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Title: Labour Market Segmentation in South Africa.

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LABOUR MARKET SEGMENTATION IN SOUTH AFRICA.

by Fuad Cassim

INTRODUCTION

This paper questions the applicability of neoclassical theory to the South African labour market and it adopts an alternative approach, namely, segmented labour market theory. Segmented labour market (SLM) theory has emerged only recently as an alternative to neoclassical analysis of wage determination. Drawing on this approach it will be shown that a model of racial dualism provides a better explanatory framework and generates greater insight into the issues of poverty and discrimination confronting the South African labour market. Moreover, viewing the labour market within this analytical perspective sheds some light on the inadequacies and failure of recent state policy.

The paper begins with an analysis of the structure of labour markets in particular, and the concepts of the internal labour market (ILM), the dual labour market (DLM), and labour market segmentation in general. This is followed by an analysis of labour markets in South Africa. Though lack of adequate data poses a problem in so far as testing of the theory is concerned, the broad tendencies within the South African labour market indicate that the DLM approach can provide a useful basis to analyse the problems of low pay and income distribution. Finally, useful policy implications flow from this analysis.

THEORETICAL BACKGROUND

The classical theory of wage determination was more concerned with the determination of the aggregate level of wages whilst neoclassical theorists place their emphasis on the personal distribution of income. According to neoclassical theory the market for labour is determined like any other commodity, that is, by the intersection of demand and supply curves. On the demand side we have marginal productivity theory where firms view labour in terms of its productive quality; on the supply side following Schultz,

Becker, and others we have human capital theory. Human capital theorists argue that wages are determined in accordance with the level of skill. Skill differences result from the different amounts of human capital invested. Thus supply and demand jointly determine wage levels and employment.

At a more general level the individual is seen as the primary category for analysis. This means that the distribution of income is not seen as a structural phenomenon but individuals are assumed to behave rationally and therefore it is left to the individual to improve his/her welfare. Within this analytical framework the next step is to argue that individuals can raise their productivity through prolonged education and learning on the job. How then do neoclassicists analyse the two paramount problems of poverty and discrimination?

Within the choice theoretic framework of neoclassical theory, poverty would be viewed as a "result of some *individual failure* which can be corrected by *individual adaptation*".[1] The poor remain poor because they lack marketable skills or have failed to invest in themselves - poverty is the result of market forces and individual utility preferences. The shortcoming of this interpretation of poverty is that policy based on it in terms of education and manpower programmes have not significantly alleviated the problem of poverty.

The basic prediction of the human capital model[2] which purports that there exists a positive correlation between education, training and earnings certainly explains some of the variation in wage differences but excludes a number of variables outside the individuals control. To simply correlate education with earnings is highly misleading since there exists substantial wage variation within occupations, and a cross-section analysis of the whole occupational structure does not really capture the dynamics of any individual segment of the spectrum. As suggested by B. Bluestone[3], "for many of the working poor, the problem may lie in the industries in which they work, not in the skills they individually possess." This means one must turn to the industrial and labour market structure to determine wage differences for the same occupation and level of human capital that individuals possess.

The fact that a large number of variables, such as race, class, sex and age, are outside the individuals control results in different amounts of human capital being embodied within different groups of people in society. In a critical assessment of human capital theory Bowles and Gintis[4] make the point that "the process of individual choice aggregation, even if it is relevant to educational change, works within economic constraints determined almost entirely outside both the consumers and citizens arena of choice". Thus economic inequality does not simply stem from individual differences in skills and ability, but is a structural aspect of existing society. Education on its own is a doubtful policy instrument as a remedy for inequality since

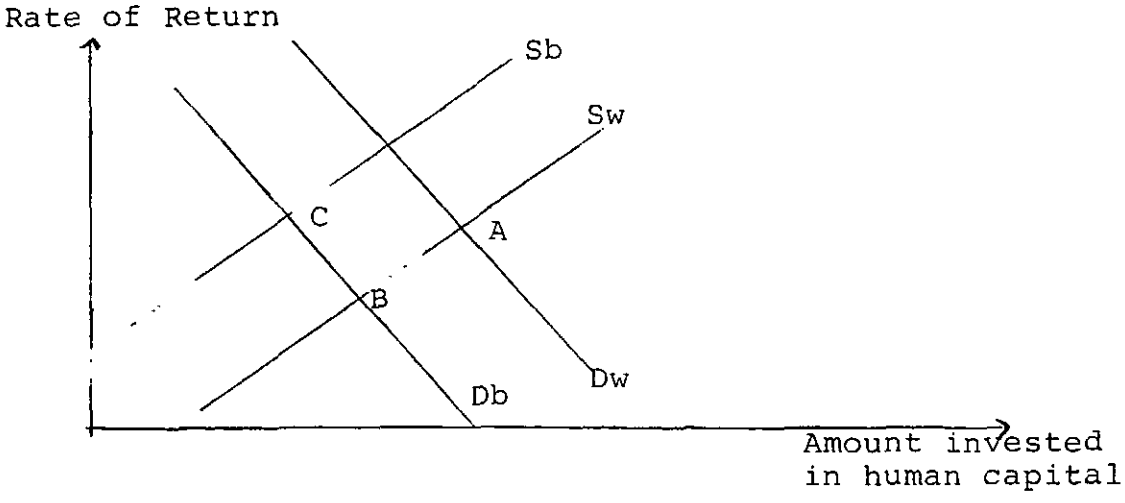
it fails to take into account how the educational structure also reproduces the status quo by securing existing positions of privilege.

