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Temporary Employment Services in South Africa: A Brief Note

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Temporary Employment Services in South Africa: A Brief Note

Haroon Borhat & Carlene van Der Westhuizen¹

Introduction

In the context of a small, open economy such as South Africa, facing possibly one of the highest open unemployment rates in the world, the nature of its labour demand trajectory is of particular interest. In this brief note, we assess the role played in temporary employment services in contributing to employment growth in post-apartheid South Africa. In addition though, given the rise of this form of employment in the country, we assess the demand-side incentive to employers who opt for this form of hiring practice. Data for most of the analysis is drawn from representative labour force surveys, and where possible, employer information garnered through interviews.

Employment Trends in South Africa: 1995 to 2011

Table 1 below shows the broad trends in the South African labour force and employment between 1995 and 2009. Employment increased significantly over the period at an average rate of 2.1 % per annum. The data here suggest that in the first 15 years of democratic rule in South Africa, the economy generated approximately 3.2 million jobs. Over the same period though, some 4.7 million individuals entered the labour market, in search of jobs. The consequence of the latter was an increase in the number of narrowly defined unemployed by 2.1 million.

Table 1: The South African Labour Force, 1995 to 2009 (thousands)

Category	1995	2001	Q32009	Change		AAG
	'000s	'000s	'000s	'000s	% Change	1995-09 % Change
<i>Official definition estimates</i>						
Employment	9,645	11,181	12,884	3,239	33.6	2.1
Unemployment	2,032	4,655	4,119	2,087	102.8	5.2
Labour Force	11,676	15,836	17,003	5,327	45.6	2.7

Source: OHS 1995; OHS 1997; LFS September 2000-2007; QLFS Quarter 1-4, 2008 and Quarter 1-3, 2009 (Statistics South Africa).

Notes: 1. 1995 data is reweighted according to the 1996 Census. Data from 2000 onwards has been re-weighted according to the 2001 Census.

2. The change in definitions of the broad unemployment rate renders the 2009 estimate incomparable with those of 1995 and 2001.

Employment Dynamics by Sector and Occupation

Table 2 examines the sectoral distribution of employment change in South Africa since 1995. Tertiary sectors accounted for the highest share of employment, at 70.4 percent in 2009, followed by the secondary sectors (22.2 percent). The primary sectors employed only 7.4 percent of workers in that year. It is clear from the results below that employment growth in the post-apartheid era has been unevenly distributed across the various sectors of the economy, with most of the growth concentrated in the tertiary sector. Employment in the tertiary sector grew by 3.3 million, representing 96 % of the increase in employment over the period. This is a crucial result: It suggests that of the 3.4 million net new jobs created since 1995 in South Africa, close to 3.3 million of these were in the tertiary sectors.

In particular, our results suggest that aggregate employment growth in post-apartheid South Africa has been driven by the Financial and Business Services sector on the one hand, and the Wholesale and Retail

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Trade sector on the other hand. The latter, wherein the informal sector is dominant, has thus been a key job generator within the domestic economy. The data shows that these two main sectors alone accounted for close to 2.3 million of the 3.4 million new jobs created in South Africa over the 14-year period between 1995 and 2009. Put differently, 66% of all employment generation in post-*apartheid* South Africa can be located within the Financial & Business Services and Wholesale & Retail Trade sectors.

Table 2: Sectoral Distribution of Employment Change

	1995		2001		Q32009		AAG	Change	
	'000s	Share	'000s	Share	'000s	Share	1995 to 2009	'000s	Share
Primary	1,696	17.9	1,732	15.5	952	7.4	-2.4	-744	-22
Agriculture	1,247	13.2	1,178	10.5	653	5.1	-1.7	-594	-17.3
Mining	449	4.8	554	5.0	299	2.3	-2.9	-150	-4.4
Secondary	1,988	21.0%	2,348	21.0	2,861	22.2	3.1	873	25
Manufacturing	1,452	15.4%	1,620	14.5	1,723	13.4	1.6	271	7.9
Utilities	86	0.9%	94	0.8	81	0.6	-0.2	-5	-0.2
Construction	449	4.8%	634	5.7	1,057	8.2	7.7	608	17.7
Tertiary	5,774	61.0%	7,058	63.1	9,064	70.4	4.4	3,290	96
Retail	1,684	17.8%	2,454	22.0	2,852	22.1	6.9	1,168	34.1
Transport	483	5.1%	546	4.9	737	5.7	3.8	254	7.4
Finance	592	6.3%	1,035	9.3	1,682	13.1	8.3	1,090	31.8
CSP	2,205	23.3%	1,989	17.8	2,627	20.4	2.6	422	12.3
Private Household	809	8.6%	1,034	9.2	1,166	9.1	2.7	357	10.4
Total	9,458	100%	11,179	100	12,883	100	2.8	3,425	100

