income data.

Within the income variable lies the major critique of this survey. Income is captured on the assumption that respondents are honest and accurate. This author agrees with Cichello et al (2002) that income reporting based on respondents’ perceptions only, needs to be treated with caution in light of the complex livelihoods that obtain in rural areas. The other concern has to do with the “nature and extent” of attrition associated with the use of secondary data (May et al, 1999:7). May et al (1999) identify three factors that influence the level of attrition in a survey. These include “the mobility of the target population, the success with which those who move are followed and interviewed, and the number of refusals”. Re-interview rates were generally high for both ethnic groups. Of the target households that were re-contacted, 83.3 per cent were Africans located in non-urban areas, 87.1 per cent were Africans located in urban areas and 78.1 per cent were Indians. Re-interview rates were generally “highest for Africans located in urban areas” (Carter et al, 2003:8).

3.6 Description of variables and analysis

This section introduces the type of indicators derived from ‘release version 3’ of the KwaZulu-Natal Income Dynamics Survey using SPSS. The traditional perception of using a poverty line is discarded in preference for ranking using deciles. The study does not measure the nature and extent of poverty *per se* but is interested in how households with different worker types fall or rise through the deciles. This rise or fall is also linked to household self-employment activities. This study is able to

investigate changes in poverty deciles on the basis of worker type at the household level (i.e. persons aged 16 or more).

3.6.1 Computing household worker combinations

For purposes of establishing the different worker types and hence address the first objective (to explore changes in income levels associated with the existence of different types of workers within households), the same categories as captured in the questionnaire are used, i.e. unemployed, regular (formal), casual, self-agriculture, self-other and other. The categories 'self-other' and 'other' are combined and taken to mean workers employed in the informal economy. The interpretation of the unemployment rate is done along the same lines as those used by Stats SA, culminating in two categories. The first one is the broad rate and the second one is the narrow rate of unemployment or what Stats SA terms the 'official rate of unemployment'. Household members will fall in different categories depending on which rate is used.

Three stages were followed in the determination of worker types for the narrow and broad perspectives of unemployment. Firstly, dummy variables for worker type were created in the individual file. The establishment of household worker type using the narrow rate of unemployment was calculated on the basis that the respondent was unemployed (=2) and answered 'Yes' to the question 'looked for work' (=1). The broad rate was similarly calculated though now with response 'look for work' captured as a 'no' (=2). Secondly, the households were aggregated with the break variable household identifier. The third and final step involved the computation of household worker type (broad - cworkb) and household worker type (narrow - cworkb) followed by a summing function. The computations were: compute narrow unemployment (nunempn) equals to 0 if nunempn is greater than 0 $nunempn=100\ 000$, alternatively, compute $nunempn=0$ If (unempn gt 0) $nunempn=100\ 000$. For the broad perspective of unemployment the computation was compute $nunempb=0$ if (unempb gt 0) $nunempb=100\ 000$.

The same computation was done for the other categories of employment on the basis of the following: regular employment =10 000, casual =1 000, self-agriculture = 100, self-other = 10 and other = 1.

3.6.2 Poverty ranking of households

The analysis for this section proceeded in three stages. Firstly, the ranking of the entire sample distribution and the establishment of income² deciles for both years was done. The second stage involved a comparison of decile changes (by type of household worker combination) through the use of cross tabulations. The idea was to identify decile mobility within the 5-year period. For example, if a household was located in decile 1 in 1993, what is its location in 1998? Decile mobility occurred from two perspectives. The first being the upward or downward movement of a household to the immediate decile (a single decile shift). The second decile mobility involved more than 1 decile shift to either a higher or lower decile (more than 1 decile shift).

The third stage involved the location of households that experienced decile changes by the type of worker in the household

3.6.3 Poverty ranking of households with self-employment activities

Self-employment unlike other forms of self-employment is not restricted to persons above the age of 16. It may involve the participation of younger household members, which means a greater number of individuals contribute to household well being irrespective of their age. The ranking of households with self-employment activities is an attempt to respond to the research question, what is the relationship between self-employment sources of income and the type of workers in a household? Like with the entire distribution, the decile mobility of households was traced but now limited to those households with some form of self-employment activity. The type of self-employment activity was initially traced to the type of household worker combination followed by the computation of decile mobility.

² Greater emphasis is placed on income generation and hence the focus on income rather than expenditure.

3.6.4 Deriving employment changes

The analysis for this section relies on frequencies to compute the different type of workers in 1993 and 1998. The essence of the exercise is twofold. Firstly, it's an attempt to derive the number of individuals who are unemployed or are in either regular, casual and self-employment. The second stage uses cross tabulations to identify the mobility of different worker types across employment categories.

3.6.5 Deriving change in household worker type

After an aggregation of the individual workers to household level the next stage involved the computation of the number of the different worker types and the associated change at household level. The question that this exercise strives to answer is whether households that gain specific type of workers necessarily get better or fall behind with regards to their income.

3.6.6 Correlations and t-test

A bivariate correlation was attempted to examine the association between the number of different worker types and income for the respective years. The idea is to establish at household level whether there exists a statistically significant and linear relationship between the different worker combinations and income. Though the correlation endeavors to establish a linear relationship, the lack of such a relationship does not necessarily imply the lack of a non-linear association between the variables.

The second inference test was the t-test. This test attempted to show whether there exists a statistically significant difference in the mean incomes of households with self-employment activities and those without such activities (using a yes or no criteria). Though the use of a 'yes or no' may underestimate households that rely on self-employment income of some sort, since it focuses on only those households whose activities were captured, the author found no other suitable measure to test for differences in household mean income.

