

CENTRE FOR SOCIAL SCIENCE
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**UNEMPLOYMENT, EMPLOYMENT
AND LABOUR-FORCE
PARTICIPATION IN
KHAYELITSHA/MITCHELL'S PLAIN**

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Unemployment, Employment and Labour-Force Participation in Khayelitsha/Mitchell's Plain

This paper provides a rough guide to the labour force in Khayelitsha/Mitchell's Plain with a particular focus on unemployment. The task is partly conceptual (a discussion is provided on statistical norms for measuring unemployment) and partly empirical. Data is drawn from the 2000/2001 Khayelitsha Mitchell's Plain (KMP) survey, which was designed mainly to explore various dimensions of labour market attachment amongst African and coloured people in Cape Town. This survey covered the magisterial district of Mitchell's Plain which includes the African townships of Khayelitsha, Gugulethu and Langa; it is not a representative sample of the Cape Town metropolitan area – but rather of working class (predominantly African and coloured) Cape Town. In the discussion that follows, reference is made to the questionnaire. The Stata 'do files' (which generated the results) are available on request.

Part 1 of the paper outlines the standard labour force approach to labour statistics and points to areas where standard definitions can usefully be extended or supplemented. Part 2 continues the discussion, but with reference to employment and unemployment in KMP. A distinction is drawn between the strict and broad definitions of unemployment – and an intermediate definition of unemployment (which includes active job seekers and those seeking jobs exclusively through social networks) is introduced. Part 3 examines the non-labour-force participants. Part 4 expands the scope of the labour force by adjusting some of the statistical requirements used in earlier approaches. Using this expanded approach, Part 5 continues the exploration of different dimensions of unemployment.

1. The Concept of Unemployment

The everyday understanding of unemployment is 'joblessness' – understood typically as being without formal paid employment, but wanting it. The more technical, international standard labour-force definition of unemployment, however, requires as a necessary (but not sufficient) condition that the unemployed person be without *work* – where work is understood as productive activity for an hour or more a week, resulting in a stream of income (see discussion below). This can result in a difference between people's perception

of what it means to be unemployed and the way that the unemployed are defined in official labour market statistics.

For example, a person without formal employment, but who spends a couple of hours a week doing *ad hoc* jobs for pay, would probably report him or herself as ‘unemployed’ – whereas the labour market statistician would classify the person as ‘economically active’ and ‘employed’. To make matters more confusing for the layperson, labour market statistics often include different measures of unemployment. These typically differentiate between the ‘searching’ and ‘non-searching’ (sometimes called the ‘discouraged’) unemployed. As the labour force comprises (by definition) the employed plus the unemployed, the size of the labour force varies depending on the definition of unemployment – with the number of non-labour-force participants adjusting to accommodate those being incorporated into or expelled from the ranks of the unemployed. This in turn affects the calculation of the unemployment rate (i.e. the number of unemployed expressed as a percentage of the labour force).

The International Standard

What constitutes ‘economic activity’ is a matter of statistical convention. The recognised international standard for statistical analysis of the labour force is that provided by the International Conference of Labour Statisticians (ICLS) which convenes every five years or so. Current measures of the labour force derive from the framework adopted by the Thirteenth ICLS (ICLS, 1982). Subsequent resolutions by the ICLS (1993a, 1993b, 1998a, 1998b) have further refined the employment categories, but the basic ‘labour-force approach’ remains intact.

The ICLS 1982 resolution attempted to define economic activity in a way that was consistent with the United Nations System of National Accounts. This was to facilitate the joint analysis of production and employment statistics. According to ICLS 1982:

‘The economically active population comprises all persons of either sex who furnish the supply of labour for the production of economic goods and services as defined by the United Nations systems of national accounts and balances during a specified time-reference period. According to these systems the production of economic goods and services includes all production and processing of primary products whether for the market for barter or for own consumption, the production of all other goods and services for the market, and in the case of households which produce such goods and services for the market, the corresponding production for own consumption’ (par. 5).

These rules of inclusion reflect practical considerations (such as the difficulty of separating the production of goods for market sale from own consumption) and the recognition that subsistence production is important in many countries (see discussion in Hussmanns (1994)).

The essential feature of the labour-force approach is that all individuals above a certain minimum age (e.g. 15 or 17) are allocated to one of three mutually exclusive and exhaustive labour market categories: the employed, the unemployed and non-labour-force participants. This is done according to a set of priority rules in which firstly the employed are identified, then from the remaining individuals the unemployed, and finally the non-labour-force participants (i.e. the residual). In this scheme, precedence is given to employment over unemployment, and to unemployment over non-labour-force participation. For example, a full-time student is a non-labour-force participant unless he or she is also looking for work – in which case he or she will be classified as unemployed. A person who is looking for work is unemployed unless they also report that they have done some work for income during the reference period specified by the survey, in which case they will be classified as employed.

The labour-force approach adopts the ‘activity principle’ in that a person’s labour-market status is determined by what he or she was actually doing during a specified (short) period prior to the survey interview – the so-called ‘reference period’. This, according to Hussmanns, is to make the ‘measurement of the labour force as objective as possible’ (1994: 84). He notes that ‘there are few exceptions to this activity principle, such as the inclusion among the employed of persons temporarily absent from work, or the inclusion among the unemployed of persons without work who are not seeking work because they have already found a job to start at a date subsequent to the reference period’ (*loc. cit.*).

The ‘labour force’ or the ‘currently active population’ comprises all those above a certain age who qualify as being either ‘employed’ or ‘unemployed’. Note that there is no maximum age specified in this approach; people work or look for work until they believe they are too old (at which point they become voluntary non-labour-force participants). The two main categories of employment are ‘paid employment’ and ‘self-employment’. People in paid employment comprise those ‘at work’ (i.e. who during the reference period performed some work for wage, salary, cash or in-kind payment), and those ‘with a job but not at work’. The self-employed likewise comprise those ‘at work’ (i.e. who during the reference period performed some work for profit or family gain, in cash or in kind) and those ‘with an enterprise but not at work’. ICLS (1982) notes that, ‘for operational purposes, the notion of ‘some work’ may be interpreted as work for at least one hour’ (par. 9(2)). This one-hour rule

was reviewed during the Fourteenth ICLS and the decision was made to keep it – although it was also recommended that the resulting employment data should be further classified by hours of work (see discussion in Hussmanns 1994).

The ‘unemployed’ comprise those above a certain age who are 1) ‘without work’ (i.e. have not been classified as ‘employed’); 2) are ‘currently available for work’ (either paid employment or self-employment during the reference period); and 3) are ‘seeking work’ i.e. had ‘taken specific steps in a specified recent period to seek paid employment or self-employment’ (par. 10). People satisfying these three criteria fall into the ‘strict’ or ‘narrow’ international standard definition of unemployment.