Source: OHS 1995; OHS 1997; LFS September 2000-2007; QLFS Quarter 1-4, 2008 and Quarter 1-3, 2009 (Statistics South Africa).

Note: AAG is the average annual growth rate, estimated as the average of the growth rates from 1995 to 2009. Other and unspecified categories are not shown here.

The secondary sectors also experienced employment expansion over the 15-year period, with Manufacturing and Construction adding approximately 271,000 and 608,000 jobs respectively, whilst employment in the Utilities sector, which is the smallest sector, barely changed. The poor performance of Manufacturing though reflects a wider concern around both the lost opportunities in Manufacturing since the 1960s (Rodrik, 2009) and the sector's ongoing lack of dynamism and competitiveness in the post-apartheid period.

A particularly worrying result has been the significant reduction in employment in the economy's primary sectors. Collectively then, Mining and Agriculture have shed 744,000 jobs over a 15-year period. For two sectors which are both export oriented and unskilled-intensive, this is a startling result. It should be noted that this large erosion of jobs took place amidst both a global economic growth boom and fairly positive commodity price movements.

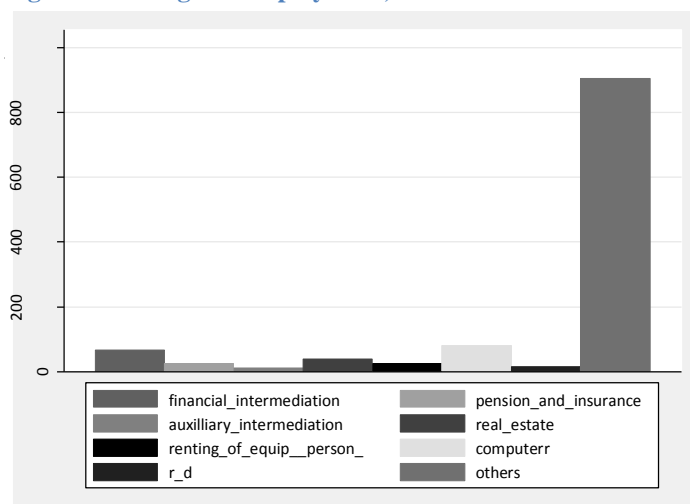
Examining the sectoral shares of employment, we find that the share of the primary sectors in total employment declined significantly by around 10 percentage points between 1995 and 2009, whilst the share of the tertiary sectors increased significantly by around 9 percentage points during this time. Apart from Construction, which saw its share in total employment double, the share of other secondary sectors in employment did not change significantly during the period. All tertiary sectors witnessed a significant increase in their percentage share of total employment, barring the Private Household sector, which stayed relatively the same over the period (9 %).

However, an important part of the above analysis, requires additional nuance. Hence, in what follows below we provide a more detailed examination of the employment trends observed within the second largest job generator in the post-*apartheid* period, namely Financial & Business Services.

The Advent of Temporary Employment Service Agents

We provide below then the change in employment, in absolute terms, for those coded sub-sectors within financial and business services. The data suggests a key result: Of the total number of jobs created within this sector since 1995, the overwhelming majority of these have been in the sub-category defined simply as ‘Business Services Not Elsewhere Classified’. Specifically, the data indicates that over the 1995-2009 period 77% of all the jobs created within Financial & Business Services were created in this ‘Business NEC’ or ‘Other’ sub-sector. Put differently, of the close to 1.2 million jobs generated in this sector, about 900 000 emanated from the ‘Other financial and business services’.

Figure 2: Change in Employment, 1995-2009: Financial & Business Services, By Sub-Sector



Source: OHS 1995; QLFS 3, 2009 (Statistics South Africa).

