

# Wage differences

## *their origins and policy implications*

One of the key challenges facing the South African labour market is undoing the present high levels of wage inequality. The Employment Equity Commission (EEC) is tasked with this challenge. However, before proceeding with such an undertaking it is essential that we understand the nature and extent of these wage differences. This article will attempt, very briefly, to show where and how large these differences are in the labour market. I drew the data from the October Household Survey of 1995, given that the later surveys did not provide adequate wage data to undertake such an analysis.

### **Race, gender and education**

Table 1 presents the first basic cut of wage data amongst the employed. It shows that the median wage for the economy is about R1 400 per month. (The median wage is simply the middle value in the entire range of wages reported. It has a similar meaning to the average wage, but for various reasons is a preferable measure to the average.) White median wages are the highest amongst the race groups, while median wages for males are higher than females. Interestingly, the median wage of Africans and coloureds are essentially the same, and about a third of the median income for whites. While the wage for Indians is above that of coloureds and Africans, Indian median

*Haroon Bhorat argues that wage differences in the South African labour market are the result of discrimination and the quantity, quality and type of education a worker received.*

wages still remain only about half of the white wage.

*Table 1: Median wages by race and gender*

Category	Median	% of white/male
<i>Race</i>		
White	4 000	100
Asian	2 310	57,8
Coloured	1 083	27,1
African	1 082	27,1
<i>Gender</i>		
Male	1 555	100
Female	1 200	77,2

This racial-wage divide is not evident when looking at the data by gender. Here, while the male wage is higher, female wages are over three-quarters the value of the male wage. This result is picking up

the large number of Asian and white females whose wages are in fact higher than many African and coloured males. Indeed, the data shows that the median wage for white females is R2 600 per month and R1 600 per month for Asian females. Both these medians are higher than the medians for African and coloured males. This basic wage differential data suggests that while the race-wage gap is still very strong, the gender-wage difference is not as stark. The EEC therefore needs to take note of these race and gender differences in the South African wage gap.

## Education

Table 2 extends the wage discussion, by examining median wages according to education levels. It is clear that higher education levels are associated with higher median wages. Note that individuals with a matric or degree earn significantly more, than those with a Grade 11 (Std 9) qualification or less.

**Table 2: Median wages by education levels**

Education levels	Median	% of tertiary
Tertiary	3 500	100
Matric	2 420	69,14
Grade 8-11 (Std 6-9)	1 248	35,66
Grade 1-7 (Sub A-Std 5)	631	18,03
No education	501	14,31

The median wage for those with a matric is close to 70% of those with a degree. The median income for people whose highest education was Grade 8 to 11 (Std 6 to 9), is 35% of the wage earned by somebody with a tertiary qualification. The lesson here is very clear - individuals are severely disadvantaged in the labour

market if they fail, at a minimum, to obtain a matric certificate. Again then, the EEC needs to be aware of the fact that levels of education and schooling strongly influence wage gaps and wage discrimination. This could mean that the race and gender wage differences are partly because certain race groups (for historical reasons) have acquired more education than others. This allows them to attain higher levels of earnings. With this reasoning, the most important element in an employment equity strategy becomes equalising access to and the quality of all educational provision in the society. This is a tall order, but must be seen as a key component of any extensive employment equity strategy.

## Sector and occupation

Table 3 below presents median wages in the nine main sectors. While the utilities sector (electricity, gas and water) pays the highest median wage, financial and business services, together with community and social services, pay about the same as utilities. The lowest paying sector, by quite a large margin, is agriculture. This is followed by the construction sector, then wholesale and retail trade.

**Table 3: Median wages by sector**

Sector	Median	% of utilities
Agriculture	436	17,36
Mining	1 500	59,71
Manufacturing	1 500	59,71
Utilities	2 512	100
Construction	1 212	48,25
Wholesale and retail trade	1 346	53,58
Transport	2 177	86,66
Financial and business services	2 500	99,52
Community services	2 500	99,52



The three key service sectors yield the highest median wages. The difference between the two primary sectors (mining and agriculture) is partly a result of different union density figures in the two sectors, with the mining industry being highly organised. An interesting switch occurs in the primary sectors when looking at the wage data: while these two sectors are relatively low-paying, white workers in these sectors have the highest median wage across all sectors for all race groups. The race figures, while not provided here, also show that across all sectors the median wages of Africans and coloureds are very similar, while the sector differential for Asians and whites is smaller. The community services sector reflects mainly public sector employees. This result reinforces the notion of the sector being