From a critical neoclassical perspective the job competition model put forward by Thurow[5] appears to offer a more realistic perspective than conventional wage competition theory. The job competition model argues that most skills are acquired on-the-job rather than exogenously. Employers rank all workers along a labour queue and make use of observable characteristics such as race and sex to draw on workers for training. This results in the fact that "the rationing function of the labour market makes repression of direct wage competition profitable". Implicit in this view is the concept of the internal labour market which will be examined later.

Even though on-the-job training may enhance earnings since workers inherit certain skills, Bowles and Gintis[6] cast their doubt on this relationship. They maintain that if this were so then workers with the same length of experience in a certain job would not be affected by age "but to the contrary they found age to have a significant impact". What the authors do emphasize is the role of social relations of work which determines the earnings of black males and female workers.

To be more concrete, in South Africa where the black population is significantly less educated, education can be shown to be an important factor in their low average pay. But the reason for low pay is not only a supply-side phenomenon, different groups can have unequal levels of schooling for both supply and demand reasons. Human capital theorists emphasize the supply side. On the demand side Blacks face a lower rate of return[7] to given amounts of education and therefore decide to invest less in human capital. On the supply side, however, inequality is enhanced because of discrimination in the provision of government expenditure on education.

A basic supply and demand diagram can illustrate the problem.



Since Blacks recoup a lower rate of return we have curve Dw and Db representing demand curves for Whites and Blacks respectively. If supply of funds into education is the same, it can be represented by curve Sw, in this case the equilibrium rate of return to education for blacks is lower than of whites, shown by points A and B. However, if the supply of funds is not the same, then the curve for blacks shifts to the left Sb, where the difference in amounts of education grows much further. But the difference in equilibrium rates of return becomes small as can be seen by comparing points A and C. Therefore contrary to what is often thought, a higher case of return for education for blacks and whites would be more evidential of discrimination.

If we turn to the discrimination, which is a pervasive problem in South Africa and where state legislation has played an active role, it will be seen that discrimination cannot be divorced from the problem of poverty but in fact exacerbates it and the two coincide with one another. In 1922 Edgeworth[8] put foward the "crowding hypothesis" as an explanation of discrimination. However this approach does not explain why certain groups are excluded from jobs for which they are capable. As Chiplin and Sloane suggest, crowding could be seen as a symptom rather than a cause of the problem and crowding as such must include "elements of occupational and monopoly power discrimination if it is to be a meaningful model".[9] Analytically, since certain groups are over-represented in certain jobs - pure wage discrimination results but perhaps more important is the reason why certain groups are employed in low-paying jobs. A simple way to test the effects of crowding on the wage structure is to see whether this results from productivity differences. And evidence does not support the notion that black workers are less productive then their white counterparts.

Remaining very much within the neoclassical tradition Becker's[10] analysis revived interest in the subject of discrimination. Becker uses the concept of a 'taste for discrimination' to explain wage differences between Blacks and Whites. This like any other taste determines market behaviour in conjunction with relative prices given utility maximisation. However, Arrow[11] maintains that there is a lack of specifity in the hypothesis being advanced since it does not explain why discrimination takes place. Furthermore standardising for a number of demand and supply side factors, a large part of the wage differential remains unexplained. Arrow suggests that in a competitive market, wage discrimination would disappear, since non-discriminators would use a cheaper labour force, namely, Blacks, and hence become more profitable. So in the long run the assumption of profit maximization leads us to expect that race discrimination will be eliminated in a competitive market.

Though there have been a number of modifications and extensions to Becker's analysis, they still suffer from a basic weakness in explaining why discrimination occurs. In the words of S.J. Lord, "neoclassical models view

discrimination as the outcome of market-place interactions of individuals, some of whom have discriminatory preferences. We are given no explanation of why these individuals happen to have such preferences; neoclassical theory conventionally treats preferences as exogenously determined. This results in a circularity in the argument: discrimination is the result of individual preferences, and the only way we know that individuals have these preferences is because we know discrimination takes place in the labour market."[12] The major weakness with such analyses is that they tend to analyse tendencies towards equilibrium and how individuals maximise income. In other words, they do not look at variables that are not totally within the control of the individual. Hence until an attempt is made to incorporate both economic and extra-economic (which are usually regarded as exogenous) variables neoclassical explanations will be subject to limited explanatory power.

Becker's mode of analysis if applied to South Africa reduces discrimination to the trivial problem of choice. Becker's approach completely ignores the exertion of power by the state; employers and trade unions: it disregards the non-competitive contexts. The concept of a 'taste for discrimination' does not allow the disenfranchised to exercise their choice since they are not able to discriminate. Thus, a process of historical evolution in South Africa has formalized discrimination within the structure of society in such a way that it effectively removes choice from its black population.