The requirement that someone be actively seeking work is, of course, in line with the activity principle within the labour-force approach. People must actually be ‘taking steps’ to find work – a general declaration of being in search of work is not enough. However, it is worth noting that the concept of seeking work is understood relatively generously by the ICLS 1982. They argue that taking specific steps to find work may include the following: ‘registration at a public or private employment exchange¹; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish own enterprise; arranging for financial resources; applying for permits and licences, etc.’ (par. 10.1.c). By including ‘actions’ like ‘seeking the assistance of friends or relatives’ the ICLS opens the door for a more relaxed notion of ‘searching’ for a job than that normally associated with the idea of active job search.

The population			
Below minimum working age	Population above minimum working age		
Non-labour-force participants (residual category consisting of those who believe they are too old to work, children too young to work, people choosing not to work or incapable of it, home-makers etc.	Labour force (broad)		
	Unemployed (broad)		Employed
	Not seeking work	Labour force (strict)	
		Unemployed (strict)	Employed

Figure 1. The labour force: strict and broad definitions

¹ The Fourteenth ICLS specified that registration at a public or private employment exchange should only be considered to be an active step when it is for the purpose of obtaining a job offer, rather than as an administrative requirement to obtain social benefits (see Hussmanns 1994: 95).

An alternative ‘broad’ or ‘expanded’ definition of unemployment drops the third requirement – i.e. that the unemployed must be seeking work. The ICLS notes that this broader definition may be appropriate ‘in situations where the conventional means of seeking work are of limited relevance, where the labour market is largely unorganised or of limited scope, where labour absorption is, at the time, inadequate or where the labour force is largely self-employed’ (par. 10.2). Whereas the conventional labour force approach is strictly supply-side oriented (in that it concentrates on employment and job-search activity), this broader approach allows also for an implicit consideration of demand-side factors (i.e. factors affecting the supply of jobs).

Both the strict and broad definitions require that the unemployed person be ‘available’ for work. This is typically understood as referring to when the person could take up the job – and /or what hours they are prepared to work. However, the ICLS suggests that ‘appropriate tests’ may be developed to explore the nature of availability. When labour-market conditions indicate that a broad notion of unemployment is most suitable: ‘Such tests may be based on notions such as present desire for work and previous work experience, willingness to take up work for wage or salary on locally prevailing terms, or readiness to undertake self-employment activity given the necessary resources and facilities’ (par. 14.4). By suggesting that one could test to see whether a person will accept a job *at a particular wage*, the ICLS is opening the door for a greater consistency between the labour-force notion of labour supply, and the conventional economic theory of the labour supply.

The Economic Model of the Labour Market and the International Standard

Conventional economic theory models labour supply as a positive function of the wage: the higher the ‘going wage’, the greater the amount of labour supplied. The labour supply curve thus slopes upwards (as can be seen in Figure 2). In terms of this framework, the standard labour-force approach (discussed above) is inadequate because it merely asks jobless people whether they are ready and willing to work – and fails to ask them whether they are ready and willing to work *for a specified wage*. This has implications for how unemployment itself should be understood.

In terms of the neoclassical economic model, the equilibrium wage is determined by the intersection between the supply and demand curves for labour (i.e. W_e in Figure 2). If the ‘going wage’ is below W_e then the demand for labour will be greater than supply, and hence wages will rise. If the going wage

is above W_e (e.g. W_1) then $L_2 - L_1$ workers will be unemployed. In a perfect labour market, the theory assumes that the wage will start falling in response to this ‘excess supply’. As the wage falls, the supply of labour shrinks (i.e. more people choose leisure – in other words become non-labour-force participants) and the demand rises (as firms find it profitable to hire more workers). Thus unemployment does not exist when the market wage is the equilibrium wage. All those who were prepared to work only at higher wages have now chosen to become non-labour-force participants. If, however, the market is not perfectly competitive (e.g. is ‘distorted’ by a minimum wage set higher than W_e), then unemployment will exist.

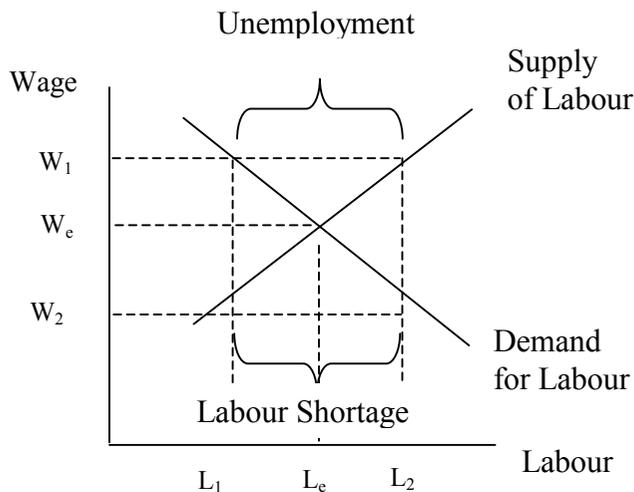


Figure 2. The Neoclassical model of the labour market

According to this model, the labour-force approach probably over-estimates unemployment. For example, if the going wage was W_e then $L_2 - L_e$ people will choose to be non-labour-force participants. If, however, you asked them in a survey if they wanted a job and were available for work, they would probably answer ‘yes’, because we know that they would be in the labour market if the going wage was W_1 . Therefore, by not asking people about the wage they would accept – and then comparing that wage with the ‘going wage’, labour-force survey statisticians are likely to regard some non-labour-force participants (as defined in the neoclassical model) as ‘unemployed’. Put differently, the labour-force approach cannot distinguish between the ‘voluntarily unemployed’ (i.e. those $L_2 - L_e$ people when W_e is the going wage) and in ‘involuntarily unemployed’ (i.e. those $L_2 - L_1$ people when W_1 is the going wage).

By suggesting that survey designers consider ways of testing ‘willingness to take up work for wage or salary on locally prevailing terms’ (par. 14.4), the 1982 ICLS is perhaps trying to address this limitation of the labour-force approach. However, such tests are more easily suggested than implemented. An obvious problem is that in the real world there is no single ‘prevailing’ wage. Indeed, prevailing wages are likely to vary across regions, across industries and across different skill bands.

The KMP survey was designed in part to experiment with different ways of measuring unemployment. Questions were asked about availability for employment, about job search behaviour, and about attitudes to unemployment. As shown in Part 2, there is strong evidence that unemployment is very high in Khayelitsha/Mitchell’s Plain – but that the unemployment rate differs depending on different definitions of, and approaches to, labour-force attachment.