Closer inspection of this category reveals that it consists in the main of activities noted officially in the codebook as:

“labour recruitment and provision of staff; activities of employment agencies and recruiting organisations; hiring out of workers (labour broking activities; disinfecting and exterminating activities in buildings; Investigation and security activities; building and industrial plant activities; photographic activities; packaging activities; other business activities; credit rating agency activities; debt collecting; agency activities; stenographic, duplicating, addressing, mailing list or similar activities; other business activities”

We would argue here that despite the detailed list in this category, in the main the dominant forms of activity and therefore employment, has been within the employment agency, labour brokering and security services activities. Based on these estimates above then, this result would suggest that job growth within the Financial & Business Services main sector, has effectively been driven by the rapid rise in two nodes of economic activity—security services and labour brokers. This is a critical, as it suggests on the one hand, that the high incidence of crime in South Africa, has in fact resulted in a rapid employment expansion within the sub-sector providing crime prevention services. In addition, the rise in the use of employment agencies, for long noted in public debates in South Africa, is now powerfully evident in these numbers. There would be two important caveats here. Firstly that clearly outside of

employment agencies and security services, other activities within this sub-sector will have generated employment. Hence, the approximately 900 000 jobs within this sub-sector would not all be representative of security workers and labour broker (or TES) employees. Secondly, given the fact that sector of employment is self-reported by individuals within the survey, the growth in labour broker employment in particular may be an under-estimate of the true growth in jobs within the labour broker sub-sector.²

In an attempt to shed some light on the implications of the first caveat, the changes in the three main occupation groups³ represented in the Business Activities Not Elsewhere Classified (NEC) are shown for the periods 1999 to 2011 and 2001 to 2011 in Table 3.⁴

Table 3: Change in Employment: Business Activities Not Elsewhere Classified (“Other”)

	1999	2001	2011	Average Annual Growth Rates	
				1999-2011	2001-2011
Business Activities NEC/Other	312 401	398 022	810 035	8.26	7.36
Selected Occupations					
Protective Services Workers NEC	147 165	169 360	349 885	7.48	7.53
Helpers, cleaners in offices, hotels, etc.	40 715	58 774	144 265	11.12	9.40
Farmhands and Labourers	131	0	49 167	63.88	
Total Employment	10 411 239	11 178 049	13 343 731	2.09	1.79

Source: OHS 1999: LFS September 2001; QLFS Quarter 2, 2011 (Statistics South Africa)

Though we consider different time periods here, the results above confirm that employment in the Business Activities Not Elsewhere Classified increased at a much faster rate than aggregate employment. Protective Services Workers Not Elsewhere Classified⁵ accounted for the relatively largest share of the employed in all three years, at between 42 and 47 percent. Helpers and cleaners in establishments such as offices and hotels accounted for the second largest share, which is a reflection of the increase in the use of contract cleaning services over the period.

Finally, in 2011 almost 50 000 of the employed in this sub-sector were classified as Farmhands and Labourers, in contrast to zero in 2001 and only 131 in 199. While the absolute number of these workers is small in 2011, the enormous growth rate can be seen as evidence of the increased number of labour broker workers employed as farm-hands and labourers.

According to the September 2007 Labour Force Survey, 634 000 workers were employed in the "Not Elsewhere Classified" category of Financial and Business Services (In this section, data from the 2007 September LFS is utilised as subsequent LFSs did not collect any wage data. In order to ensure consistency, data from 2007 is used throughout the section). This accounted for almost 43 percent of

² For example, one would expect that a respondent employed through an employment agency to work on a construction site, or on a mine, would note his or her sector of employment to the fieldworker, as Construction or Mining – rather than the Financial & Business Services.

³ These are the main occupations in the third quarter of 2011

⁴ The detailed occupations were not recorded in the 1995 OHS

⁵ The category specifically includes security guards, security patrolmen, security patrolwomen, bodyguards, coastguards, beach guards, lifeguards, beach patrolmen, beach patrolwomen, traffic wardens, game wardens, bird sanctuary wardens, wildlife wardens, taxi-guards, traffic coordinators

employment in the Financial and Business Services Sector and for approximately five percent of the total workforce in 2007.