Chapter Four Dynamics of employment and poverty in Kwazulu-Natal

This chapter provides the main findings of the study, the dynamics of employment and poverty in KwaZulu-Natal. The results have been interpreted with caution in light of the “possibility and implications of measurement error in the income variable”. Associated with this was the need to exclude outliers. Both surveys in 1993 and 1998 rely on respondent’s statements when capturing income data. The preferred option is that which relies on ‘administrative records and employer records’ (Fields *et al* 2001:16).

Despite these drawbacks, the results nevertheless highlight some fundamental points in those issues at the midst of employment and poverty. In sum, the results confirm that regular employment is the key to fighting poverty and alleviating the plight of the masses trapped in chronic poverty. The results are presented in two broad categories, employment and poverty.

4.1 Employment

4.1.1 Households in KwaZulu-Natal by type of worker

Tables 3 and 4 present the results of the households in KwaZulu-Natal by type of worker present in the household. Due to the different interpretations of the unemployment rate, two scenarios are presented. Firstly, the unemployment rate is viewed from a narrow perspective, alternatively interpreted by Stats SA as the ‘official unemployment rate’. The second scenario shows the rate of unemployment from a broad perspective, which includes the discouraged workers.

Table 3: Households in KwaZulu-Natal by types of workers (narrow unemployment) in 1998

Unemployed	Regular	Causal	Self-agric	Self-other	Unknown	Total	%
	✓					484	42.5
					✓	289	26.9
				✓		72	6.7
✓	✓					57	5.3
✓						48	4.5
		✓				43	4
	✓			✓		35	3.3
	✓	✓				30	2.8
✓		✓				12	1.1
✓				✓		10	0.9
		✓		✓		6	0.6
✓	✓			✓		4	0.4
✓	✓	✓				4	0.4
			✓			2	0.2
			✓	✓		1	0.1
	✓		✓			1	0.1
✓			✓			1	0.1
	✓	✓		✓		1	0.1
✓	✓	✓		✓		1	0.1
Total						1075	

Source: Own calculation from KIDS

Note: Figures have been rounded off

On the basis of the narrow rate of unemployment, the majority of households in KwaZulu-Natal comprise of workers engaged in regular employment (including self-employed professionals) (42.5 per cent). Four and half (4.5) per cent of the households have unemployed people only. This raises a question about their means of survival, since households need income from one source or the other if they are to lead a normal life unless of course they are beneficiaries of social security funds and pensions. Two categories 'self-other' and 'other' have been combined for this study and presumably include that section of the labour force working in the informal economy. These households constitute 6.7 per cent of the total. There are a substantial number of households (26.9 per cent) with workers that do not fit any of the mentioned categories. One possibility is that these households have pensioners who rely on public social security grants and hence do not consider themselves as falling in any of the categories of employment status or they are just economically inactive. Another possibility may lie with data capture where some forms of employment were not captured. The other reason arises from the manner in which household membership was

constructed in 1993. Occupational information was not gathered for those who were absent for more than 15 days out of the last month.

In general there are a small proportion of households with 'self-agric' and 'self-other' workers only. The same is true for households with all combinations of workers. The inference is that agriculture may not have been viewed as a form of employment due to its limited capacity in rural areas as a result of land scarcity. Secondly, informal business activities associated with urban areas may also be relatively few in rural areas and hence the minute proportion. All these combinations are less than 1 per cent.

Table 4: Households in KwaZulu-Natal by types of workers (broad unemployment) in 1998

Unemployed	Regular	Casual	Self-agric	Self-other	Unknown	Total	%
	✓					349	32.5
					✓	172	16.0
✓						166	15.4
✓	✓					164	15.3
				✓		43	4
✓				✓		39	3.6
✓		✓				33	3.1
	✓			✓		28	2.6
		✓				20	1.9
✓	✓	✓				18	1.7
	✓	✓				15	1.4
✓	✓			✓		12	1.1
✓		✓		✓		4	0.4
✓			✓			3	0.3
		✓	✓	✓		1	0.1
		✓		✓		1	0.1
✓	✓		✓			1	0.1
✓	✓	✓		✓		1	0.1
				✓		1	0.1
Total						1075	

Source: Own calculation from KIDS

Note: Figures have been rounded off.

The same exercise of deducing households in KZN by type of worker using the broad definition of unemployment suggests that a majority of households (32.5%) comprise workers in regular employment. One striking phenomenon is that households with the 'unemployed only' more than trebles from 4.5 per cent to 15.4 per cent. This change tells a reasonable story that has been highlighted by other researchers (Devey et al, 2003, Poswell, 2002). There is a substantial

underestimation of the rate of unemployment when the narrow perspective is utilised. The other household worker combinations are generally the same with those of the narrow perspective. The next section looks at individuals and their type of work between the two time periods.

4.1.2 Total worker combinations for 1993 and 1998

Table 5 tabulates the type of work done by individuals in the two time periods. There was a decrease of approximately 7 percentage points in the number of individuals in regular employment. The results however show a slight increase in the number of unemployed individuals from 16.6 per cent to 17.1 per cent between 1993 and 1998. Whilst the number of people in the unemployment pool might have increased there is also a corresponding increase in the number of people that were employed in casual employment by 1998. It is correct to infer that whilst some individuals may have lost their jobs, other jobs were equally created though such jobs were of a temporary nature and may not have been adequate enough to absorb all those in search of employment. These results though not entirely conclusive, confirm an increase in the number of people losing stable jobs between 1993 and 1998 and an associated increase in low-income jobs of a casual nature.