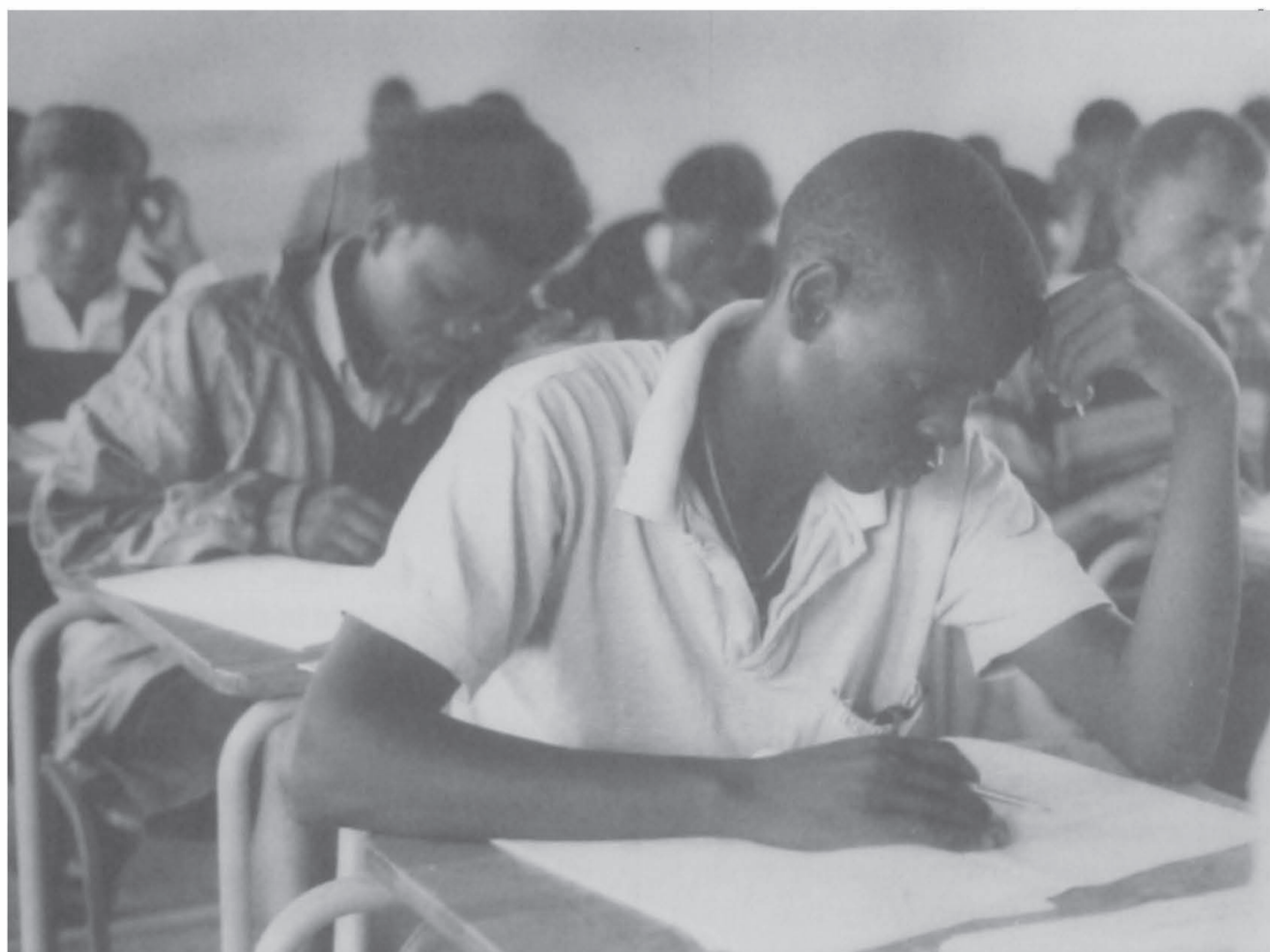
the largest employer, as well as a relatively high-wage employer.

No descriptive wage statistics would be complete if we did not include median wage data by occupations. Occupations here are classified according to the International Standard Occupational Classification (ISOC) system. Table 4 also presents the wage data by race. Note that 'domestic helpers' refers to cleaning staff in offices, hotels and other establishments.