Having pointed to some of the weaknesses and limitations which plague neoclassical analysis let us now turn to an alternative formulation of labour markets.

LABOUR MARKET SEGMENTATION

The neoclassical framework failed to explain the persistent problems of poverty, inequality, race and sex discrimination and this led to the emergence of dual labour market theory. This theory espouses that the labour market is broken into two or more distinct sectors. It maintains that education on its own is a doubtful policy instrument for improving the distribution of income, and that emphasis should be shifted from the supply to the demand side.[13] The concept of labour market segmentation is a general one, and there exist various proponents who differ on the causes of segmentation. One of these, the radical interpretation of segmentation, focuses on monopoly capital as the basic cause in attempting to control factor and product markets through a policy of 'divide and rule.[14] This paper, however, will only concentrate on the institutional analysis of segmentation - the approach most strongly identified with P. Doeringes and M. Piore.[15]

Dual labour market (DLM) theory states that the labour market consists of two distinct sectors, a primary sector and a secondary sector - the notion of a homogenous labour market is rejected. The primary sector is associated with high wages, good working conditions, better chances of

advancement, employment stability, and strong unionisation. By contrast, the secondary sector offers jobs that are low-paying, with poor working conditions, employment, instability and lack of unionisation. Thus, the basic ideas behind dualism can be described as follows:

(a) There are two separate labour markets, a primary and secondary sector.

(b) Workers compete within each market, for jobs, wages and employment in general.

(c) Workers in the secondary sector are treated in a more inferior way than those in the primary sector.

(d) Mobility barriers prohibit the movement of workers from the secondary to the primary sector.

The above hypothesis was primarily developed to explain the problem of disadvantaged workers, that is Blacks and women, and it implies that they are confined to the secondary sectors. Thus, to analyse the persistence of low pay in relation to the economic structure, DLM theory points to the development of internal or 'balkanized' labour markets (to use Kerr's term) under modern capitalism.

An institutional model developed by Kerr suggests that the labour market does not operate in an open manner whereby all jobs are simply available to those who bid for them. In fact, institutional rules severely impede mobility. More specifically, Kerr adopts a two-way classification, that is the structureless and structured types of labour markets. Open markets are basically unstructured and subject to competitive forces, and are characterized by an absence of firm-specific training. The structured labour market consists of an internal and external market. "The internal market may be the plant or craft group, and preferment within it may be based on prejudice or equality of opportunity or seniority or some combination of these. The external market consists of clusters of workers actively or passively lying within some meaningful geographical and occupational boundaries, and of the part or parts of entry which are open or are potentially open to them."[16] The result of this is inevitably a fragmentation of the labour market which impedes labour mobility. Hence, with this new organizational form called the 'internal labour market' (ILM), there will be little influence of competitive forces on the internal wage structure, which is determined by custom and rules. It is in this direction that DLM theory has made a significant advance over neoclassical theory because it examines the effects of the ILM, and also those excluded from it in the external sector. ILM theory may be seen as

an attempt to explain how labour market imperfections modify the competitive labour market.

Doeringer and Piore have developed this theoretical framework much further and also in more precise terms. They define the ILM as an "administrative unit, within which the pricing and allocation of labour is governed by a set of administrative rules and procedures".[17] The ILM is distinguished from the external labour market (ELM) where wages are more directly determined by market forces. The two markets are nevertheless linked at various job classifications which constitute ports of entry and exit to and from the ILM, while other jobs within the ILM are reached by transfer and promotion. This is an important distinction since the existing employees are given preferential treatment over outsiders or the disadvantaged workers. The main factors giving rise to internal labour markets are attributed to skill-specifity, customary law and on-the-job training.

Firms that have internal labour markets are not dependent on the external labour market to fill most jobs. There exist job loaders or mobility clusters which determine the promotion of workers. Promotion is determined more by seniority than ability or productivity, which means that new workers are hired mainly at *ports of entry* at the bottom end of the job queue. Since wages are related to seniority the consequence of this is a reduction of labour turnover and hence ILMs become beneficial to employees.

The concept of the ILM does have a link with human capital theory. Though economists like Becker[18] and Oi[19]; discuss skill-specific and on-the-job training, Doeringer and Piore have developed the implications of fixity within their model. ILMs tend to develop because most skills appear to be learned on the job itself and are becoming more firm-specific. So work skills are then not the main barrier to primary jobs. Furthermore in order to develop a stable labour force, skill-specifity and on-the-job training encourage the employer to develop an internal labour market with a low degree of labour turnover. This is done by paying higher wages. Hence, the most important aspect of ILM is the provision for incentives for job stability and a reduction in labour turnover. Finally, the role of custom is essentially to make wage differentials unresponsive to market conditions, but custom itself does not determine what these differentials will be. Thus, wages and mobility are determined by administrative rules and not competitively.

It has been suggested that large and well-organized firms are more likely to have an internal labour market. Edwards[20] suggests, the need for such a structure for internal control to maintain a stable productive output and stability of the employment relationship. As firms grow in size bureaucratic control tends to increase, because of the need to co-ordinate and control the labour force.