Table 5: Individual total worker combination (%), 1993 and 1998

Type of work	1993	1998
	%	%
Regular	24.4	17.2
Casual	1.8	3.1
Self-employment	3.1	2.0
House person/wife	14.4	4.6
Unemployed	16.6	17.1
Education	18.8	35.6
Retired	10.0	6.0
Total	90.4	88.4

Source: Own calculation from KIDS based on those above 16 years of age.

Note: the figures do not add to 100 due to the exclusion of work types with very small counts.

4.1.3 Change in employment activity between 1993 and 1998

Can we say anything about the movement of people between different employment categories? Previous studies by Devey et al (2003a), Borat et al (2001) and Poswell

(2002) indicate a fluctuating picture with respect to the number of people employed in the formal and informal economy though the aggregate picture is that of an overall increase in both economies. An increase in any form of employment activity arises as a result of new entrants joining the labour market and moving into that activity or as a result of people moving between employment types. Of particular interest in this study is the number of people who move over from casual and self-employment to regular employment for the simple reason that regular employment is in most instances associated with stable income and other forms of job security and hence perceived as offering a better way of life than casual and informal work.

Table 6 shows that of all the casual workers 23 (or 0.6 per cent of the total) are in regular (formal) employment in 1998. Of the regularly employed workers in 1993, 60 (or 1.6 per cent of the total) are classified as casual workers in 1998 whilst 17 (0.5 per cent of the total) are self-employed and 103 (2.7 per cent of the total) are unemployed. Out of those who are unemployed in 1993, 209 (5.6 per cent of the total) are regularly employed in 1998 and 69 (1.8 per cent of the total) are in casual employment whilst 44 (1.2 per cent of the total) are in self-employment. The number of unemployed people who switch over to self or casual employment is generally low. Seemingly, casual employment is more desirable for the unemployed than self-employment. There could however be an overlap in these activities depending on what the respondents perceived as casual or self-employment. What the survey does not show is whether such movements were out of choice or factors beyond the workers' control.

The consistent story is that more people remain unemployed in contrast to any other employment activity. Apparently, self-employment is not a favourable destination (or is perceived as financially unrewarding) otherwise those in the unemployment pool would engage in self-employment activities. Another explanation is that the unemployed may want to engage in self-employment activities but are discouraged by the lack of capital and ancillary resources. The notion that self-employment is associated with ease of entry may therefore be far fetched in the contemporary South Africa and especially for those without access to financial support.

Table 6: Change in employment activity between 1993 and 1998

Activity in 1993	Employment Activity in 1998								Total
	Regular	Casual	Self	Housewife	Unemployed	Education	Retired	Other	
Regular	463	60	17	35	103	2	55	4	779
	59.4%	7.7%	2.2%	4.5%	13.2%	.3%	7.1%	.5%	100.0%
Casual	23	5	2	6	21	2	6	1	71
	32.4%	7.0%	2.8%	8.5%	29.6%	2.8%	8.5%	1.4%	100.0%
Self	23	3	22	8	19	0	8	0	90
	25.6%	3.3%	24.4%	8.9%	21.1%	.0%	8.9%	.0%	100.0%
Housewife	66	17	31	221	120	9	48	2	548
	12.0%	3.1%	5.7%	40.3%	21.9%	1.6%	8.8%	.4%	100.0%
Unemployed	209	69	44	40	429	32	28	13	904
	23.1%	7.6%	4.9%	4.4%	47.5%	3.5%	3.1%	1.4%	100.0%
Education	120	41	5	18	286	245	0	10	750
	16.0%	5.5%	.7%	2.4%	38.1%	32.7%	.0%	1.3%	100.0%
Retired	2	2	3	4	5	0	268	4	379
	.5%	.5%	.8%	1.1%	1.3%	.0%	70.7%	1.1%	100.0%
Other	15	5	1	2	14	5	3	1	51
	29.4%	9.8%	2.0%	3.9%	27.5%	9.8%	5.9%	2.0%	100.0%
Total	936	203	126	351	1046	300	447	46	3747
	25.0%	5.4%	3.4%	9.4%	27.9%	8.0%	11.9%	1.2%	100.0%

Source: Own calculations from KIDS

Note: The table excludes those who were classified as disabled in both years.

4.1.4 What change in worker type did Households experience between 1993 and 1998?

This set of results is computed at household level. It attempts to show at household level, the increase or decrease in the number of formal, casual and self-employed workers between 1993 and 1998. This computation is based on the premise that households with more regularly employed workers (and hence regular income) have

a better chance of getting better than households with workers in casual or self-employment whose income is in most cases low and unstable.

On the basis of household size the author assumes that approximately 3 people per household will participate in the labour market and hence an upper limit of 3 is preferred. The average household size in KwaZulu-Natal is 6 (HRSC, 2004). The author recognises that households may actually have more or less than 3 different types of workers. Table 7 tabulates the magnitude of change for different worker types within households.

Table 7: Change in household worker type

Number of workers (+ Increase, - decrease)	Formal		Casual		Self employed		Unemployed	
	No. of HH	%	No. of HH	%	No. of HH	%	No. of HH	%
+3	92	8.7	17	1.6	1	0.1	81	7.7
+2	168	15.9	44	4.2	16	1.5	179	16.9
+1	290	27.4	137	12.9	114	10.7	218	20.6
0	324	30.7	812	76.7	879	83.1	367	34.7
-1	104	9.8	36	3.4	39	3.7	89	8.4
-2	18	1.7	5	0.5	4	0.4	24	2.3
-3	5	0.5	2	0.2	4	0.4	4	0.4
Total	1058		1058		1058		1058	

Source: Own calculation from KIDS

Note: Figures do not add to 100% due to the exclusion of changes beyond 3 in either direction.