Looking at the total column, the wage structure is fairly predictable – the highest median earners are managers, followed by professionals and then skilled agricultural workers. The lowest earners are domestic workers, followed by farm workers and then labourers in the mining industry. The median wage of unskilled workers in the mining industry is still over twice as much as that

*Table 4: Median wages by occupation and race*

Occupation	African	Coloured	Asian	White	Median	% mngrs (Total)	African as % of white
Managers	2 646	3 000	5 000	7 500	5 400	100	35,28
Professionals	3 379	4 000	5 470	6 588	4 670	86,48	51,29
Skilled agriculture	755	1 100	3 333	6 612	3 767	69,96	11,42
Technicians	2 646	3 085	3 500	4 670	3 192	59,11	56,66
Armed forces	1 887	2 650	2 000	4 500	2 177	40,31	41,93
Clerks	1 600	1 500	2 000	2 500	2 000	37,04	64,0
Craft	1 200	1 346	2 000	4 500	1 625	30,09	26,67
Services and sales	1 249	1 200	1 600	2 500	1 450	26,85	49,96
Machine operators	1 280	1 200	1 500	3 283	1 323	24,5	38,99
Trpnl labourer	1 140	950	900	4 667	1 115	20,65	24,43
Manuf labourer	1 000	900	1 325	2 000	1 000	18,52	50,00
Domestic helpers	975	800	1 250	1 100	950	17,59	88,64
Mining labourer	900	800	1 520	2 600	900	16,67	34,62
Agric labourer	400	464	257	1 346	420	7,78	29,72
Domestic worker	380	384	750	750	385	7,13	50,67
Unspecified	1 150	1 900	1 500	4 029	1 399	25,91	28,54



*Higher education levels are associated with higher median wages.*

earned by farm labourers as well as domestic workers. This supports the well-known fact that the two poorest workers in the labour market are domestic workers and farm labourers. The widest differential exists between managers and domestic workers – where domestic workers earn about 7% of the median wage of managers.

The race data for the individual occupations reveal some interesting trends. Taking the unskilled categories first, there is a strong differentiation in wages by occupation. For example, even though both African and white individuals may be coded as manufacturing labourers, the median wage of Africans is only half that of whites. In fact, for all the labourer categories, it is clear that African workers are paid significantly less than their white counterparts. While this may be raised as serious evidence of continued

discrimination in the labour market, closer inspection of the data reveals that whites constitute less than 2% of workers in all these 'unskilled' categories. We are really then, talking of a small share of workers, and it is likely that the discrepancy in wages will be a result of continued discrimination, different levels of experience, higher number of schooling years and so on.

The difference in median wages between Africans and whites remains in the semi-skilled and skilled occupations. The share of African employees is significant here, ranging from 35% of professionals to 76% of machine operators in the economy. The data then delivers a puzzle; why is it that while formally coded together as skilled or semi-skilled, African workers earn consistently less than their white counterparts? For example, an



African manager will earn a median monthly wage of R2 646, while a white manager will earn over twice as much at R7 500 per month.

Why is there a racial wage gap between skilled workers?

### Racial gap

Using the evidence that we have, there are three possible answers to the question of why there is a racial wage gap between skilled workers. Firstly, it is possible that there is a quality difference that is actual and also perceived by prospective employers. Hence, the quality of a tertiary degree obtained by African workers may be lower than that obtained by white graduates. The difference in quality would mainly be the result of very different resource allocation between historically white universities (HWUs) and historically black universities (HBUs). Given that HWUs have attracted a high share of the state's budget allocation they produce a higher quality of degrees. These quality differences in turn, translate into a higher return for white workers who are the majority of students at HWUs. The difference may be reinforced at the point of job entry, where employers perceive a HWU degree to be of higher quality than a HBU degree. They thus perpetuate the skilled wage gap through providing higher

returns to white employees.

A second reason for the different rates of return revolves around the notion that the tertiary degree is a heterogeneous product. Simply put, individuals may all go to university or technikon, but will obtain different degrees and qualifications. Not all certificates and degrees are the same, and they cannot be expected to fetch the same value in the job market. It is this difference in degrees and post-graduate qualifications between African and white employees that may go a long way toward explaining the skilled wage gap. Table 5 presents important evidence in this regard. It shows that African and white, while coded together as skilled workers here, have received different qualifications.

The table presents the three largest skilled occupation shares for Africans and whites. African employees are represented mainly in teaching and nursing occupations. In contrast, white employees are represented in managerial, service professional and scientific professional occupations. Employment patterns in South Africa indicate a very high demand for individuals with skills in financial and business services, information technology and science, and engineering. There remains an extreme shortage of these skills in the labour market, and thus employers pay a premium for workers

**Table 5: African and white skilled employment: selected occupations**

African	% of total skilled share	White	% of total skilled share
Primary education teaching professionals	17,55	General managers	16,53
Other teaching associates	14,37	Finance & sales associate professionals	10,23
Nursing & midwifery	10,09	Physical & engineering science technicians	8,95

with these skills. In contrast, the need for individuals with teaching and nursing degrees (with some exceptions like Mathematics and Science teachers) has not increased dramatically and is unlikely to do so. The result of course, is that their wages are lower.