2. Employment and Unemployment in Khayelitsha/Mitchell’s Plain

The Khayelitsha/Mitchell’s Plain (KMP) survey was designed to explore different concepts of employment, unemployment and labour-force participation. Let us begin by creating a set of labour-force categories which fit the international standard approach outlined in Part 1. In line with the priority rules of the labour-force approach, we start off by allocating the labour-market status of ‘employed’ to all those who were ‘at work’ (i.e. who worked for an hour or more during the reference period of one week for profit or family gain, in cash or in kind).

The Employed

One of the innovative aspects of the KMP survey was that respondents were asked about all income-earning activities – irrespective of whether they had previously indicated that they were full-time wage-earners, unemployed or non-labour-force participants. In other words, they were not allocated into particular labour-market categories during the process of the interview. As a result, the survey was able to pick up those who were doing several jobs as well as those who reported themselves as unemployed yet went on to report some level of economic activity.

According to the international standard for measuring labour force categories, the employed are typically divided into three categories: regular

wage workers, the self-employed and casual workers. Those doing more than one of the above-mentioned jobs are classified according to their ‘main job’ where this ‘should be understood as the job at which the worker has worked the longest hours or which has provided the highest income from employment during the period, or which can be expected to provide the highest income from work carried out in that period, if payment can only be expected in the future’ (ICLS, 1998b, par. 14.c).

Table 1. Employment categories using international standards

<i>Employment Category</i>	<i>Number</i>	<i>Percentage</i>
Regular wage workers	875	77.5
Self-employed	186	16.5
Casual workers	66	6.0
Total	1127	100

In following this rule in the KMP data, employment status for individuals doing several kinds of work is allocated according to the job which absorbs the greatest amount of their time – or if there was missing data on hours worked, according to the activity which provided the greatest income. The results are recorded in Table 1. As is clear from the table, regular wage employment is by far the largest category of employment in KMP. Respondents were prompted at various points in the survey to detail every possible source of income-earning activity – yet the incidence of casual work and self-employment remained low. This belies the increasingly common supposition that South Africa’s low rate of formal wage employment amongst Africans is compensated for by ‘informal’ self-employment and casual work. Rather, given that 15 percent of those engaging in either casual work or self-employment were also engaged in regular wage employment (see Table 2) one could hypothesise that access to regular wage employment gives some people a base from which to engage in supplementary income-earning activities.

Table 2 adopts a broader approach and distinguishes between those working in a single activity – and those reporting more than one job or category of employment. As can be seen from the table, most employed people are engaged in some form of wage work (either as wage workers or casual workers). A mere 16 percent of the employed are engaged *only* in self-employment.

Table 2. Different categories of employed people within the international standard approach

<i>Employment Category</i>	<i>Number</i>	<i>Percentage</i>	<i>Cumulative %</i>
One wage job only	819	72.7	72.7
Two wage jobs	23	2.0	74.7
One wage job & casual employment	26	2.3	77.0
Two wage jobs & casual employment	4	0.4	77.4
One wage job & self-employment	10	0.9	78.3
Two wage jobs & self-employment	1	0.1	78.4
Casual workers only	59	5.2	83.5
Casual employment & self-employment	3	0.3	83.8
Self-employed only	182	16.2	100
Total employed	1127	100	

As noted earlier, a person is classified as ‘employed’ by the standard international approach if they work for an hour or more. The standard labour force approach does not break down employment according to hours worked (although the ILCS does recommend that statistics be collected on hours of work). Table 3 provides a picture of the number of people working ‘full-time’ (operationalised here as meaning that they worked for 40 or more hours during the past week) as opposed to ‘part-time’ (i.e. less than 40 hours per week). Most (70.5%) of the employed were working full-time – and most of these were full-time wage workers. It is intriguing to see that of the people doing more than one kind of work, most were full-time workers and the rest were part-time wage workers.

Table 3. Full-time and part-time employed

<i>Employment Category</i>	<i>Number</i>	<i>Percent</i>
One full-time wage job	624	83.3
Two wage jobs totalling 40 or more hours a week	17	2.3
Full-time self-employed	81	10.8
Full-time casual	17	2.3
One full-time wage job and full-time self-employment	1	0.1
One full-time wage job and full-time casual employment	2	0.3
One full-time wage job and part-time casual employment	1	0.1

Full-time self-employed and part-time wage employed	1	0.1
Full-time wage employed and part-time self-employed	3	0.4
Two wage jobs totalling 40 or more hours a week and full-time casual employment	1	0.1
Two wage jobs totalling 40 or more hours a week and part-time casual employment	1	0.1
<i>Total full-time employed</i>	<i>749</i>	<i>100</i>
One part-time wage job	155	49.4
Two part-time jobs totalling less than 40 hours a week	6	1.9
Part-time self-employed only	96	30.6
Part-time casual workers only	41	13.1
One part-time wage job and part-time self-employment (amounting to a total of less than 40 hours a week)	3	1.0
One part-time wage job and part-time casual-employment (amounting to a total of less than 40 hours a week)	8	2.6
Part-time self-employed and part-time casual employed (amounting to a total of less than 40 hours a week)	2	0.6
Two part-time wage jobs (totalling less than 40 hours a week) and part-time self-employment – all totalling to less than 40 hours a week.	1	0.3
Two part-time wage jobs (totalling less than 40 hours a week) and part-time casual-employment – all totalling to less than 40 hours a week.	2	0.6
<i>Total part-time employed</i>	<i>314</i>	<i>100</i>
Total employed who reported hours worked and hence can be classified as full- or part-time	1063	
Those in the labour force who were excluded from the above because of missing information on hours worked	64	
Total classified as ‘employed’ according to the international standard definition in the KMP sample	1127	

The Unemployed

As discussed above, the standard labour force approach provides two definitions of unemployment: a ‘strict’ or ‘narrow’ definition which includes only active job seekers; and an ‘expanded’ or ‘broad’ definition which includes the non-

searching unemployed as well. If a strict definition is used, then all those who report that they want a job and are available for work but are not actively seeking a job would be classified as non-labour-force participants – i.e. as being outside the labour force. If a broad definition is used, then the non-searching unemployed would be reclassified as unemployed and be included in the labour force. The definition of unemployment thus affects not only the absolute number of people classified as unemployed, but also the measure of non-labour-force participation and the calculated rate of unemployment (which is the number of unemployed expressed as a percentage of the labour force).

