

Chapter 9

The Struggle of South Africa's Labor Market: Analyzing the Effects of Stagnant Real Wages Amidst Rising Living Costs

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ABSTRACT

The South African labor market is facing several challenges, including stagnant real wages and rising living costs. These challenges have significant implications for workers, their families, and the broader economy. This chapter has explored the challenges facing the South African labor market, and their implications for workers and their families. The chapter has also provided potential solutions, including policy interventions that promote wage growth and reduce living costs, as well as education and training policies that promote social mobility. Addressing these challenges will require a comprehensive approach that involves policymakers, civil society, and the private sector. By implementing these solutions, South Africa can build a more prosperous and equitable labor market that benefits all of its citizens.

1. INTRODUCTION

In recent years, South Africa has been grappling with mounting economic and social challenges. One of the key issues is the high inflation rate, stagnant salaries, and persistent blackouts. The cost of living in South Africa has increased significantly, with prices rising for goods and services such as food, housing, healthcare, and education. The cost of living has risen to levels that the country has not seen in decades. At the same time, real wages have remained stagnant, meaning that workers are not seeing an increase in their purchasing power. This has led to a growing sense of financial insecurity among South Africa's workers, who are struggling to keep up with the rising cost of living. Without a doubt, South Africa's workers are facing a difficult challenge due to the high cost of living and stagnant real wages. Arguably, the roots of today's soaring cost of living go back to the pre-pandemic period however

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most people anticipated recovery from the COVID-19 shock. These were just disappointed hopes. It is certain for example wage stagnation and the recent drop in real wages alongside poor corporate profits have left workers powerless and in dire circumstances. Put bluntly, Stagnating wages are an obstacle to economic growth and rising living standards. Therefore, workers are forced to make difficult choices as their incomes which were outstretched by COVID-19 have not been keeping pace with price hikes.

In South Africa, the Constitution and the South African Reserve Bank Act instruct the South African Reserve Bank (SARB) to protect the value of the currency to achieve balanced and sustainable economic growth. Currently, headline inflation is above the upper limit of the SARB target range (3-6%), it was indexed for 7.1% in March 2023 (StatsSA, 2023). With inflation reaching its highest level in a decade, the SARB is required to respond - possibly by raising rates. Therefore, it is unsurprisingly that the latest hike brings the prime rate to 11.25% which is the highest level since 2009 (Neethling, 2023). An increase in the prime rate further intensifies the negative economic effects on workers, especially in an economic climate where fuel, electricity, and living expenses are on the rise. Nonetheless, the professional forecasts are projecting the inflation to fall back within the SARB target range by the end of 2023. Furthermore, the projections suggest that inflation is to reach the target range mid-point of 4.5% in 2024 and remain there through the medium term (IMF, 2023).

There is no doubt that the South African labour market is facing a major challenge due to the combination of stagnant real wages and rising living costs. It is important to note the consequences of stagnant wages are not limited to individual workers. Employers are also affected, as they struggle to retain talented workers who are seeking better wages and benefits. This has contributed to a shortage of skilled labour in certain industries, which in turn harms economic growth and development. This chapter aims to examine the impact of these factors on the labour market in South Africa. Specifically, we will analyse the extent to which stagnant wages have contributed to the high cost of living in the country and explore the consequences for workers. The objectives of this chapter are to:

1. Analyse the impact of rising living costs on workers in South Africa.
2. Investigate the consequences of stagnant wages for workers' well-being and economic prospects.
3. Identify potential solutions to address these challenges.

The primary purpose of this is to analyse the effects of stagnant real wages amidst the rising cost of living. In doing so, the author will employ the Sticky Wage Theory to study how and why wages adjust slowly to changes in labour market conditions. In addition, this chapter will utilize qualitative literature assessment drawing largely from key secondary sources of existing studies on the topic. The chapter will look at the multi-pronged approach that is needed to reduce living costs and improve social protections for workers. By addressing these challenges, South Africa can create a more stable and equitable labour market that benefits workers, employers, and the wider economy.

2. OVERVIEW OF SOUTH AFRICA'S LABOUR MARKET

For a considerable period, unemployment has endured as a paramount economic and social concern in South Africa. Furthermore, it has proven to be one of the nation's most enduring and formidable policy challenges over the years. Elevated levels of unemployment reflect shortcomings in job creation endeavors within the country. In most cases, a significant number of individuals who experience job

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