When we focus on formal sector employment only, the number of workers employed in the Business Activities Not Elsewhere Classified declines slightly, to just more than 584 000.

Table 4 compares the occupational composition of the formally employed in the “Not Elsewhere Classified” category with the occupational composition of aggregate formal employment (excluding “Business Services Not Elsewhere Classified”). In the subsector which includes TES, more than 50 percent of workers were classified as sales and services workers, with almost 16 percent classified as elementary workers. Clerical workers accounted for more than ten percent of employment in this sub-sector. In total, these three occupations represented 76 percent of total employment recorded in the "Not Elsewhere Classified" category within the Financial and Business Services Sector. Unskilled workers and service-related occupations would therefore seem to dominate the employment distribution within the labour brokering sub-sector.

The occupational composition of this sub-sector differed significantly from the occupational composition of aggregate employment in the same year. Sales and services workers only accounted for approximately 10 percent of total formal employment (excluding TES), while elementary workers accounted for almost a fifth of the remainder of the formally employed when TES are excluded. The evidence therefore suggests that sales and service workers are over-represented in the “Not Elsewhere Classified” category (or TES) within Financial and Business Services Sector in comparison to the aggregate level and, in addition, that elementary workers are slightly under-represented in comparison with their share in aggregate formal employment (exclusive of TES).

Table 4: Comparison of Occupational Distribution: Financial and Business Services "Not Elsewhere Classified" vs. the Remainder of the Formal Sector

	Other Formal Employment		TES (Formal Employment)	
	Number	Share (%)	Number	Share (%)
Managers	882 448	9.67	46 140	7.9
Professionals	2 148 674	23.54	50 486	8.64
Clerical Workers	1 099 701	12.05	61 098	10.45
Service and Sales Workers	953 243	10.44	304 669	52.13
Agr. & Fishing Workers	91 491	1.00	390	0.07
Craft & Trade Workers	1 248 727	13.68	10 900	1.87
Operators & Assemblers	1 040 201	11.40	17 878	3.06
Elementary Workers	1 656 954	18.15	92 545	15.84
Unspecified	5 623	0.06	297	0.05
Total	9 127 061	100.00	584 404	100.00

Source: LFS 2007:2 (Statistics South Africa, own calculations)

It is generally accepted that the most vulnerable workers in triangular employment relationships are those employed or supplied by unregistered labour brokers (also colloquially in South Africa known as the "bakkie brigade"). These workers are typically unskilled and therefore classified as elementary workers in the labour force survey. The results above, however, suggest an under-representation of elementary workers in the sub-sector which includes temporary employment services.

To summarise, it is extremely difficult to accurately estimate the total number of workers employed in the TES industry using official labour force data. It can, however, be assumed that a significant share of these

workers are recorded in the official surveys in the sub-sector “Not Elsewhere Classified” within the Financial and Business Services Sector. As discussed above, this sub-sector accounted for a significant share in total employment growth since 1995 and can therefore be considered a key driver of job creation in the South African labour market. In addition, more than half of the 600 000 workers employed in this sub-sector in 2007 were sales and service workers, while only about 16 percent were elementary workers. This result suggests that semi-skilled sales and services workers are over-represented in the TES sector and elementary workers under-represented in comparison with the occupational breakdown at national level.

Demand Side Data on TES⁶

In South Africa, the interests of temporary employment services (TES)/labour brokers are represented by the Confederation of Associations in the Private Employment Sector (CAPES). Currently, more than 1 000 agencies are associated under CAPES. These agencies have by choice submitted to voluntary self-regulation and subscribe to strict self-regulatory practices. CAPES, however, estimates that there are approximately 3 140 registered and 2 000 unregistered private employment agencies in the country, totalling 5 140 agencies. Nineteen and a half percent of these are responsible for permanent recruitment, 70 percent provide temporary employment services, while the remaining ten percent provide a combination of temporary and permanent placements.

CAPES further estimates that in 2009, TES generated about ZAR 23 billion in revenue (including temporary wages), which corresponds to just less than one percent of GDP in that year. In July 2010, the industry estimated that 850 000 workers were employed by labour brokers, which corresponds to 6.6 percent of total employment in the third quarter of 2010. Overall, CAPES estimates that more than 2 million workers are placed annually by TES, which are equal to more than 15 percent of total employment in the third quarter of 2010. TES make provision for all statutory benefits, including annual leave, sick leave and family responsibility leave. Provisions are also made for contributions to the Compensation for Occupational Injuries and Diseases Fund and Unemployment Insurance Funds.