Since dualists contend that mobility barriers are important, we must ask how they manifest themselves. Piore[21] suggests that a fundamental criterion which differentiates jobs between the primary and secondary sector is the behavioural requirements which each sector imposes, and in particular, employment stability. Many workers are not likely to enter the primary labour market, especially those with poor work histories and habits, low education, and also women and Blacks. This kind of *statistical discrimination* rejects a large proportion of the workforce and is probably a cheap way of screening out those with little skills and undesired work patterns. Statistical discrimination is most likely to occur where certain workers are trapped simply because their superficial characteristics i.e. race, resemble those of secondary workers.

If a large proportion of the poor had no capacity to work or no skills at all then the problem of poverty and discrimination would be an entirely different one. But this is most definitely not the case, in fact, low income or poverty is due to many other factors. Many workers who initially began to work in the secondary sector may never reach the primary sector. Therefore, unlike those in the primary sector, secondary sector workers are continually moving between low-status jobs in search of higher wages and better working conditions. Blacks are disproportionately relegated to the secondary sector at the very beginning despite their abilities and skills and hence cannot escape from being trapped within the secondary sector. Many become pessimistic and discouraged which leads them to a situation of chronic unemployment. Thus an important implication of DLM theory is that most of the poor can be described as the "working poor". As stated by Sen, "Employment is an important means of generating and distributing income, but a person can be rich yet unemployed, if he has other sources of income and also a person can work very hard and still be very poor. Poverty is a function of technology and productivity, of ownership of the means of production, and of exploitation and social arrangements for production and distribution."[22]

To sum up. The primary labour market consists of a series of internal labour markets with *ports of entry*, whilst the secondary sector is basically unstructured and open. The purpose of distinguishing between the two is based upon the fact that certain groups of workers become trapped within the secondary sector. Furthermore, the process of wage determination is different between the two sectors. In the primary sector wages are not responsive to the forces of supply and demand. Discrimination basically increases the labour force in the secondary sector, thus depressing the wage and giving employers an interest in its continuance. Thus, what distinguishes the DLM from all other approaches is the assumption that segmentation of the labour market eliminates mobility for workers in the secondary sector.

In general labour market segmentation theories focus on barriers to mobility, as opposed to human capital theorists who simply focus on the acquisition of human capital. As suggested by Wachrel and Betsy labour supply functions may differ amongst similar groups because of differences in education and training, work patterns, and residential location, whereas labour demand functions differ because of discrimination by race and sex, industrial structure and trade union barriers to entry. This means that public policy should not merely concentrate on the acquisition of human capital but "how this human capital is used in the labour market." They conclude by saying that "as long as public policy focuses exclusively on the characteristics of individuals, and not as well on the structure of the economic environment in which the individual works, we can continue to anticipate the same disappointing results that public policy has produced in the last decade."[23] Thus, an important contribution of DLM theory is that it distinguishes between the primary and secondary sectors and the lack of mobility between them. This suggests that the nature of such markets is more adequately explained by institutional and structural forces than narrow economic variables as in the neoclassical approach.

RACIAL DUALISM IN THE SOUTH AFRICAN LABOUR MARKET

To establish the case for the DLM in South Africa at an empirical level for the entire labour market involves an exercise beyond the scope of this paper. Nevertheless, drawing upon various sources the dualist tendency within the labour market is fairly evident. The point here is to understand the reasons for the persistence of poverty and discrimination and the contribution that DLM theory makes in offering a potentially better explanatory framework. As noted by Gordon (with reference to orthodox theory), "that which cannot be precisely modelled is often relegated to a secondary or qualifying tier of the analysis. These methodological inclinations lead to static analyses. They also place a heavy burden on the analysts ability to hold enough about the world 'constant' to permit model formulation. Even if the analyst admits that the world is changing, he must act for the moment, as if it is not."[24] Let us briefly consider the tests that could be undertaken to establish segmentation within the labour market.

Firstly, the bi-modality test in the distribution of jobs. Bi-modality is associated with occupational segregation where some members of the labour force are concentrated in certain occupational groups. Secondly, we have a socio-economic mobility test, which establishes the impediments in movement between secondary and primary employment. The final test is the truncated earnings function, showing that investment in education might be more profitable for those who belong to the primary sector than for those who belong to the secondary sector.[25]

Some studies attempt to identify the existence of dualism by means of a single measure. For instance, Bosanquet and Doeringer use differential rates of increase with age-earnings profiles of particular groups of workers.[27] But this may not be an adequate test since age-earnings profiles can be subject to different interpretations.[28] Gordon suggests that factor analysis of multiple occupational and industrial characteristics resolves the problem of using a single measure. However, the most thorough test of labour market segmentation theory is that of Wachtel and Betsy who use two-stage regression analysis. They run regressions with wages specified as a function of personal characteristics, then calculating an adjusted wage variable with the characteristics variable removed. Thereafter the process is reversed to test for the effects of personal characteristics upon wages after elimination of the effects of structural variables. The result being that all the independent variables proved to be significant.