One of the problems with this kind of rigid separation between the searching and non-searching unemployed is that it does not take into account the possibility that jobless individuals may have decided that searching for employment is best done through networks – i.e. relying on friends and relatives to find them jobs – rather than through ‘active’ job search. Although the ICLS 1982 mentions that ‘seeking the assistance of friends and relatives’ could constitute a legitimate category of active job search, the operationalisation of ‘seeking assistance’ is unclear. It is perhaps for this reason that I have yet to discover an official labour-force survey which includes ‘seeking the assistance of friends and relatives’ in the list of acceptable answers to job-search questions.

But even if it were possible to operationalise the concept of actively seeking assistance from a relative or friend, where does this leave someone who simply ‘relies’ on friends or relatives to find them work? If it is common for people to obtain work through social networks, and if it is taken for granted that friends and relatives will keep an active look-out for jobs for others (even when not specifically asked to do so), then what might appear to be a passive response – i.e. doing nothing but rely on others – may in fact be the result of a deliberate rational response to labour-market conditions. If so, then there is an argument for including the ‘network searchers’ in the labour force as genuine ‘unemployed’ people. In a labour-surplus economy like South Africa’s, there are reasons to believe that such forms of job search should be taken seriously. In the KMP survey, we asked questions that allow specific attention to be given to such people. The result is that we are able to provide three definitions of unemployment: the active-searching unemployed; the network-searching unemployed; and the marginalised unemployed.

1) The Active-Searching Unemployed

The active-searching unemployed are defined as follows. To qualify as an active-searching unemployed person, it is required that the respondent:

- 1.a. has not been defined as ‘employed’ (see above);
- 1.b. reports that he/she wants a job;
- 1.c. is available for work during week days; and

- 1.d. has searched actively for work during the past week in any of the following ways: travelled anywhere in search of work; looked for a job in a newspaper; waited outside a factory gate; knocked on factory gates and/or visited private homes and shops; visited employment agencies; phoned up or visited old employers and asked for jobs; waited on the side of a road for a job; or looked on notice boards in community centres, shopping centres etc.

There were 448 respondents in the KMP survey who qualified as active-searching unemployed according to the above definition.

2) The Exclusively Network-Searching Unemployed

In addition to the forms of active job search defined in 1.d above, unemployed people may rely on networks (amongst friends and relatives) to find them work. Network searchers are defined as such if they comply with points 1.a – 1.c but do not comply with point 1.d – yet indicate that they had done one or more of the following in the past week:

- relied on household members to tell them about jobs;
- relied on friends/family members in different households to tell them about jobs;
- relied on household members to get them a job at their workplace;
- relied on friends/family members in different households to get them a job at their workplace.

Note that the active-searching unemployed may also rely on network searching. Our definition of the network searcher is as an exclusive network searcher – i.e. the person who does no active job search (as defined in 1.d above) but who relies exclusively on network searching. There were 173 respondents in the KMP survey who qualified as exclusively network-searching unemployed.

3) The Marginalised Unemployed

The marginalised unemployed are defined as those who comply with points 1.a – 1.c but who do not qualify as either active job-seekers or as network job-searchers. They are, in other words, ‘marginalised’ from the labour market. One may call them discouraged job seekers – but as that implies (perhaps) some knowledge of their psychological states, this category has simply been labelled as the ‘marginalised unemployed’. There were 351 respondents among the individuals in the KMP survey who qualified as ‘marginalized unemployed’. Table 4 summarises the unemployment statistics.

Table 4: Unemployment

Active searching unemployed	448	448	448
Exclusively network-searching unemployed		173	173
Marginalised unemployed			351
<i>Total: strict definition</i>	<i>448</i>		
<i>Total: intermediate definition</i>		<i>621</i>	
<i>Total: broad definition</i>			<i>972</i>

The Labour Force

The labour force comprises the employed plus the unemployed. Given that three definitions of unemployment have been provided, this results in three definitions of the labour force:

- Labour Force (broad) = employed (1127) + active-searching unemployed (448) + network-searching unemployed (173) + marginalised unemployed (351) = 2099.
- Labour Force (strict) = employed (1127) + active-searching unemployed (448) = 1575.
- Labour Force (intermediate) = employed (1127) + active-searching unemployed (448) + network-searching unemployed (173) = 1748.

The Unemployment Rate

Given that we have three definitions of unemployment (and the labour force) we can compute three different unemployment rates:

- The strict unemployment rate = active-searching unemployed (448) / strict labour force (1575) = 28.4 percent.
- The broad unemployment rate = (active-searching unemployed (448) + network-searching unemployed (173) + marginalised unemployed (351)) / broad labour force (2099) = 46.3 percent.
- The intermediate unemployment rate = (active-searching unemployed (448) + network-searching unemployed (173)) / intermediate labour force (1748) = 35.5 percent.

3. Non-Labour-Force Participants

According to the labour-force approach in Part 1, people get allocated a labour-force category according to a set of priority rules. Thus, someone who is gainfully employed for an hour or more is classified as employed (even if they report themselves as unemployed or as full-time students elsewhere in the questionnaire). Those who are not classified as employed, but who indicate that they want to work, are classified as unemployed (and as we have seen, there are various definitions of unemployment). What about the rest of the sample – i.e. those who are classified neither as employed nor unemployed?

The KMP survey sampled 2644 individuals aged 18 or older. Of these, 1127 were classified as employed, and 972 as unemployed, according to the broad definition. That leaves 545 individuals without a labour-force categorisation. These fall into two categories: non-labour-force participants (i.e. those who are not classified as employed or unemployed and who report that they do not want a job) and those for whom missing or contradictory data make it impossible for them to be allocated a labour-market status according to the rules outlined above.

Table 5: Non-labour-force participants (i.e. the jobless who say they do not want work)

<i>Reason for not wanting a job</i>	<i>Number</i>	<i>Percent</i>
I am too old	90	30.1
I am a full-time student/pupil/learner	60	20.1
I look after children and/or do domestic duties	22	7.4
I am sick/disabled	78	26.1
It costs too much to look for work	1	0.3
The wages are too low, it is not worth my time working	1	0.3
Other/missing	47	15.8
Total non-labour-force participants	299	100
Total employed	1127	42.6
Total unemployed (broad definition)	972	36.8
Total non-labour-force participants	299	11.3
Total missing (i.e. no labour-force category allocated)	246	9.3
Total sample	2644	100

As can be seen in Table 5, 299 individuals could be classified as non-labour-force participants because they were not employed and reported that they did not want a job. Table 5 shows the reasons given by respondents for their decision not to participate in the labour market.