Wage and Non-Wage Benefits: TES and Formal Sector Workers

Below we compare the wage and non-wage benefits accruing to those working in TES (as proxied by Business Services not Elsewhere Classified) and that for other categories of employees

Table 5: Mean Wages (in ZAR),by Type of Employment

	Mean	Standard Error	[95% Conf. Interval]		Median
Aggregate Employment	4632.91*	48.17	4538.48	4727.34	2001
Formal Sector Employment	5787.56*	62.03	5665.97	5909.16	3001
TES	3719.20	187.69	3350.80	4087.61	2000

Source: LFS 2007:2 (Statistics South Africa, own calculations)

Notes: *Differences are statistically significant at the five percent level

Sample *t*-tests confirm that the mean wages for the different employment classifications are significantly different from each other. The results suggest that the mean wage for workers employed by TES is lower than the mean wage for the full sample of workers. When the mean wage in the TES is compared to the mean wage of those employed in the formal sector, the difference is even larger, with formal sector employees earning an average of almost ZAR 2 000 (or more than 35 percent) more than employees employed by TES.

⁶ The majority of information in this section was sourced from CAPES

Table 6: Earnings Function Estimates

Specification One		
<i>Type of Employment</i>	Coefficient	<i>t-statistic</i>
Formal Sector non- TES	0.1620*	7.22
Informal Sector	-0.3350*	-13.34
Number of Observations	22936	
F-Stat	1182.78	
Adjusted R-squared	0.6297	
Specification Two		
<i>Finance Industry Dummies</i>	Coefficient	<i>T-statistic</i>
TES (including informal)	-0.1584*	-5.90
Finance (non-TES)	0.2403*	9.29
Number of Observations	22936	
F-Stat	918.05	
Adjusted R-squared	0.6268	

Source: LFS 2007:2 (Statistics South Africa, own calculations)

Notes: 1. The data is weighted

2. The dependent variable is log of monthly wages

3. * Significant at the one percent level

4. Controls were included for race, gender, highest level of education, location, occupation, experience, hours of work and union membership but results not reported here

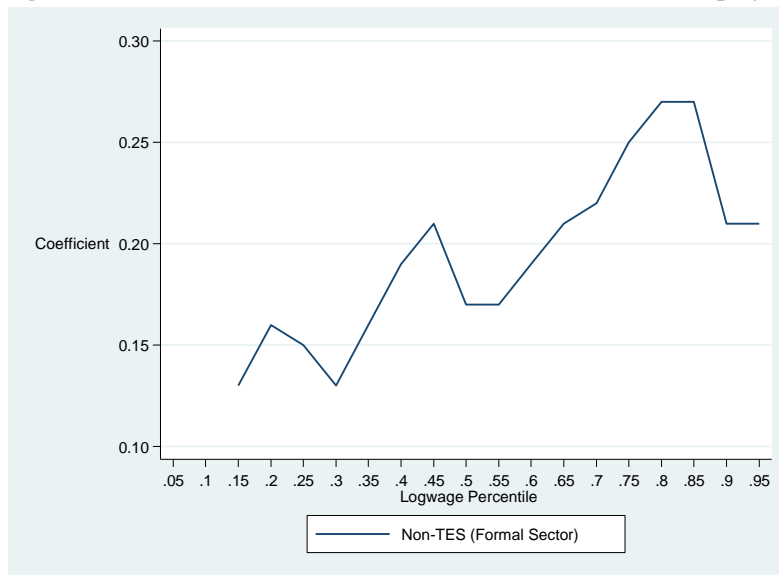
5. Referent variable for type of employment (Specification one) is TES (formal sector)

6. Referent variable for industry (Specification two) is Manufacturing

The results from the first specification of the estimated earnings function suggest that those in the formal sector and not employed by TES earn 17.6 percent⁷ more than those employed by TES in the formal sector (the referent variable). Those working in the informal sector earn 39.8 percent less than those employed by TES in the formal sector. Results from the second specification of the earnings function suggest that those employed in the sub-sector including TES earn 17.1 percent less than those employed in Manufacturing (the referent industry), while the residual of workers employed in the Finance and Business Services industry earn 27 percent more relative to those employed in Manufacturing. The graphs below present the derived coefficients for the relevant variables across the wage distribution (where the coefficients are statistically significant), using a quantile regression approach

⁷ To calculate the percentage change in earnings from the coefficient on a dummy variable in a semi logarithmic model, we used the following conversion: $100 \cdot \{ \exp(B) - 1 \}$ where B is the value of the coefficient (see Halvorsen & Palmquist, 1980: 474-475).