A serious confusion should be avoided when discussing race and the DLM. In attempting to establish whether a DLM exists one should avoid using characteristics of the worker to define the DLM, instead the definition should be in terms of the job characteristics. Barron and Norris[29] suggest that this could lead to an 'inferential problem', that is to say the characteristics of a job tend to be closely correlated with characteristics of individuals and therefore results in "explanations that become entirely circular".

In attempting to apply the DLM approach to the South African labour market, a caveat should be made. At a theoretical level dualism on its own need not have racial implications since employment discrimination within internal labour markets inevitably arises because workers who enter at certain ports of entry have privileges, job security and promotional opportunities conferred upon them. However, observing the development of the labour market in South Africa racial discrimination has occurred through systematic legislation and rules and therefore race becomes a strategic factor in the analysis. However, some researchers may argue that in view of the current labour dispensation, discriminatory legislation is being abandoned and this in effect consequentially changes the terms of the debate. Having noted this development, it will be suggested here that we can still not evade the racial factor. Though formal legislation officially eliminates race under some circumstances, it is important to bear in mind that informal rules, customs, etc. will still perpetuate racial employment patterns.[30]

An article by Knight[31] in 1964 couched in terms of a dual economy made the case for labour market segmentation. However accelerated growth after the 1960s and the relaxation of the colour bar which resulted in some job advancement leads Knight and McGrath to suggest that the "assumption of complete segmentation in the 1964 model is less adequate and calls for an analysis of wage

discrimination."[32] The authors suggest that the 'crowding hypothesis' is the most useful for explaining wage discrimination in South Africa, since the internal labour market concept though relevant is not supported by evidence in particular labour turnover.[33]

To replace the concepts of the ILM and DLM with the 'crowding hypothesis" by citing labour turnover needs to be questioned. Crowding however does exist and is certainly not irrelevant but its explanatory power is limited as discussed above. The DLM approach offers far greater insight, especially with regard to institutions and divisions within the labour market which do not emerge from the 'crowding hypothesis', since wage and employment discrimination is the result of the institutional and structural development of the labour market. As suggested by Gordon "the DLM theory does place great emphasis on job stability as a source of index between the two markets. This difference between the two markets is only approximate. Not all workers in the primary labour market work steadily at a single job all their lives. Simple measure of job stability will not suffice to capture the distinctions between markets ... . The separation arises from *potential* rewards for job stability - both objectively and as mediated by subjective evaluation. However intractable, some decent measures of the more precise formulation of the difference between the two sectors will be necessary in order to make very precise tests of the theory".[34] Hence, perhaps a more fruitful criticism of DLM theory is that of its parochial two-sector approach and that it over-emphasizes the advantages of employment in the primary sector.

On the question of labour turnover, Barron and Norris suggest that we should not confuse 'higher involuntary turnover rates' (a characteristic of the job) and 'higher voluntary rates'. They say that "a failure to unravel the different strands of 'individual' and 'structural'causation can lead to a crude identification of individual characteristics and an unwarranted emphasis upon those characteristics as causes"[35] Thus, labour turnover needs to be tested in relation to job conditions, the satisfaction or dissatisfaction of workers, wages and attractiveness of work. Primarily, labour turnover should be seen as a function of factors in the work situation.

In formulating a model of racial dualism for the South African labour market, we can postulate a "White" sector and a 'Black' sector which are the results of a historical process of segmentation of the labour market, in which the distribution of individual jobs and income have become dominated by the superficial characteristic of race. The labour market manifests a glaring disparity between white and black workers - income, occupation and training indicate that black workers are still confined to certain sectors of the labour market. We can now turn to some important generalisations.[36]

Firstly, in South Africa we have two distinct labour

markets, one for white labour and one for black labour. Each market is governed by different laws, institutions and mechanisms for the recruitment, training and allocation of jobs and workers.

Secondly, the black labour force has acted as a pool of surplus labour - a large part of which is locked into jobs traditionally looked upon as black jobs. These jobs usually entail low wages, little skill and education, and frequently suffer from seasonal or cyclical unemployment.

Thirdly, segregation at large is sustained by a number of connected and reinforcing supportive institutions whose total impact is much greater than each institution on its own. The racial demarcation and differentiation created in any one institutional area work is impediments and support other institutions. This racial division of labour is enhanced by barriers in other areas of society such as housing, education and transport, which react and affect an individual's labour market position.

The above phenomenon has resulted in entrenched structural relationships which still persist today. Hence, the differences in income, employment, occupation, training and labour-force participation rates indicate the existence of a dual labour market. This means we have two separate and persistent patterns of employment characteristics which cannot be explained in terms of a unitary labour market. But this only explains dualism at a general level which is evident to most researchers. In more specific terms, a racially dual labour market means that white workers are predominantly recruited in the primary labour market while black workers are predominantly relegated to the secondary labour market. And each sector faces different supply and demand forces determining employment.

The racial dualism of labour can be seen operating through many levels, such as those of occupation, industry, geographic area, firms and departments within firms. As noted by Knight and McGrath once Blacks with equal efficiency take over so-called white jobs this results in a downward pressure on the wage rate. Blacks are usually placed in certain job classifications and generally, the lower the pay or the more harsher or dirtier the job, the higher the concentration of Blacks.[37]

The racial concentration by sector is significant as seen in table 1.