What the above suggests is that the inequality in wages amongst skilled African and white workers can be ascribed essentially to:

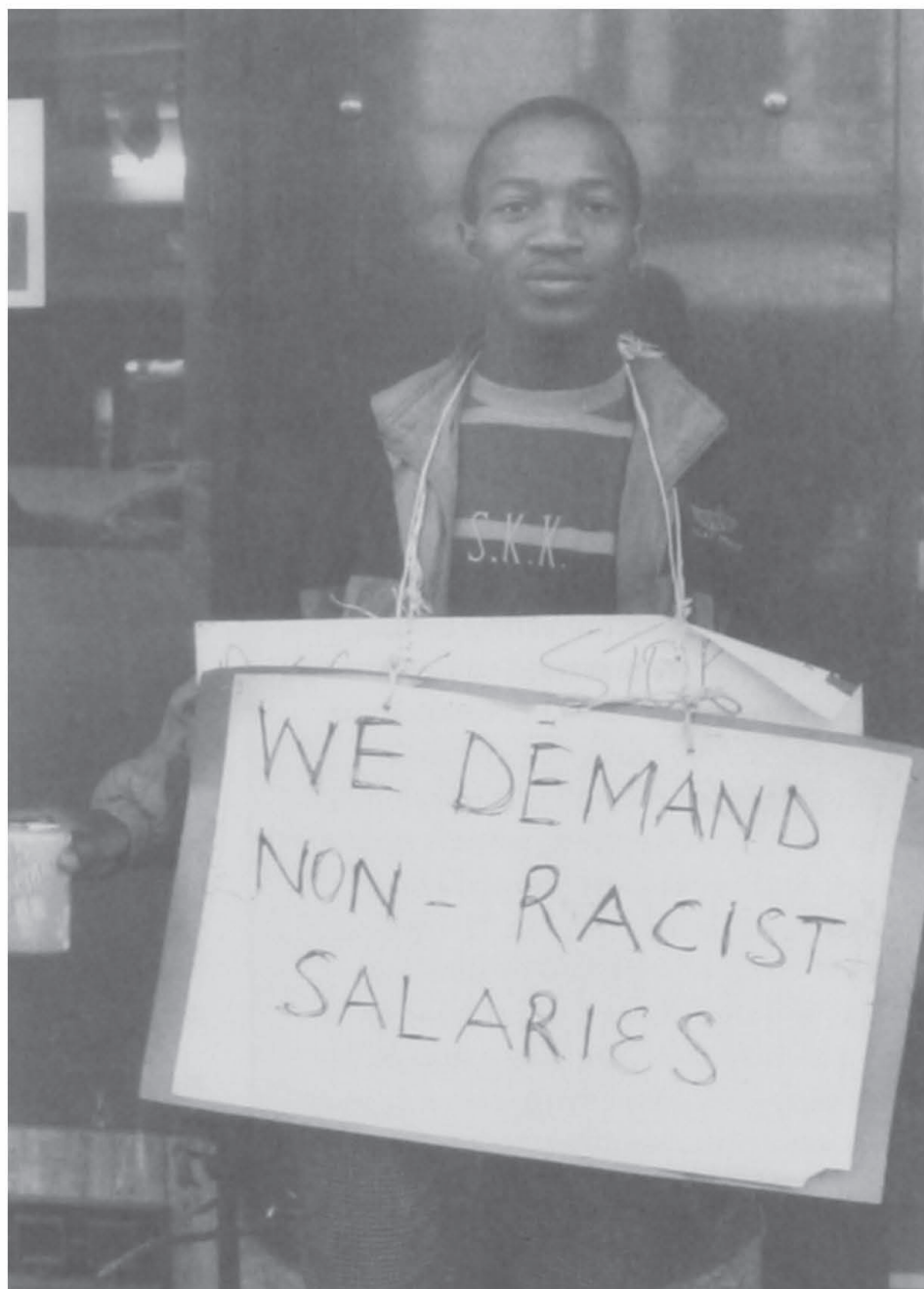
- the different occupations in which they find themselves;
- the different needs the economy places on these skills.

Ultimately, it is too simplistic to explain the skilled wage gaps between the race groups as a result of unofficial discrimination alone. The differing degrees and

qualifications obtained by the two race groups and their contrasting needs in the labour market are undoubtedly a key factor in explaining wage inequality.

## Conclusion

Race and gender are important determinants of wage inequality in the South African labour market. Interestingly, it is the race-based differential that is starker than the pure gender-based inequality. A key lesson from the statistics, however, is that education – the quantity,



*Race is an important determinant of wage inequality.*

quality and type accumulated – is vital in explaining the persistence of the observed wage gaps in our society. The EEC, therefore, would need to treat wage inequality as both a discrimination and skills development issue if its interventions and proclamations are to have any tangible impact on engendering greater equity in the wage distribution. ★

---

*Haroon Bhorat is director of the Development Policy Research Unit (DPRU) based at the University of Cape Town.*