Figure 1: Coefficient Estimates of Formal Sector non-TES Employment Premium, by Percentile



Source: LFS 2007:2 (Statistics South Africa, own calculations)

Notes: 1. The data is weighted

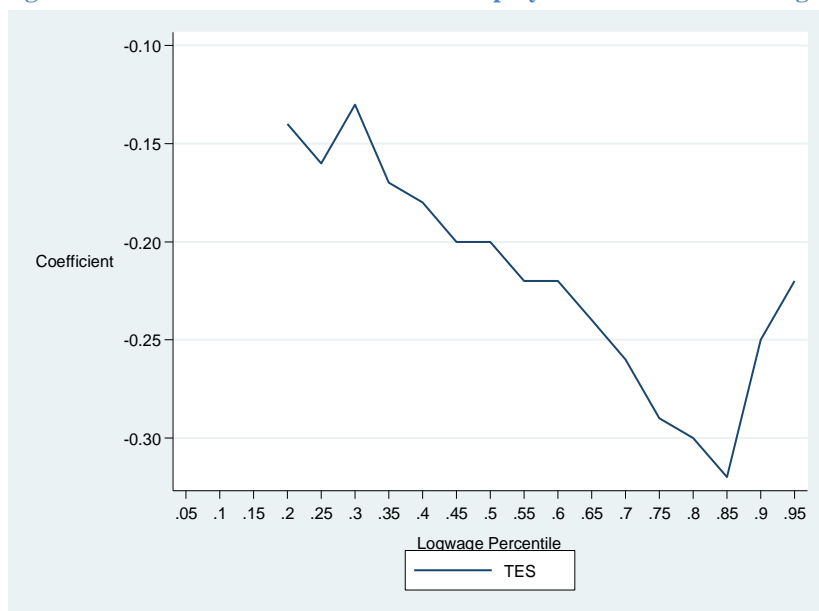
2. The dependent variable is log of monthly wages

3. Coefficients shown are statistically significant at one percent or five percent level and statistically insignificant coefficients have not been included on the graph

4. Referent variable for type of employment is TES (formal sector)

The above quantile regression coefficients confirm that workers in the formal sector not employed by TES, generally earn more than those employed by TES (the referent variable) across the entire wage distribution. The premium associated with being employed directly by the firm increases as you move up the distribution, before declining slightly at the 90th percentile of the log wage distribution

Figure 2: Coefficient Estimates of TES Employment to Manufacturing Penalty, by Log Wage Percentile



Source: LFS 2007:2 (Statistics South Africa, own calculations)

Notes: 1. The data is weighted

2. The dependent variable is log of monthly wages

3. Coefficients shown are statistically significant at one percent or five percent level and statistically insignificant coefficients have not been included on the graph

4. Referent variable for industry is Manufacturing

The above shows that those employed in the TES sub-sector earn less than those employed in Manufacturing, with the exception of those at the bottom of the distribution where the difference is not statistically significant. The gap in earnings increases as you move up the wage distribution and is relatively largest at the 85th percentile. The results ultimately confirm the view that TES employment is associated with significantly lower wages at the mean and across the percentile distribution.

Apart from the cash wage component of employment hires, it is also possible that firms will be opting for this form of employment to reduce non-wage costs. Hence, the data below examines the share of TES workers, relative to non-TES workers with access to non-wage benefits.