Thus, the data in table 1 shows a marked dualist tendency within the South African labour force. Furthermore, the fact that African workers are concentrated in certain sectors and regions affects their earnings in a significant way.[38] As far as the determination of earnings in the agricultural and domestic service sectors are concerned, these are at the bottom rung of a labour market made up of low productivity and low earnings with a concentration of black workers. At the other extreme whites are concentrated in manufacturing, commerce and finance and the professional service sectors, by far the higher paying

sectors with fringe benefits and promotional opportunities.

TABLE 1 Racial Allocation of Employment by Sector

	Percentage of Racial Group Employed in Sector				
	Labour Force	African	Asian	Coloured	White
Mining	8	11	0,4	1	4
Manufacturing	13	9	0,35	23	19
Construction	6	5	5	11	6
Electricity, Gas and water	1	-	0,1	0,3	1
Transport and Communication	4	2	4	4	11
Commerce and Finance	11	6	29	12	27
Other Services	20	19	12	22	22
Agriculture	30	40	4	16	6
Unemployed and not specified	7	7	9	10	3

Source: South African Statistics 1980

While the broad sectoral classification of employment evidently shows a dualist tendency, the pattern is even more distinct when one looks at the occupational distribution between different races. This is seen below by table 2.

Table 2 indicates that higher rungs of the labour market are dominated by Whites, whereas Africans form the bulk of the lower end of the job queue. And as far as African professional and technical workers are concerned it should be noted that a large proportion are composed of teachers and nurses.

More recently, the appearance of two government reports have resulted in a move to remove discriminatory legislation, concerning the labour market. This poses the question as to what the likely impact of such intervention by the state will be on the labour market. It has been suggested that this attempt is simply to restructure the racial division of labour to meet the needs of capital, and the most positive outcome would result in some form of change in the racial division of labour at the skilled manual working class and lower grades of supervisory levels. In the words of Davies,

this "will lead to a situation in which the 'vanguard' of the black population 'overtakes' the rearguard of the white population".[39] The upward mobility of a few black workers does not necessarily mean that we have an integrated labour force.

TABLE 2 The Occupational Distribution of Different Racial Groups

Occupational category	Percentage of Race Group			
	African	Asian	Coloured	White
Professional and technical	23	3,5	10,0	63,5
Managerial and Executive	2	2	1	95
Clerical	14,7	7,5	8,3	69,4
Sales	24,4	8,8	10,6	56
Protection workers	69,8	4	12,1	14,0
Unskilled	85,1	1,2	12,5	0,5

Source: Department of Labour Manpower Survey 1979. Data in the above table excludes agricultural and domestic workers.

Viewing the labour market as a whole we see that its segregated and dual structure leads to different responses from different racial groups. That is to say they develop separate patterns of job search. For instance certain jobs are identified with certain racial groups and they do not tend to overlap with each other. This results in different racial groups being faced with differing expectations, and that white workers are more likely to be in occupations that offer more on-the-job training and further advancement within the job ladder.

The segregated job-search behaviour is reinforced by the labour bureau system because this limits the free movement of labour and influences the conditions under which supply is made available. Moreover, many firms fill vacancies in a highly personalized manner which results in recruiting from particular racial groups. Thus most jobs in the white labour market, or primary sector are not sought after by blacks. The dualist tendency leading to different occupations and career patterns is strengthened significantly by a segregated educational structure. Not only is there a gap in access to education but compounding

this is the educational quality gap. Though it is difficult to measure educational quality directly one cannot escape from the fact that Blacks attend inferior schools, and public expenditure on education is divided along racial lines. Hence, different educational profiles ensure that high rungs of the job ladder exclude a large proportion of the black population, leading to a lower labour force commitment.

Our second generalization was that black workers form a pool of surplus labour. This point could be more easily understood within the framework of a dual economy, co-existing with a modern urban capitalist sector and a pre-capitalist sector. The capitalist sector draws its labour from the subsistence sector where there exists surplus labour. The migratory pattern of labour in South Africa results in black workers occupying positions at the bottom of the job queue, which are low paying, dirty, unsafe and usually of short duration, with little advancement potential. This form of secondary sector employment directly inhibits occupational mobility since the return home of migrants at the end of the employment contract restricts them to unskilled employment or unemployment or underemployment. Those migrant workers who are absorbed into the urban informal sector also face very little mobility between sectors. The informal sector, suggests Zarenda, "is in many instances a low income, low productivity sector which when it does generate employment opportunities tends to cater mainly for secondary workers such as migrant, young children, women, the aged or infirm, etc."[40]

It is interesting to note that the Riekert Report on its analysis of the South African labour market maintains that Blacks qualifying under Section 101(a) and (b) are "mostly members of the primary and internal labour markets whereas workers having Section 101(d) qualifications are usually members of the secondary and external labour markets."[41] This distinction is highly arbitrary as the sectoral and occupational distribution of the labour force shows that the majority of Blacks are dominantly within the secondary sector. At the same time although suggesting that the institutional labour market is the dominant form in South Africa, the thrust of the Riekert Report's recommendations do not amount to an institutional restructuring but rather using government power to reshape the black labour to fit the existing institutions. Analysing the impact of these new regulations embedded within the Riekert Report, D. Hindson suggests that "their immediate objective is to increase the occupational mobility of qualified workers and at the same time increase control over the movement and entry into employment of disqualified workers. This has a direct economic significance for Black workers. It helps provide qualified workers with better access to jobs and thus higher incomes and it tends to worsen the chances of disqualified workers. There is also a direct impact as regards unemployment. It is

reduced amongst qualified workers and increased amongst disqualified workers."[42] Thus the reforms currently advocated may indeed benefit part of the labour force, in particular those who are endowed with some education but not those who remain unemployed or 'working poor'.