4. Expanding the Labour Force Through the Use of Alternative Indicators of Labour-market Status

As noted above, 545 individuals were classified neither as employed nor unemployed according to the international standard approach adopted so far. Of these, 299 could be classified as non-labour-force participants (they were jobless and said they did not want a job). The remaining 246 people had missing (or contradictory) data and could not be allocated a labour-market status at all. In this section, we make use of alternative indicators of labour-market status in order to include more people as yet without a labour-force categorisation within the ranks of the labour force.

In the case of wage workers, the standard definition requires that individuals either report positive hours worked – or report a wage income. If we drop this requirement for those not yet allocated a labour-force category and instead merely require that the respondent record at every available opportunity that they were in wage employment², then a further 7 individuals can be allocated wage-employment status. If we take a similar approach to the self-employed, i.e. require only that those without a labour-market status so far respond at every available opportunity that they were self-employed³, then a further 24 individuals are allocated the labour-market status of ‘self-employed’.

With regard to the unemployed (broadly defined), we required previously that respondents be without work, want work and be available for work during conventional working hours. If we drop the latter requirement for those remaining individuals without a labour-market status – i.e. include all those who indicated either that they were available for work in the evenings or on weekends – or who simply failed to answer the question on availability – then a further 39 individuals can be classified as broadly unemployed. Note that the broad unemployment rate is now $1011/2169 = 46,6$ percent (i.e. up three-tenths of a percent from the previous calculation).

² The KMP survey asked respondents three times whether they were in wage employment (questions E.1, H.1 and F.5).

³ Questions F.6, H.2 and G.1 asked respondents if they were self-employed.

With regard to the non-labour-force participants, we had required previously that non-labour-force participants must be without work and not want work. If we allow those who so far have not been allocated a labour-market status to be labelled non-labour-force participants if they simply give reasons for not wanting a job, then a further 30 individuals can be classified as such.

Table 6 summarises the analysis so far. Including more people in the ranks of the labour force by applying alternative indicators of labour-market status to those who did not meet the standard requirements, reduces the number of ‘missing’ (i.e. not classified) cases from 246 to 146. These missing individuals either had too little data for a labour-market classification (even using the more generous definitions) or had contradictory information recorded. Fortunately, they only comprise 5.5 percent of the total sample.

Table 6. Labour market categorisations (ICLS rules supplemented with alternative indicators of labour-market status)

<i>Employment Category</i>	<i>Following ICLS rules</i>	<i>Additions using alternative indicators for those not yet classified</i>	<i>Total</i>	<i>Percent -age</i>
1. Regular wage workers	875	7	882	76.2%
2. Self-employed	186	24	210	18.1%
3. Casual workers	66	0	66	5.7%
4. Total employed (1+2+3)	1127	31	1158	100%
5. Total unemployed (broad)	972	39	1011	
6. Total labour force (broad) (4+5)	2099	70	2169	
7. Total non-labour-force participants	299	30	329	
8. Total with labour-market status (6+7)	2398	100	2498	
9. Total missing	246	- 100	146	
10. Total sample (8+9)	2644		2644	

The KMP survey tested the strength of non-labour-force participation by asking what (if anything) would persuade the non-labour-force participants to start looking for a job. Of those who answered the question, 40 percent reported that nothing could persuade them. Only 2 individuals said that they would start looking if they thought that there were jobs out there to be had. The rest reported that they would look for work if their health improved, when their studies were over, if they were relieved of their domestic duties, etc. In other words, these results indicate that non-labour-force participants are not, for the most part, discouraged work-seekers in that they appear to be constrained by matters other than a belief that there are no jobs to be had.

Table 7. Final labour market categories (i.e. including attitudes to taking available work)

<i>Labour-market category</i>	<i>Number</i>	<i>Percentage</i>
The Employed		
Wage-employed	882	35.3%
Self-employed	210	8.4%
Casual-employed	66	2.6%
The Unemployed		
Active job-seekers	448	17.9%
Exclusive network job-seekers	173	6.9%
Marginalised unemployed	390	15.6%
Non-labour-force participants		
Non-labour-force participants	329	13.2%
Total	2498	100%

However, in order to explore this issue further, the KMP survey went on to ask a set of attitudinal questions. One of these (H.10.2) asked the non-labour-force participants to indicate whether they agreed or disagreed with the following statement: ‘If there were more jobs to be had, I would search for employment more actively’. Another (H.10.3) asked respondents to react to the following statement: ‘If I had more money, I would look for work more actively’. This perhaps suggests that the 24 percent of non-labour-force participants who agreed or agreed strongly with either statement are in fact ‘reluctant’ non-labour-force

participants. In other words, there is a distinct possibility that if labour market conditions were more conducive to obtaining a job, then they would shift from being non-labour-force participants to the unemployed category. This possibly shows that a greater proportion of the non-labour-force participants are discouraged workseekers than was previously indicated. Table 7 summarises the different labour market categories developed so far.

We have outlined three different approaches to allocating respondents a labour-market status. The first approach followed the rules recommended by the ICLS. In order to reduce the number of respondents with missing labour-force status, we relaxed some of the definitions (see Tables 6 and 7). The KMP data set is rich enough to support various other approaches to labour force status. Which definition one uses depends ultimately on the question being asked of the data. For the remainder of the paper, the final (i.e. broadest) approach to labour-market status is adopted (i.e. as summarised in Table 7).

5. Unemployment and Reservation Wages

This section probes our understanding of labour-market status further by examining the extent to which the labour-force label of ‘unemployed’ captures key behavioural and attitudinal characteristics that one would expect of an unemployed person (as opposed to someone without a job and who is effectively not participating in the labour market).

The first of these characteristics concerns the wage. As noted in section 1, the crucial difference between the labour-force and the economic approaches to unemployment is that the former does not ask whether the respondent would accept a job *at the prevailing wage*, whereas the latter assumes that this must be true in order for the respondent to qualify as ‘unemployed’. This means that labour-force surveys cannot distinguish easily between ‘voluntary’ and ‘involuntary’ unemployment.

Part of the reason why labour-force surveys do not ask the question ‘will you accept a job at the going wage’ is simply because there is no single ‘going wage’ and because the going wage will differ depending on the skills characteristics of the individual concerned. For example, it would be reasonable for a jobless engineer to refuse to work as a manual labourer for manual wages and hence that refusal alone should not be sufficient to classify him or her as ‘voluntarily’ unemployed (i.e. as a non-labour-force participant) rather than as unemployed. Thus the only way to check to see if an unemployed person was unreasonably refusing to work for the wages on offer would be for the interviewer to know what wage is appropriate for each respondent – and then to ask the respondent if they would accept work at that wage. However asking

someone an abstract question about a hypothetical job is a dubious way of probing this issue, and even if it were not, it would clearly be beyond the practical limits imposed by survey design and implementation.