A majority of households, 324 (30.7 per cent) did not experience a change in the number of formal workers. 290 (27.4 per cent) households gained one formal worker each. This is the highest increase for all worker types. The increase in the number of the unemployed is however equally substantial at 20.6 per cent. There is not much of a difference between the increase in the number of the casually employed and those in self-employment (12.9 per cent and 10.7 per cent respectively). The general trend is that of an increase in formally employed members that occurs side by side with an increase in the unemployed. All in all, for the period 1993-1998, the majority of households did not experience a substantial change in the composition of their respective worker types.

Though the results show a relatively higher increase in the number of regularly employed workers compared to the unemployed (a difference of 6 cumulative percentage points), the increase in the number of the unemployed is still an area of concern given the high household size in KwaZulu-Natal. An increase in one formally employed household member may not produce the desired impact in terms of income increases especially that a majority of the African population lack high quality skills and hence tend to assume low paying jobs. The implication is that the level of poverty in the province may continue for the near future unless a substantial number of people not only take up jobs in formal employment but also assume jobs with higher earnings. In sum there is ample evidence in labour markets literature that suggests that labour market participation in addition to earnings play a significant role in determining the well being of individuals and hence their possibility of moving out of poverty (c.f. Borat and Leibbrandt, 1999).

The use of bivariate correlations to examine the association between the number of different worker types and income for the respective years is tabulated below.

Table 8: Correlations of income by number of worker type

	No. of formal workers		No. of casual worker		No. of self-employed workers		No. of unemployed workers	
	1993	1998	1993	1998	1993	1998	1993	1998
Total monthly Income								
Spearman's rho coefficient	0.589	0.354	-0.033	-0.057	0.137	-0.020	-0.191	-0.211
Sig. (2-tailed)	0.000	0.000	0.211	0.063	0.000	0.516	0.000	0.000
N		1075		1075		1075		1075

Source: Own calculations from KIDS

For both years there is a significant and positive correlation between the number of formal workers and total household income ($p < 0.05$). The same is true for the number of self-employed workers in 1993 though the correlation is less strong. As for the number of unemployed workers, the correlation is significant and negative. There is however no linear correlation between income and the other variables. This does not necessarily imply the non-existence of an association. It simple means that

an association may exist but is non linear. The implication from this analysis is that the greater the number of unemployed workers in a household, the lower the income. Employment is therefore linked to total household income and associated change. Other sources of income may however drive income change depending on the household demographic structure. This is particularly true for households with the unemployed and pensioners only.

4.1.5 Self-employment activity by type of workers in household

The surveys for both years view self-employment activities as those activities that are done by households irrespective of age and whether one is engaged in any other form of employment or not. Table 9 tabulates the type of self-employment activities that households engage in by type of worker combination. The issue is can we say anything about the type of self-employment activity and the type of workers that are found in a household. A related issue is the breakdown of the same employment activities according to gender. Both scenarios are tabulated in table 9 and table 10.

Table 9: Self-employment activity by type of household worker combination

Self-employment activity	Total	%	Household Worker Combination																					
			Unknown		Self Other		Casual		Regular		Regular-self Other		Unemployed		Unemployed-Self Other		Unemployed-Casual		Unemployed-Casual-Self Other		Unemployed-Regular		Unemployed-Regular-Self Other	
			No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Shopkeeper	32	13.4	1	3.7	8	16.3			1	7.1	6	21.4			12	24.5							4	28.6
Vendor	43	18.1	6	22.2	6	12.2	1	2.0	1	1.7	2	7.1	9	40.9	7	14.3	2	33.3	2	33.3	1	11.1	3	21.4
Shebeen	20	8.4	3	11.1	2	4.1					4	14.3	1	4.5	5	10.2			1	16.7	2	22.2	1	7.1
Herbalist	6	2.5			3	6.1									2	4.1			1	16.7				
Tailor	32	13.4			5	10.2			3	21.4	6	21.4	4	18.2	4	8.2	1	16.7	1	16.7	3	33.3	2	14.3
Shoes	2	0.8			1	2					1	3.6											1	7.1
Healer	5	2.1																					1	7.1
Transport	1	0.4																						
Taxi	8	3.4			3	6.1									4	8.2								
Food	13	5.5	2	7.4	3	6.1	1	2.0	2	14.3			1	4.5	2	4.1	1	16.7						
Weaving	13	5.5	5	18.5	1	2	1	2.0					1	4.5	3	6.1	1	16.7						
Construction	20	8.5	1	3.7	5	10.2	2	4.0	2	14.3	1	3.6	2	9.1	5	10.2					1	11.1		
Wood	5	2.1	3	11.1									1	4.5	1	2.0								
Kid care	2	0.8			1	2					1	3.6												
Artisan	12	5			5	10.2			2	14.3	2	7.1	1	4.5	1	2.0							1	7.1
Other	3	1.3			1	2					2	7.1												
Clerical	10	4.2	3	11.1	3	6.1			1	7.1							1	16.7			1	11.1		
Entertain	4	1.7									1	3.6							1	16.7				
Manufacturing	2	0.8						1	7.1															
Service	4	1.7																						
Total	238		27		49		5		14		28		22		49		6		6		9		14	

Source: Own calculations from KIDS.

Note: Figures may not add to 100 due to rounding off.

The most common form of self-employment is vending. This is done by 43 households (18.1 per cent). Tailoring and shop keeping are the second most common activities. These are done by 32 (13.4 per cent) households. Other activities worth mentioning include shebeen operating and construction done by 20 households respectively (8.4 per cent). Twelve (12) or 24.5 per cent of households with a combination of unemployed and self other workers are involved in shop keeping. Six (6) or 21.4 per cent of the households with a combination of regular and self other workers are also engaged in shop keeping activities. The other self-employment activities are generally linked to a range of worker combinations. Of note is that shop keeping and tailoring (the second most common activities) are associated with households with regularly employed people.