Table 7: Proportion of Employed with Access to Non-Wage Benefits: TES vs. the Remainder of the Formally Employed

	TES	Other Formal Employment
	0.48	0.36
	[-0.0372]	[-0.0118]
No Pension Contribution	[0.4061—0.5512]	[0.3382—0.3846]
	0.84	0.60
	[-0.0226]	[-0.0151]
No Health Insurance	[0.7878—8769]	[0.5736—0.6329]

Source: LFS 2007:2 (Statistics South Africa, own calculations)

Notes: Standard errors and confidence intervals in parenthesis

The results above indicate that those formally employed by TES are less likely to have an employer who contributes to a pension fund or a medical aid on his/her behalf. Forty-eight percent of workers employed by TES indicated that their employer does not contribute to a pension fund on their behalf, while only 36 percent of the formally employed (exclusive of TES) indicated that their employer does not contribute to a pension fund. The employers of more than eighty percent of those employed by TES did not contribute to a medical aid on the employee's behalf, while just more than 60 percent of the formally employed (excluding TES) indicated that their employer does not contribute to a medical aid.

The above tentatively suggests that the growth in TES since 1995, may be at least partly be the result of employers wishing to reduce their labour costs and avoid contributions to a pension fund or medical aid on behalf of their workers. A firm's total labour costs can be presented as follows:

$$LC_i = w + \alpha(w)$$

Where $\alpha < 1$ and $\alpha(w) = \text{non - wage costs}$

More specifically,

$$\alpha(w) = f(\text{pension contributions, health insurance contributions, HR costs, unemployment insurance contributions, institutional costs})$$

and employers may turn to TES in an attempt to minimise $\alpha(w)$

To firms there is a whole range of potential benefits associated with utilising a TES instead of employing workers directly. More specifically, the potential savings associated with using a TES can be seen as a function of the following five possible elements. Firstly, firms can benefit from the TES's Broad Based Black Economic Empowerment (BBBEE)⁸ compliance, which would not only impact positively on their own BBBEE compliance but can also constitute direct monetary savings. For example, to achieve maximum points on the skills development scorecard, a medium to large company must spend 3 percent of their payroll on learning programmes for black employees. By utilising a TES a firm can thus potentially save part of this 3 percent of the total salary bill, by outsourcing the function. Secondly, depending on whether the industry in which a company operates falls under a Bargaining Council agreement⁹, the firm can potentially save on medical aid and pension fund contributions by not directly employing workers. Thirdly, the TES is currently jointly liable under South Africa's labour legislation, and the client and labour broker therefore jointly shares the risks (and associated costs) related to breaches of the labour law. The TES also carries the risk of unfair dismissal claims and the associated potential costs. This potential saving falls under institutional costs when considering $\alpha(w)$. While it is difficult to estimate the savings associated with this service provided by the TES, it represents the potential savings labour regulatory and institutional savings generated by outsourcing all hiring and firing decisions. Furthermore, by utilising a TES, the client potentially saves the interest if it had to borrow to fund its payroll. Finally, the company saves on all Human Resources related functions, including the screening of prospective employees.

⁸ The Broad Based Black Economic Empowerment (BBBEE) Act, No 53 of 2003 provides the legislative framework for the promotion of black economic empowerment. Compliance with BEE principles is regulated by the BBBEE Codes of Good Practice. All organs of state, public entities and any private enterprise that undertakes business with a public entity must implement the Codes. A business complies with BBBEE by ensuring that it has sufficient points in the BBBEE Scorecards, which includes points for ownership, skills development, management control, etc.

⁹ If there is a Bargaining Council agreement in place for the industry, contributions to a pension fund and medical aid will be part of the worker's salary

Conclusion

This brief note suggests, in the first instance, that the post-1994 labour market environment in South Africa is marked by a sharp rise in the use of temporary employment services. Indeed, the results from research around South Africa's labour regulatory regime, the strength of the union-wage premia and so on—remain relatively unimportant when compared against the rapid rise in the use of TES. Put differently, employers in South Africa have voted with their feet, and opted at an increasing rate, not to employ workers directly. It is also clear that on average, the conditional wage penalty for being a TES employee is around 17% and that this penalty is greater as one move up the wage distribution. Employers though are also attempting, the evidence suggests, to curtail the non-wage costs of hiring workers. The data suggests a lower probability of earning non-wage benefits for TES workers, relative to the non-TES cohort and furthermore that this savings represents a broader attempt by employers in South Africa to obviate the institutional and regulatory costs associated with employing workers.

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