CONCLUSION AND POLICY IMPLICATIONS

The major objective of this paper has been to suggest that a dogmatic reliance upon the neoclassical framework cannot explain why some workers remain poor and this framework also cannot account for the persistence of race disparities. This led to an alternative formulation, namely, DLM theory but there must be further empirical testing in this area. The main issue concerns barriers to mobility from the secondary sector to the primary sector of the labour market. It is suggested that the incorporation of institutional and extra-economic variables into the structure of the labour market within the DLM approach gives us greater insight into the problems of poverty and discrimination.

Discrimination in the DLM structure has resulted in enlarging the secondary sector which in turn lowers wages, and benefits employees. At the same time this has benefitted workers in the primary sector where ports of entry limit supply. Race is the most obvious means of differentiating workers. Hence racial dualism within the South African labour market is a structural phenomenon which has filtered Blacks into low-paying occupations, to inadequate and segregated housing and education. This has resulted in predominantly black occupations being characterised by low skill, little training, and lower promotional opportunities, than is the situation with jobs designated as white jobs.

Any analysis of the South African labour market, in particular the low pay of black workers must be seen within the structural context and not simply by looking at incomes, occupational and educational differences. The weakness of the neoclassical approach is seen in its attempt to isolate specific problems and develop piecemeal policy measures. As suggested by M. Reich, the various forces that affect the black worker are not, "simply additive, but mutually reinforcing, often a decrease in one narrow form of discrimination is accompanied by an increase in another. Since all aspects of racism interact, an analysis of racism should incorporate all of its aspects in a unified manner."[43]

If public policy attempts to redress the existing imbalance between white and black workers it will need to take a holistic view of the labour market. Public policy should concern itself with removing barriers to mobility and dualism as opposed to a unitary or homogenous labour market. On the supply side, training, education, geographical location, and work patterns should be thoroughly investigated, whereas on the demand side, the removal of

statutory discrimination will not be adequate if conditions on the supply side remain constant. On the demand side policy must look at occupational and sectoral distribution and trade union restrictions.

Because black workers are predominantly concentrated within the secondary sector and become trapped within it, DLM theorists place their emphasis on the demand side, requiring government intervention and expenditure with a bias towards those in the secondary sector. Given that a multiplicity of factors interact in creating dualism within the labour market, the market mechanism cannot be relied upon as the sole corrective device as suggested by the Wiehahn and Riekert Reports. However careful consideration has to be given to the role of the state and non-market institutions. Firms, which are private decision-makers, cannot significantly create the re-structuring that is needed to actively thwart the dualist structure. As suggested by Baron and Hymer, "the labour market, if allowed to operate on its own internal forces, does not generate sufficient economic or social pressure to eliminate racial disparities."[44]

Finally, to conclude, the DLM approach can be made forceful by detailed empirical micro-studies, although data availability may act as a constraint. Hence the approach also needs to be strengthened by a more rigorous historical view of segmentation of the labour market. Certainly, researchers looking at the South African labour market can enhance the utility of analysis via the DLM framework since it remains wide open for rigorous specification and testing.

I am indebted to Mr H. Zarenda for advice on specific issues and for general remarks. Opinions expressed here and any errors are the responsibility of the author.

NOTES

1. H.W. Wachtel, 'Capitalism and Poverty in America: Paradox or Contradiction', *American Economic Review*, (1972), 193.

2. G. Becker, *Human Capital* (New York 1964).

3. B. Bluestone, 'The Tripartite Economy: Labour Markets and the Working Poor', *Poverty and Human Resources Abstracts*, (1970), 78.

4. S. Bowles and H. Gintis, 'The Problem with Human Capital Theory: A Marxian Critique', *American Economic Review*, (1975), 78.

5. L. Thurrow, *Generating Inequality*, Chapters 4 and 5.

6. S. Bowles and H. Gintis, *Schooling in Capitalist America* (London and Hanley 1976), 100.

7. A deficiency with the rate of return approach is that educational qualifications are treated as sources of income like securities. It should be borne in mind that incomes are attached to occupations and educational qualifications determine access to occupations but do not guarantee entry to them. See A. Hussain, 'The Economy and the Educational System in Capitalistic Societies', *Economy and Society*, (1976), 421.

8. F.Y. Edgeworth, 'Equal Pay to Men and Women for Equal Work', *Economic Journal*, (1922).

9. J.B. Knight, 'A theory of income distribution in South Africa', *Oxford Bulletin of Economics and Statistics*, (November 1964).