Two arguments unfold from the above results. The first one relates to an intra-household link between self-employment activities and formal economy workers. This association suggest the transfer of human and financial capital by the formally employed to self-employment activities since it is the households that have some form of regular income that are mostly involved in self-employment initiatives. For those households with unemployed members only, 9 (40.9 per cent) are involved in vending activities. Arguably, vending activities do not require huge sums of money and hence may be started with meagre resources.

The second argument is that households with regularly employed workers in KwaZulu-Natal engage in other forms of self-employment in an effort to supplement their regular wage income, which perhaps, is inadequate to meet their household needs. Further studies however need to be conducted to concretely establish the existence of any associations.

Self-employment activity by type of worker combination by gender (based on most active member)

The gender differentiation is based on the most active member of the household within the household i.e. the person who was identified as the most active member at the time of the interview. Females are mostly active in shop keeping (9.4 per cent), vending (24.5 per cent, shebeen (11.5 per cent) and tailoring (20.1

per cent). Close to 50 per cent (47.1) of households with unemployed members have their female members engaged in vending activities. Thirty-three (33) per cent and 30 per cent of households with regular and a combination of regular and self employed (other) members are involved in tailoring and sheeben operations respectively.

Shop keeping is the most common self-employment activity for males. The other activities are generally different from those done by their female counterparts and include construction (17.2 per cent), artisan (10.1 per cent) and taxi operations (8.1 per cent). Such activities are traditionally associated with males and their dominance may not necessarily imply better profit margins than those activities done by females. Though males from households with the regularly employed are involved in almost all forms of self-employment, most male activities are generally inclined towards households with members employed under the self (other) category. In general, the results do not show an apparent relationship between gender and self-employment activities.

Table 10: Self-employment activity by type of household worker combination by gender

	Household Worker Combination																			
	Unemployed-Reg-Self Other		Unemployed		Unknown		Self Other		Casual		Regular		Regular-Self Other		Unemployed-Self Other		Unemployed-Regular		Total (activities)	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Female																				
Shop keeping	1	12.5			1	4.2	1	6.3			1	16.7	1	10	8	25			13	9.4
Vending			8	47.1	5	20.8	3	18.8	1	33.3	1	16.7	1	10	6	18.8	9	23	34	24.5
Shebeen	1	20			3	12.5							6	30	5	15.6	1	20	16	11.5
Tailoring	2	25	3	17.6	3	12.5	5	31.3			2	33.3	4	40	4	12.5	3	60	28	20.1
Male																				
Shop keeping	3	50					7	21.2					5	27.8	4	23.5			19	19.2
Construction			2	4	5	15.2			4	100	2	25	4	23.5					17	17.2
Vendor			1	20	1	33.3	3	9.1	1	20.9	1	5.2	2	25					9	9.1
Taxi							3	9.1					1	5.6	4	23.5			8	8.1
Artisan			1	20			5	12.2			2	25.1	2	11.1					10	10.1

Source: Own calculations from KIDS

Note: The figures may not add up to 100 due to rounding off.

4.2 Poverty

Households in the entire distribution were ranked according to total monthly income for both years and then divided into deciles. A decile is defined as “any of 9 points that divide a distribution of ranked scores into equal intervals where each interval contains one tenth of the scores”. There are “nine deciles which separate the 10 sections, such that the upper and lower are the 90 per cent and 10 per cent levels, respectively (www.sciencemaster.com, 2004). The idea is to determine household rank changes between the two periods and establish the scale and direction of movement between respective deciles. By using change in decile ranking the study deliberately avoids establishing a poverty line and hence attempts to answer the question, **where they any changes in household decile rankings between the two periods (1993 and 1998)?**

Decile changes occur from two perspectives, firstly the movement of a household from one decile to the next level or other upper deciles e.g. 1 to 2; 1 to 3; 2 to 1 etc. Secondly is the movement of households by a given number of deciles irrespective of whether such a household was initially located in the lower or upper deciles. Though changes in decile ranking may occur, there exists a need to establish or infer the source of income driving changes in decile ranking. Though minimal changes in decile ranking are noted the results are broadly consistent with the econometric findings of Cichello et al (2002).

4.2.1 *Income deciles transitions*

Table 11 is a computation of income deciles for the two years. The income for 1998 has not been adjusted for inflation since the focus is on household income changes in relation to other households. Income figures for 1998 are generally higher than for 1993 (due to inflation), though measurement errors may cast doubt on the accuracy of the figures. Nonetheless, the results show the magnitude and direction of change in household income.

Table 11: Income deciles for 1993 and 1998

Percentiles	1993	1998
10	251.60	431.73
20	375.37	646.53
30	513.17	904.00
40	707.68	1149.37
50	954.23	1466.67
60	1298.56	1977.43
70	1830.88	2742.42
80	2678.67	3981.14
90	4417.86	6075.00

Source: Own calculation from KIDS

Table 12 tabulates the aggregate household income changes for 1993-1998.