The KMP survey attempted to probe the issue of reservation wages in a number of alternative (and more limited) ways. Respondents were asked if they had ever refused a wage, and if so, which year such refusal took place, the kind of job refused and the reason for the refusal. Of those classified as broadly unemployed, 23 answered that they had indeed turned down a job offer. Selected information on these individuals is provided in Table 8. In addition to this question, respondents were asked in two different places (K.5 and F.25) about the lowest monthly wage they would be prepared to accept.

The survey also presented respondents with a set of possible jobs: working in a public works programme nearby (cutting down Port Jackson trees on the sand dunes) for R33 a day (question K.2); a job as a cleaner paying R1082 a month (K.4.1); a job as a general worker paying R1438 a month (K.4.2); and a machine operator paying R1619 a month (K.4.3). These jobs (and wages) reflected real jobs and wages in effect in the area at the time of the survey. All those unemployed people who reported having refused a wage offer were prepared to accept the jobs paying R1438 and R1619 per month. Information on the responses by these individuals to the other hypothetical job offers is provided in Table 8.

The first notable characteristic of Table 8 is the inconsistency between answers about reservation wages – and between these wages, responses to hypothetical wage jobs on offer and to actual instances of refused wages. With regard to inconsistency between answers about reservation wages, only 9 out of the 23 respondents (i.e. those unemployed people who reported having refused a wage offer) gave the same answer to question K.5 (‘What is the absolute lowest monthly take-home wage that you would accept for any work (if you were unemployed at the time)?’) and question K.25 (‘What is the absolute minimum take-home monthly wage below which you would not be prepared to work in any job (taking into account your desired hours of work)?’). There are two possible explanations for this puzzle: either people respond differently to slightly different phrasing of questions about the reservation wages; or they do not have a definite reservation wage. Qualitative research is needed to explore this issue more satisfactorily.

*Table 8: Selected data on those 23 unemployed (broadly defined) who had refused jobs
(. indicates missing data)*

	<i>Kind of job refused</i>	<i>Why did you refuse the job?</i>	<i>Real monthly wage refused *</i>	<i>Year of the refusal</i>	<i>Take-home wage or wage before tax?</i>	<i>Lowest acceptable wage? (K.5)</i>	<i>Minimum possible wage? (F.25)</i>	<i>Take a cleaning job earning R1081?</i>	<i>Work for R33 a day? (R600 a month) (K.2)</i>	<i>Have you ever worked before?</i>	<i>Previous nominal wage</i>	<i>Previous real wage*</i>
1	<i>Sales</i>	Job was too far away	R800	2000	Take-home	R300	R350	Yes	Yes	No	N/A	N/A
2	<i>Cleaning</i>	Did not like the job	R220	1999	Take-home	R300	R300	Yes	Yes	No	N/A	N/A
3	<i>Welding</i>	Wage too low	R600	2000	Don't know	R500	R500	Yes	Yes	Yes	.	.
4	<i>Construction</i>	Did not like the job	R1210	1998	Take-home	R500	R500	Yes	Yes	Yes	.	.
5	.	Family duties	R1200	2000	Take-home	R600	R600	Yes	No	Yes	R1200	R1452
6	<i>Sales</i>	Below my skill level	R660	1999	.	R800	R900	Yes	No	.	.	.
7	<i>Restaurant</i>	Wage too low	R800	2000	Take-home	R1000	R200	Yes	Yes	No	N/A	N/A
8	<i>Cleaning</i>	Did not like the job	R800	2000	Take-home	R1000	R800	Yes	Yes	Yes	R300	R300
9	<i>Cleaning</i>	Wage too low	R266	1997	Take-home	R1000	R600	Yes	Yes	Yes	.	.

	<i>Kind of job refused</i>	<i>Why did you refuse the job?</i>	<i>Real monthly wage refused *</i>	<i>Year of the refusal</i>	<i>Take-home wage or wage before tax?</i>	<i>Lowest acceptable wage? (K.5)</i>	<i>Minimum possible wage? (F.25)</i>	<i>Take a cleaning job earning R1081?</i>	<i>Work for R33 a day? (R600 a month) (K.2)</i>	<i>Have you ever worked before?</i>	<i>Previous nominal wage</i>	<i>Previous real wage*</i>
10	<i>Restaurant</i>	Did not like the job	R660	1999	Take-home	R1000	R200	Yes	No	.	.	.
11	<i>Construction</i>	Below my skill level	R700	2000	Don't know	R1000	R1200	Yes	Yes	No	N/A	N/A
12	<i>Cleaning</i>	Family duties	R500	2000	Take-home	R1000	R1000	Yes	Yes	Yes	R500	R550
13	<i>Cleaning</i>	Travel too costly	R880	1999	Don't know	R1000	R800	Yes	Yes	Yes	.	.
14	<i>Newspaper</i>	Below my skill level	R1400	2000	Take-home	R1200	R1200	Yes	No	.	.	.
15	<i>Cleaning</i>	Wage too low	R1450	1995	Before tax	R1200	R1000	Yes	No	Yes	R1200	R1933
16	<i>Restaurant</i>	Travel too costly	R350	2000	Take-home	R1200	R1200	No	No**	.	.	.
17	<i>Other</i>	Wage too low	R660	1999	Take-home	R1200	R1200	Yes	No	Yes	.	.
18	<i>Cleaning</i>	Did not like the job	R1320	1999	Take-home	R1300	R2000	Yes	Yes	Yes	R200	R220
19	<i>Sales</i>	Wage too low	R400	2000	Take-home	R1500	R500	Yes	No	.	.	.

	<i>Kind of job refused</i>	<i>Why did you refuse the job?</i>	<i>Real monthly wage refused *</i>	<i>Year of the refusal</i>	<i>Take-home wage or wage before tax?</i>	<i>Lowest acceptable wage? (K.5)</i>	<i>Minimum possible wage? (F.25)</i>	<i>Take a cleaning job earning R1081?</i>	<i>Work for R33 a day? (R600 a month) (K.2)</i>	<i>Have you ever worked before?</i>	<i>Previous nominal wage</i>	<i>Previous real wage*</i>
20	<i>Cleaning</i>	Other	R660	1999	Take-home	R1500	R600	Yes	Yes	Yes	.	.
21	<i>Clerical</i>	Wage too low	R1318	1996	Take-home	R1800	R1800	No	No	Yes	R1200	R1597
22	<i>Restaurant</i>	Wage too low	R1400	2000	Don't know	R1800	R800	Yes	Yes	Yes	R1600	R1760
23	<i>Construction</i>	Wage too low	R400	2000	Take-home	R2500	R200	Yes	Yes	.	.	.