10. G. Becker, *The Economics of Discrimination*, (The University of Chicago Press 2nd edition).

11. K. Arrow, 'Discrimination in the Labour Market' in J.E. King, ed., *Readings in Labour Economics*, (Oxford 1980).

12. S.J. Lord, 'Neoclassical Theories of Discrimination: A critique', in *Issues in Political Economy*, F. Green and P. Nore, eds., (London 1979), 229.

13. G. Cain, 'The Challenge of Segmented Labour Market Theories to Orthodox Theories: A survey', *Journal*

of Economic Literature, (1976), 1215-57.

14. R.C. Edwards, *et al.*, *Labour Market Segmentation*, (D.C. Heath and Company 1975).

15. P. Doeringer and M. Piore, *Internal Labour Markets and Manpower Analysis*, (Massachusetts 1971), Chapters 2-4.

16. C. Kerr, 'The Balkanisation of Labour Markets' in King, ed., *Readings* ..

17. Doeringer and Piore, *Internal Labour Markets.*

18. Becker, *Economies of Discrimination.*

19. W. Oi, 'Labour as a Quasi-fixed Factor', *Journal of Political Economy*, (1962).

20. R.C. Edwards, 'The Social Relations of Production in the Firm and Labour Market Structure' in Edwards, ed., *Labour Market Segmentation.*

21. M. Piore, 'The Dual Labour Market: Theory and Implications' in D. Gordon, ed., *Problems in Political Economy: An Urban Perspective*, (Massachusetts 1971).

22. A. Sen, *Employment, Technology and Development* (Oxford 1975), 38.

23. H.M. Wachtel and C. Betsey, 'Employment at Low Wages', *Review of Economics and Statistics*, (May 1972).

24. D. Gordon, *Theories of Poverty and Underemployment* (Massachusetts 1972), 86.

25. Cain, *Challenge of Segmented Labour Market Theories*, 1-246. Criticizes the methodology of segmented labour market economists, in particular 'that of fitting the regression to a sample that is truncated on the values of the dependent variable - with the result that the estimated coefficients (effects) of the independent variables are biased'. Cain maintains that the truncation of earnings that is dividing the workforce into high and low wage segments will result in a downward bias in estimated coefficients of human capital variables though this is not necessarily so.

26. Rumberger and Cornoy pose the question 'why would the coefficient be reduced more in the 'lowest' labour market than in the 'highest'. The bias that truncating causes could apply to both segments.

27, N. Bosanquet and P. Doeringer, 'Is there a Dual Labour

Market in Great Britain?', *Economic Journal*, (June 1973).

28. Gordon, *Theories of Poverty*, 116.

29. R.D. Barron and G.M. Norris, 'Sexual Divisions in the Dual Labour Market' in D.L. Barker and S. Allen, eds., *Dependence and Exploitation in Work and Marriage* (London 1976).

30. Doeringer and Piore, *Internal Labour Markets*, Chapter 7.

31. J. Knight, 'A theory of income distribution in South Africa', *Oxford Bulletin of Economics and Statistics*, (November 1964).

32. J. Knight and M. McGrath, 'An Analysis of Racial Wage Discrimination in South Africa', *Oxford Bulletin of Economics and Statistics*, (November 1977).

33. Knight and McGrath found that manufacturing data suggest a 61 per cent labour turnover rate for white employees and 48 per cent for African employees. They maintain that it is the severe shortage for skilled white labour which assures high pay and sure employment rather than the ILM.

34. Gordon, *Theories of Poverty*, 51-2.

35. Barron and Norris, 'Sexual Divisions', 50.

36. In formulating a model of racial dualism for the South African labour market, I have drawn substantially from H.M. Baron and B. Hymer, 'The Dynamics of the Dual Labour Market' in Gordon, *Theories of Poverty*, 94-101.

37. Knight and McGrath, 'Racial Wage Discrimination', 270.

38. Average wages in 1979 were R655 per month for Whites, R210 per month for Coloureds, R278 per month for Asians and R156 per month for Africans. See: *S.A. Statistics 1980.*

39. R. Davies, 'Capital Restructuring and the Modification of the Racial Division of Labour in South Africa', *Journal of Southern African Studies*, 5, 2 (April 1979), 194.

40. H. Zarenda, 'Imperfections in the Urban Informal Sector Market Model', *South African Journal of Economics*, 48, 3 (September 1980), 302.

41. Section 10(1) of the Bantu (Urban Areas) Consolidation

Act prohibits Africans from remaining in urban areas for longer than seventy-two hours unless they are able to produce proof that they: (a) have been resident since birth continuously in the area; or (b) have worked continuously in the area for the same employer for ten years or have lived continuously (and legally) in the area for 15 years; or (c) are dependents of men who qualify under (a) or (b); or (d) have been given permission to live in the area on contract.

42. M. Reich, 'The Economics of Racism' in Gordon, *Theories of Poverty*, 169.

43. Baron and Hymer, *Dynamics of the DLM'*, 101.

44. D. Hindson, 'The New Black Labour Regulations: Limited Reform, Intensified Control', *South African Labour Bulletin*, 6, 1 (June 1980), 50.