Table 12: Aggregate household income decile mobility matrix

Decile location in 1993	Decile location in 1998										Total
	1	2	3	4	5	6	7	8	9	10	
1	14	12	14	15	12	8	4	8	6	3	96
2	12	10	12	8	8	13	7	2	14	3	89
3	15	11	10	11	7	11	8	6	6	2	87
4	8	15	7	8	11	5	13	11	6	5	89
5	12	5	10	14	14	13	9	8	5	4	94
6	10	13	7	8	15	13	12	12	9	9	108
7	10	15	12	18	8	9	10	10	10	13	115
8	7	12	14	11	13	9	13	12	12	16	119
9	6	8	10	7	12	15	16	18	15	21	128
10	10	7	8	7	9	10	14	18	22	29	134
Total	104	108	104	108	109	106	106	105	105	105	1060

Source: Own calculation from KIDS

For those households that experienced an upward decile movement, the majority 114 (10.8 per cent) moved 1 decile up. 7.6 per cent (81) of the households experienced an upward movement of 2 deciles whilst 77 (7.3 per cent) experienced a three-decile movement. The general trend is that as the odds of experiencing a higher decile movement increase the fewer the households. In aggregate terms only 55 per cent of the households actually did experience a positive decile movement. The implication is that it was increasingly difficult for

households to experience a change in income ranking between 1993 and 1998. In sum, when households are compared to their peers, there was little variation in rank order between the two years. In other words very few households got better with respect to income growth.

Though a sizeable number of households did not get ahead in terms of improvements in income decile rankings, a fundamental question relates to understanding those factors that possibly explain the upward or downward movement for the small proportion of households. Literature on the South African labour market and poverty (Cichello et al, 2002; Borat et al, 2001; Field et al, 2001) has extensively dwelt on how factors like education, race, gender and location among other things explain changes in remuneration and hence change in income. The following section explores changes in household income ranking with respect to the type of workers in respective households.

4.2.2 Change in poverty ranking and type of worker in a household

Table 13: Decile mobility matrix based on household worker combination

Worker combination	Number of Deciles moved																			Total
	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	1	2	3	4	5	6	7	8	9	
Unknown	3	3	5	13	14	14	13	17	22	26	21	13	10	4	2	0	1	1	0	182
Self other	0	0	2	0	0	4	5	1	5	2	4	3	4	4	3	1	1	0	0	39
Self agric-	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1
Selfagric-selfother	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	2
Casual	0	0	0	2	2	3	2	2	2	5	0	1	0	0	0	0	0	0	0	19
Regular	2	3	2	3	8	12	14	28	34	45	39	21	34	27	16	8	15	6	2	319
Regular-Selfother	0	0	0	0	0	2	1	0	3	3	3	6	1	2	1	1	1	0	0	24
Regular-Casual	0	1	0	0	0	0	0	2	1	2	1	2	2	0	1	1	0	0	1	14
Unemployed	2	3	8	11	15	15	22	21	20	19	18	12	9	4	0	1	0	1	0	181
Unemployed-Selfother	0	0	0	3	1	6	3	3	6	3	5	3	3	2	1	0	0	0	0	39
Unemployed-Selfagric	0	0	0	0	0	0	1	0	1	0	1	0	1	0	0	0	0	0	0	4
Unemployed-Casual	1	0	2	2	6	3	3	3	5	2	3	0	1	1	0	0	0	0	0	32
Unemployed-Casual-Selfother	0	0	0	0	0	1	0	1	0	2	0	0	0	0	1	0	0	0	0	5
Unemployed-Regular	1	2	2	5	9	8	14	17	18	22	14	15	8	14	6	4	5	0	0	164
Unemployed-Regular-Selfother	0	1	0	0	0	1	2	0	1	1	3	1	1	0	0	0	1	0	0	13
Unemployed-Regular-Selfagric	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1
Unemployed-Regular-Casual	0	0	2	0	0	1	0	4	2	3	1	3	3	0	0	0	0	1	0	20
Unemployed-Regular-Casual-Selfagric	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1
Total	10	13	23	39	55	70	80	99	121	135	114	81	77	58	31	17	24	9	3	1060

Source: Own calculations from KIDS

The majority of households (135 or 12.7 per cent) across all forms of worker combinations did not experience a change in decile location. Out of the total sample, households with regular workers experienced a higher magnitude of

change in terms of their decile transition. Thirty-nine (3.7 per cent) of households with such workers experienced a single upward decile movement. The group with 'unemployed workers only' was the second highest group experiencing a single upward decile movement followed by the combination with 'unemployed and regular workers'. Of note is the concentration of households (11 per cent) with the 'unemployed only' in the lower deciles. The number of households in the 'regular-unemployed' combination that experienced a negative decile movement is actually lower than that with the 'unemployed only' but above that of households with regular workers only. The implication is that regular employment is likely to bring about a positive change in household welfare. Formal employment is associated with regular and stable income and hence higher chances for households with such workers to experience positive changes. The logic is that households without some form of regular income are unlikely to experience a significant movement in their decile position unless there is an alternative means of income external to the household. The results are somewhat similar to those of Fields *et al* (2002) who found that income from labour earnings are more significant than changes in other sources of income. The category with unclassified workers also shows a substantial upward decile movement. On the basis of other literature on social security³ within KwaZulu-Natal it is correct to infer that such movements may be attributed to other income transfers largely those associated with old age pensions and other social security transfers. In very few cases did households with unemployed-casual and casual workers experience a substantial movement in their decile positioning?

4.2.3 Household self employment activity and change in poverty ranking

Like for the entire distribution, households pursuing self-employment activities (informal economy activities) were ranked and the type of workers in those households established. The fundamental issue relates to establishing those predictor values that explain changes in income for informal economy activities. Is the change in self-employment income related to the type and number of workers in the household? In other words, is there an evident intra household transfer of capital to informal activities? The change in decile rankings for

³ Ardington and Lund (1995)

households pursuing additional self-employment activities is shown below in table 5.11.