F.24. 'What do you think would be a reasonable take-home monthly wage for you given your desired hours of work and your age, education, skills and area of residence etc?'

F.25. 'What is the absolute minimum take-home monthly wage below which you would not be prepared to work in any job (taking into account your desired hours of work)?'

K.5. 'What is the absolute lowest monthly take-home wage that you would accept for any work (if you were unemployed at the time)?'

K.2. 'If a government public works programme came to the area (perhaps to cut Port Jackson trees on the sand dunes or the mountain) offering R33 a day, would you take a few days work if you were unemployed at the time?'

K.4.1. 'Imagine that an industrial part opened up nearby. Would you accept any of the following jobs at the following (pre-tax) rates of pay (if you were unemployed at the time)?: A cleaner with a monthly wage of R1081?'

* Real monthly wages were calculated on the assumption of 10% per annum inflation.

Inconsistency between stated reservation wages and reservation wage behaviour can be seen in two places: between stated reservation wages and reported wage refusals; and between stated reservation wages and responses to hypothetical job offers. Six respondents reported that they had refused job offers at wages above what they had reported as their minimum acceptable wage in both questions K.5 and K.25. This probably points to the fact that the desirability of a job is a function of more than the wage (something which standard economic theory tends to gloss over). The job may be too far away (as was the case for the respondent in line 1 of Table 8) – or simply undesirable (as may be the case for the respondent in line 4 who reported turning down a real wage of R1210 in the construction sector, but claimed that he would accept work at R33 a day in a public works programme clearing alien trees.

Nine respondents reported that they would work for a wage of R33 a day (i.e. R660+ a month) whilst also reporting that they had turned down a real wage offer at that level or above. This is puzzling and indicates that one should be very cautious in interpreting survey data about reservation wage behaviour. Answers seem vary between different questions, and there is a clear disjuncture between what people report to be their minimum wage, and how they respond to hypothetical questions.

Table 9. Reported reservation wage and responses to a hypothetical low-wage job

<i>F.25. Lowest acceptable monthly wage for a job</i>	<i>K.2. Would you work at R33 a day in a local government public works programme if you were unemployed at the time?</i>			
	<i>Unemployed</i>		<i>Total Sample</i>	
	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>No</i>
Less than R660	40.3	35.3	64.2	73.2
R660-999	22.9	21.9	13.5	11.6
R1000	13.1	15.2	7.7	7.1
R1001-1999	16.1	18.5	10.1	9.1
R2000+	7.7	9.1	4.4	4.1
	100% (N=651)	100% (N=329)	100% (N=1215)	100% (N=939)

This was, for example, true for most of the unemployed (i.e. including those who did not report that they had turned down a wage offer). As can be seen in

Table 9, almost two-thirds of the unemployed said that they would work for R33 a day in a local public works programme. This amounts to about R660+ a month. Of those who said they were prepared to work at R33 a day, almost sixty percent reported reservation wages (i.e. minimum wages below which they would not be prepared to work) of more than this. For the sample as a whole (i.e. including unemployed, employed and non-labour-force participants) the result was less startling: just over a third said they would work at R33 a day if unemployed at the time – whilst simultaneously reporting reservation wages higher than this.

Returning to our sub-sample of the unemployed, i.e. those 23 individuals who reported that they had turned down a wage job, let us probe their choice in a bit more detail. One way of evaluating whether they were correct/rational to turn down the wage on offer would be to compare it with what ‘the labour market’ would predict they should be earning. If we had an idea of what someone with their labour-market characteristics would earn, we could then try to differentiate between those who ‘should’ have accepted the job (and by turning it down perhaps be classed among the ranks of the ‘voluntary’ unemployed) and those whose rejection of the job was understandable/rational/acceptable because the wage was inappropriate given their skills etc.

The first step is to predict what wage each person could reasonably expect to earn given their labour-market characteristics and the existing pattern of wages in the local labour market. This can be done by running a wage regression model for current wage earners, and then using the results to predict what the unemployed would probably earn if they were employed. This approach assumes that the unemployed have a reasonable idea about what someone with their characteristics (gender, age, experience, skills etc.) could earn if they were employed.

There are many determinants of what wage an individual earns. Many of these are unmeasurable (such as the innate intelligence/skill of the person, life/work experience, willingness and ability to learn on the job, ability to work constructively with others, personality, etc.). However there are key aspects which are measurable – such as education (which acts as a broad, albeit imperfect, proxy for skill), age (which captures some aspects of experience) and years spent working (which captures other aspects of experience). When gender and race discrimination are present, then these characteristics also affect wage determination. Economic sector will also play a role if jobs in different sectors vary in terms of danger or desirability, or if the labour market is segmented between sectors. In either case, workers with otherwise similar characteristics will be paid different wages.

The challenge in constructing a wage regression model to predict an ‘expected’ wage for the unemployed is to include variables which are meaningful as explanatory variables (i.e. as wage determinants) – but which are also pertinent to the unemployed person. For example, economic sector probably affects the pattern and determination of wages. If we were just trying to explain what drives the wages of the already-employed, then we would include economic sector in the regression. However, if we assume that the unemployed are looking for work in any sector, then it makes no sense to include economic sector in the model to predict the expected wage of the unemployed. Table 10 presents the results of four wage regressions.

Regression 1, which explains 27 percent of the variation in wage-earnings, has six explanatory variables. The first two are highest school grade passed and work experience. This latter variable comprises the sum of the number of years worked in the person’s first job plus the number of years worked at the current job. As this variable does not include years worked in any intervening jobs (the survey did not ask for this information) it is an incomplete – yet significant – picture of work experience. (Whether a person had ever worked before was not a significant determinant of wages). The final four variables are dummy variables (i.e. they take the value of 1 if the person has that characteristic and 0 if the person does not) to pick up the effect on wages of having had any job-related training, attending a University or Technikon, being male, or being African. All the variables, except age, are significant determinants of the wage. Regression 1 suggests that each school grade passed adds R72 to the wage, each year worked adds R32, having gone to university or technikon adds R1093, job-related training adds R644, being male adds R373 and being African lowers the wage by R451.

Regression 2 includes the same variables as Regression 1 – except for work experience which is dropped in favour of age (and age squared). (One uses either age or years worked because both are proxies for experience). Regression 2 explains only 23 percent in the variation in monthly take-home pay. Regressions 4 and 5 use the log of monthly take-home pay. The log of the wage is often used in wage regressions in order to prevent the very high salaries from exercising too much of an influence on the results. As can be seen from Table 8, the R-squareds for Regressions 3 and 4 are higher than for Regressions 1 and 2. Regression 4 is the best model because the R-squared is highest.