Table 14: Households doing self-employment activities and decile changes

Number of deciles moved	No. of Households	% of households doing self-employment activities
-9.00	2	1.1
-8.00	4	2.2
-7.00	4	2.2
-6.00	7	3.8
-5.00	6	3.3
-4.00	22	12.1
-3.00	17	9.3
-2.00	13	7.1
-1.00	21	11.5
.00	18	9.9
1.00	17	9.3
2.00	18	9.9
3.00	12	6.6
4.00	9	4.9
5.00	6	3.3
6.00	1	.5
7.00	4	2.2
Total	182	100.0

Source: Own calculations from KIDS

Out of the total households participating in self-employment activities 96 (53 per cent) experienced a decline in poverty ranking. Sixty-seven (36 per cent) had a positive change in their decile positioning. Twenty-six (26) per cent of the households actually had at most a three decile positive change. The telling story is that more households doing self-employment activities actually never got ahead with respect to their decile positions. The next section explores the movement of households across deciles on the basis of the type of self-employment activity pursued. In other words, which self-employment activity is likely to bring about a positive change in decile positioning? Table 15 shows the decile mobility matrix based on self-employment activity.

Table 15: Decile mobility matrix based on type of self-employment activity

Self-employment activity	Number of deciles moved																Total	
	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	1	2	3	4	5	6		7
Shopkeeping	0	1	1	0	0	2	1	1	3	3	2	1	4	0	2	1	1	23
Vendor	0	0	2	2	1	5	3	3	4	4	3	2	1	2	2	0	0	34
Shebeen	0	1	0	2	0	3	2	2	1	1	3	1	1	0	0	0	0	17
Herbalist	0	0	0	0	1	1	1	0	0	0	0	1	0	0	0	0	0	4
Tailor	0	0	0	0	2	6	2	1	3	4	2	5	0	1	0	0	0	26
Shoes	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	2
Healer	0	0	0	0	0	0	1	0	1	0	1	0	0	0	0	0	0	4
Transport	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1
Taxi	0	0	0	0	0	0	0	1	0	0	1	0	1	2	1	0	0	6
Food	1	0	0	2	0	0	0	0	1	3	0	1	1	1	0	0	0	10
Weaving	1	1	0	0	1	1	2	1	2	1	0	1	1	0	0	0	0	12
Construction	0	1	0	0	1	2	2	0	1	2	2	0	1	1	0	0	1	14
Wood	0	0	0	1	0	1	0	0	2	0	0	0	1	0	0	0	0	5
Artisan	0	0	0	0	0	0	1	0	2	0	1	4	0	1	0	0	0	9
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
Clerical	0	0	1	0	0	0	1	3	1	0	0	0	0	0	0	0	0	6
Service	0	0	0	0	0	0	1	0	0	0	0	0	1	1	0	0	0	3
Entertainment	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	0	0	3
Mfg	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	2
Total	2	4	4	7	6	22	17	13	21	18	17	18	12	9	6	1	4	182

Source: Own calculations from KIDS

Vending, the most popular form of self-employment activity had the highest number of households (20 or 59 per cent) experiencing a decrease in their decile positioning. Shop keeping, taxis and artisan related work are the only forms of self-employment activities whose households experienced a positive decile change. All the other forms of self-employment were associated with more households that fell behind with respect to their positioning.

Though households engaged in shop keeping, taxis and artisan activities show a substantial positive change in decile location, a majority of self-employment activities have not been able to bring about any positive change for most households. The result illustrate the fact that income from self-employment activities is generally low and therefore unlikely to bring about any meaningful change in the standard of living. Manufacturing, a sector associated with value addition and a potential to bring about a substantial change in income apparently has very few people involved for one to make any meaningful deductions.

A further analysis using the t-test was applied to show whether there exists a significant difference in the mean incomes of households with self-employment activities and those without (using a yes or no criteria). In both years, 1993 and 1998, the hypothesis that there is no significant difference in the mean incomes is rejected (1993: $F=6.44$; $p<0.05$; $\alpha = 0.011$; 1998: ($F=29.27$; $p<0.05$; $\alpha = 0.000$). The implication is that household self-employment income matters less. The critique with this analysis lies in the use of total household income, whose main source as earlier indicated is labour income. Furthermore, it has been shown that households with formally employed workers experience significant decile movements than those without. The important conclusion is that the key driver of household income change, at least as expressed by decile position, is linked to the existence of formal workers through their labour earnings. In sum, income from self-employment activities does not seem to explain the extent to which households either rise or fall through the decile rankings.

Another angle is to examine the proportion of self-employment income to total household income. If the proportion of self-employment income to total household income is more than half of total household income, it is reasonable to conclude that such income does indeed make a difference to household welfare. In 1993, for 74 per cent of the households, self-employment income contributed less than half of the total monthly household income. In 1998, 69 per cent of the households accrued their income from self-employment activities.

4.2.4 *Summary findings*

The key findings of the study are as follows:

Employment

An analysis of households in KwaZulu-Zulu Natal by type of worker confirms the existence of a range of worker types. The dominant combinations have workers in regular employment, casual employment, self-employment, and the unemployed. The combination of workers is however dependant upon the definition of unemployment used, i.e. broad or narrow. There are also a significant number of people whose employment status is unknown, at least, as revealed by the KwaZulu-Natal Income Dynamics Survey.

The number of unemployed people who have assumed self and casual employment is not significant. Seemingly, self-employment is not a desirable destination in spite of the substantial number of people who remain unemployed.

For the period 1993-1998, there is little variation with respect to the type of workers at household level. Though the number of regularly employed workers increased over the same period, the number of unemployed people is equally substantial. The general trend is that there are few people assuming regular or formal work employment to bring about a significant change in total household income.

Most self-employment initiatives are associated with households with at least a regularly employed member. For all activities, there is a close link between self-employment and the regularly employed. This suggests either of the following, a transfer of resources to self-employment activities (possibly as a way to help other household members to subsist) or the fact that households engage in self-employment in an effort to supplement income from regular employment that is inadequate to meet household needs.

Though some self-employment activities are associated with specific gender groups, there is no apparent association between gender and self-employment.

Poverty

For the period, 1993-1998, there was little variation in household rank order. It was therefore increasingly difficult for households to experience a change in income, at least, as expressed by the decile transitions.

Households with regularly employed members have a greater potential of improving their decile transition and hence their overall welfare. The implication is that income from labour earnings plays a substantial role in determining the change in household welfare.

Households engage in a range of self-employment activities from vending, shop keeping, and muthi to manufacturing. Income from these activities however has little impact with respect to influencing decile transitions. Income from self-employment is therefore inadequate to bring about a meaningful change in total household income.

Chapter Five Conclusions and Policy Implications

The purpose of this study was to explore, analytically and empirically, the dynamics of employment and poverty in South Africa based on the KwaZulu-Natal Income Dynamics Survey. The results raise a number of questions in terms of what conclusions can be made. One thing for certain is that households with formally employed members are better positioned in terms of getting out of poverty or at least, improving their welfare compared to those without such workers or with members involved in unstable and unreliable jobs. Within households, self-employment activities are closely linked to workers in regular employment. The income realised from these activities is however inadequate to bring about any meaningful decile transition and hence change in household welfare.

Given the decile transitions, though minimal, experienced by households with regular/formal employees, it is evident that there is a close association between the functioning of the labour market and policies aimed at alleviating poverty. The type of work done by individuals within households tells something about the extent to which a household either gets better off or worse-off over time.

The findings of the study raise two policy questions: Firstly, **to what extent do we expect the unemployed or those occupying meagre jobs to subsist on their own? In other words, over time, do we expect the living standards of households with a majority of unemployed people or people in meagre jobs to get better without external support?** Secondly, **what is the basis for continuously analysing the informal economy as a separate entity yet it is closely linked to the formal economy? Should future research not focus on analysing the informal economy as an integral part of the formal economy?**

5.1 The jobless or those in unstable employment cannot subsist on their own

The jobless face a double tragedy at both the individual and household level compared to their counterparts in employment. Households with a significant proportion of the 'unemployed' face relatively more income (and overall

welfare) constraints than those with other combinations of workers. Borat (undated, 28) equally came to the conclusion that joblessness renders both individuals and households relatively worse-off especially when there is no employed member. Households with regularly employed members by virtue of having access to better and stable remuneration have a greater chance of improving their conditions not only at individual level but also for the household. Regularly employed members give their households a better leverage compared to households with other combinations of workers. Other worker combinations are generally associated with slim chances of getting ahead such that members in these households hardly improve their positions. Since employment is a key predictor of household welfare change, the economy should increasingly be generating more stable and secure jobs. This would significantly reduce the pressure on regularly employed household members who apparently contribute towards the sustenance of other members and subsequently determine the ability of the household to get better over time.

5.2 *Self-employment is linked to the formal economy*

Self-employment activities occur side by side with formal work employment and seemingly do not displace formal economic activities. Within households, they seem to represent a new activity that would otherwise not occur if household income was adequate. This is especially true given that the most common forms of self-employment activities are associated with regularly employed workers. The tendency to analyse self-employment as a separate entity ignores a number of issues associated with work in the informal economy and how the same economy sustains itself over time. In a majority of cases self-employment activities take place when there is an immediate household member with a potential to transfer capital (of both a financial and human nature). Regularly employed members are the closest sources of such capital hence the close link between such members and self-employment activities.

Whilst surveys classify people as either employed in the formal or informal economies such a classification overlooks not only the dynamics of self-employment but even some other forms of self-employment with a greater potential to drive household welfare. Though the partition of the labour force into

the formally employed and informally employed is essential, what matters in the end is not employment *per se* but how the particular type of employment contributes towards the individual's and household's welfare. Given that self-employment is closely linked to formal workers, the need to re-conceptualise its analysis needs more emphasis than ever before.

The study suggests a limited mobility of workers from the informal to the formal economy and vice versa. Though mobility is occurring between these two economies it is still far from ideal given the limited capacity of self-employment to drive total household income change. It is therefore not surprising that high levels of inequality still prevail despite the various interactions between employment in the formal and informal economies. Assuming workers maximise their utility levels they would indeed prefer the formal economy given its relatively higher income and the fact that incomes in the informal economy tend to fluctuate on a regular basis. Closely associated with issues of utility maximisation is the need to conceptualise how workers freely make their choices with respect to employment choices. In light of the high unemployment rate and inequality, this study is generally at odds with the phenomena of voluntary unemployment in the current South Africa and instead concludes that the unemployed are not eager to engage in self-employment due to the relatively low incomes and the lack of economic opportunities. Given such dynamics there is a need to understand both informal and formal employment at both the micro and macro levels if poverty sensitive policies are to be any meaningful.

The general consensus is that a job creating economy is one of the viable options for tackling poverty in the contemporary South Africa. Literature on the labour market highlights employment opportunities that have in the last couple of years been insufficient to absorb those in search of employment. In light of the limited capacity of self-employment activities to bring about a significant change in total household income, there is a need to create an optimal environment for the development of more productive self-employment enterprises that generate goods and services with better prospects of growth within and beyond their immediate areas of operation.

Rosser et al (2000:159) have argued that the growth of informal activities that occur independent of formal work are likely to be more beneficial in the long run in the “hope that the informal entrepreneurs of today will become the tax-paying formal business leaders of tomorrow”. Given such a perception it is therefore more rewarding to stimulate both the formal and informal economies so that they increasingly become better capable in terms of providing more stable jobs.

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