Table 11 reports on the predicted wages for the unemployed using Regression 4. The table presents the data for each variable used in the regression for all 23 unemployed people who reported having turned down a wage. If any variable used in the regression is missing, then no predicted wage can be generated. The final column in Table 11 provides an assessment of whether it was reasonable for the individual concerned to have refused the wage

on offer. The rough decision rule adopted in making this judgement was that if the wage was more than 10 percent lower than the predicted wage, then it was a reasonable refusal. If it was more than 10 percent higher, then the refusal was deemed unreasonable. If the wage was within 10 percent of the predicted wage, then the decision was deemed borderline (although one could possibly classify such decisions with the ‘unreasonable’ category).

Table 10. Regressions on monthly take-home pay for wage-earners

	<i>Dependent variable: monthly wage</i>		<i>Dependent variable: log of monthly wage</i>	
	Regression 1	Regression 2	Regression 3	Regression 4
<i>Age</i>		56.70 (1.88)		0.0293 (2.32)
<i>Age squared</i>		-0.367 (-0.97)		-0.000 (-1.68)
<i>Highest school grade passed</i>	72.22* (3.68)	117.59* (4.99)	0.053* (4.98)	0.060* (6.00)
<i>Work experience (the sum of years worked in the first job plus years worked in the current job)</i>	31.74* (5.61)		0.017* (5.47)	
<i>Training at a University or Technikon</i>	1093* (6.99)	956.28* (5.42)	0.421* (4.99)	0.353* (4.76)
<i>Extra training on the job or job-related training course</i>	644.08* (5.05)	653.61* (4.67)	0.307* (4.47)	0.295* (5.00)*
<i>Male</i>	372.90* (3.94)	626.83* (6.00)	0.313* (6.13)	0.368* (8.38)
<i>African</i>	-451.20* (-3.00)	-814* (-7.67)	-0.364* (-6.58)	-0.455* (-10.19)
<i>Constant</i>	658.95 (0.003)	-804 (-1.24)	6.612* (55.87)	6.065* (22.23)
<i>Adjusted R-squared</i>	0.2665	0.2295	0.2983	0.3003
<i>Number of observations</i>	515	692	515	692

* Significant at the one percent level

Table 11: Predicted wages for those unemployed who had refused jobs (. = missing)

	<i>Years in first job</i>	<i>Age</i>	<i>Gen-der</i>	<i>Highest Standard Passed</i>	<i>Techni-kon or university</i>	<i>Other training</i>	<i>Race#</i>	<i>Predicted wage (re-gression4)</i>	<i>Real wage refused</i>	<i>Reason-able wage?</i>	<i>Reasonable refusal?***</i>
1	0	44	M	Std 2	.	.	A	.	R800	R3000	.
2	0	23	F	Matric	No	No	A	R953	R220	R600	Yes
3	2	31	M	Std 6	No	No	A	R1224	R600	R2000	Yes
4	0	23	M	Std 8	No	No	A	R1222	R1210	R1500	Borderline
5	2	30	F	Std 6	No	No	A	R836	R1200	R1000	No
6	.	23	F	Matric	Yes	No	A	R1357	R660	R2000	Yes
7	0	25	F	Std 8	No	No	A	R875	R800	R400	Borderline
8	0	53	F	Std 4	No	No	A	R878	R800	R1000	Borderline
9	3	43	F	Std 3	No	No	A	R796	R266	R1000	Yes
10	.	20	F	Std 9	No	No	A	R851	R660	R600	Yes
11	0	19	M	Matric	Yes	No	A	R1822	R700	R2000	Yes
12	0	35	F	Matric	Yes	No	A	R1604	R500	R1000	Yes
13	2	52	F	Std 3	No	No	A	R826	R880	R1000	Borderline
14	.	19	M	Std 7	No	No	A	R1071	R1400	R1600	No
15	.	62	F	Matric	No	No	C	R1636	R1450	R1200	Yes
16	.	24	F	Matric	.	.	A	.	R350	R2400	.
17	0	24	F	Std 6	No	No	C	R1204	R660	R1400	Yes
18	2	27	F	Matric	Yes	No	A	R1447	R1320	R2500	Borderline
19	.	21	F	Matric	Yes	No	A	R1310	R400	R900	Yes
20	1	20	M	.	No	No	A	.	R660	R700	.
21	.	23	M	Matric	No	No	C	R2170	R1318	R2500	Yes
22	10	36	M	Std 6	No	No	A	R1296	R1400	R1800	No
23	.	19	M	.	No	No	A	.	R400	R600	.

As can be seen in Table 11, of the 19 cases with predicted wages, three decisions were classified as unreasonable, and a further five were borderline cases. The majority (11/19) refused wages below their predicted wages. This indicates that there is little reason to believe that most people are refusing jobs because they are refusing to work at the ‘going wage’ – where going wage is defined as the predicted wage for someone with the same characteristics as the respondent. There is, in other words, little support for the notion that unemployment in KMP is for the most part ‘voluntary’.

One could argue that the predicted wages of the unemployed should be discounted (i.e. adjusted downwards) to take into account the existence of high unemployment. The intuition behind this notion is that ‘rational’ jobseekers should adjust for the fact that they are in a weak bargaining position when unemployment is high – and hence should accept lower wage offers. This kind of reasoning is consistent with the standard economic labour market model: when there is excess demand supply of labour, wages should fall. The problem with this approach is that it suggests that those who are holding out for ‘going’ wages – rather than accepting lower/discounted wage offers – are either being irrational, or are choosing not to accept the appropriately discounted wage and are thus ‘voluntarily’ unemployed (i.e. not really unemployed at all).

For this kind of reasoning to have empirical relevance, it must be the case that job-seekers believe that the chances of obtaining a job vary significantly with the wage. The KMP survey provides some helpful information in this regard. Fifty four percent of the unemployed said that they either agreed or agreed strongly with the statement: ‘If you ask for a lower wage you have a better chance of getting a job’. This suggests that most people think that wages matter. However, it is still interesting to note that the other 46 percent do not share this view. More importantly, 80 percent reported that they either agreed or agreed strongly with the statement that: ‘It is pure luck whether you get a job or not’. One could hypothesise on the basis of this that although a thin majority of respondents believe that a lower reservation wage improves the chances of getting a job, a very large majority believes that it is just a matter of luck whether you do get one. Under such circumstances, the rational response may well be not to accept wage offers below that which your employed counterparts enjoy, but rather to wait for the right wage job to come your way (as a matter of luck).

This issue is clearly a matter for further research. It is an example of one of the many fascinating labour market questions which the KMP data is designed to probe – but which lie beyond the scope of this paper.

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