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Beyond Redistribution: Market Power, Firm Structure, and the South African Labour Market

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Abstract

This paper examines how firm structure and market power shape inequality in South Africa. Moving beyond a narrow focus on fiscal redistribution, it introduces a pre-distribution lens that highlights the role of ownership patterns, industry concentration, and firm behaviour in driving wage disparities and unequal economic participation. Drawing on sectoral data from Statistics South Africa and the South African Reserve Bank, the study documents persistently high concentration in finance, telecommunications, and manufacturing, contrasted with more competitive dynamics in agriculture and construction. These patterns correlate with divergent labour market outcomes: highly concentrated sectors exhibit elevated markups, declining labour shares, and greater wage inequality, while less concentrated sectors display more inclusive wage dispersion. The analysis demonstrates that competition policy must evolve beyond a narrow interpretation of consumer welfare to address structural inequality. By integrating efficiency with social justice, reforms in market structure and labour institutions can foster a more inclusive and equitable South African economy.

Key words

Inequality, Market concentration, Firm structure, South Africa

JEL codes: D33, J31, L11, L40

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Résumé

Cet article examine comment la structure des entreprises et le pouvoir de marché façonnent les inégalités en Afrique du Sud. Allant au-delà d'un focus étroit sur la redistribution fiscale, il introduit une perspective de « pré-distribution » qui met en évidence le rôle des schémas de propriété, de la concentration sectorielle et du comportement des entreprises dans la génération des écarts salariaux et de la participation économique inégale. À partir de données sectorielles de Statistics South Africa et de la Banque de réserve d'Afrique du Sud, l'étude documente une concentration durablement élevée dans la finance, les télécommunications et l'industrie manufacturière, contrastant avec des dynamiques plus concurrentielles dans l'agriculture et la construction. Ces configurations s'accompagnent de résultats divergents sur le marché du travail : les secteurs fortement concentrés affichent des marges élevées, une baisse de la part du travail et une plus grande inégalité salariale, tandis que les secteurs moins concentrés présentent une répartition des salaires plus inclusive. L'analyse montre que la politique de concurrence doit évoluer au-delà d'une interprétation étroite du bien-être des consommateurs pour s'attaquer aux inégalités structurelles. En intégrant efficacité et justice sociale, des réformes de la structure des marchés et des institutions du travail peuvent favoriser une économie sud-africaine plus inclusive et équitable.

Mots clés:

Inégalités, Concentration des marchés, Structure des entreprises, Afrique du Sud

1 Introduction

Policy discussions on solutions to inequality tend to focus on the redistribution of post-tax income. This is accomplished through the introduction of appropriate taxation policies or via programmes that expand existing human or infrastructure capacity for example, through investments in education or healthcare (Valodia et al., 2025). The authors argue that these solutions are often preferrable as they neither threaten nor challenge existing distributions of wealth, income or systems of power. They also do not directly interfere with prevailing market forces. Until recently, very little analysis has been undertaken to assess the channels through which the productive, financial and geospatial organisation of the economy contributes to increasing levels of inequality and how alternative policies may be designed within these segments of the broader economy to achieve more equitable outcomes. These sets of policies describe a set of policies referred to as pre-distribution.

1.1 Introducing pre-distribution

What exactly is pre-distribution and what are the channels through which it can or should impact on distributional outcomes? Diamond and Chwalisz (2015) argue that pre-distribution relies on a set of existing and readily available policies and tools redesigning them to meet a specified growth outcome or to address a new or existing challenge. Therefore, by applying these policy tools differently, "pre-distribution … is a strategy for doing more with more policy options for creating healthy societies and more public investment for ensuring broad-based growth" (Diamond and Chwalisz, 2015, p. xxii). Central to pre-distribution is the prioritisation of policies that expand productivity, yield inclusive growth and create jobs. This requires balancing both economic efficiency and social justice, and not unduly prioritising one over the other with the overall objective of reversing inequality (Diamond and Chwalisz, 2015). Below we summarise some pre-distributive policy reforms and the channels through which they can achieve equitable outcomes (Table 1).

Table 1: Pre-distribution and related policy channels
Source: adapted from (Diamond and Chwalisz, 2015, pp. 5–7)

Policy reforms	Channel to ensure equitable outcomes
Financial Systems	• Regulating the financial market to mitigate against speculative behaviour and the use of taxpayer funds to rescue struggling financial institutions • Limiting executive pay and shifting towards stakeholder primacy
Corporate Governance	• Strengthening competition authorities to better regulate monopolies and cartels across product and capital markets • Supporting innovation and the entry of new businesses to foster greater competition and increased productivity • Increasing worker "voice" and the development of policies that encourage greater worker participation
Labour Market	• Introduce national minimum wages or "living wages" that boost the living standards of the lowest paid workers • Encourage unionisation and other suitable regulation in gig or casualised sectors • Introduce reforms that improve flexibility for firms and workers to encourage greater labour force participation for workers who might otherwise not fully participate due to competing care or other demands on their time

Policy reforms	Channel to ensure equitable outcomes
	• Revising procurement policies to support fair employment practices across both public and private sector actors involved in the provision of goods and services
Market Redesign	• Consumer regulation particularly in priority or key infrastructure markets • Improve and protect consumers' access to information about price and quality of goods and services • Introduce policies that encourage greater economic efficiency across all sectors
Property-Ownership	• Promoting broader access to national wealth and capital while addressing historical inequalities in wealth distribution

The pre-distribution and ownership project at the Southern Centre for Inequality Studies has begun some of this work of investigating how production systems can be reconfigured to generate outcomes that improve equity within society. This work is available in a special issue of the *Development Southern Africa* journal (Development Southern Africa, 2025). Briefly, this work focused on characterising inequality resulting from disparities in pre-taxation income stemming from various structural, market, geographic and other institutional factors. Emerging from the special issue are three broad sets of findings. First, regarding concentration levels and ownership of the economy, these papers enable us to expand the debate beyond policies like Broad-Based Black Economic Empowerment (BBBEE) or the extension of social grant provision towards a more effective, longer-term rethinking of economic participation and equitable involvement of various actors. Goga and Valodia (2025) argue that ownership at the firm level is more concentrated and that understanding this is critical for understanding inequitable wealth dynamics. The issue of big data, its uneven distribution across firms and how this affects firm anti-competitive behaviour is discussed by Leuner et al (2025). Effectiveness of local competition authorities, the policy tools available to them and the impact of their decisions on market structure are also discussed (Klaaren et al., 2025; Padayachie, 2025).

A second set of findings relate to the role of institutions in ensuring equitable outcomes. Reddy (2025) questions the usefulness of the term "white monopoly capital" and its sufficiency in capturing dynamics of power, control and cohesion among economic elites and concludes that it has facilitated substantial levels of transformation of South Africa's economic landscape. The intersection of the expansion of regional value chains and the extension of supermarkets in the Southern Africa region has entrenched existing power imbalances and stifled the entry of smaller and newer firms (Ncube, 2025). Proposals around how the Industrial Development Corporation (IDC) can support green industrialisation are provided by Goga and Bell (2025). The final paper relates to the issue of spatial inequality and the role of cities in driving innovation as a means to ensuring inclusive growth (Joseph and Karuri-Sebina, 2025).

Emerging from the collective body of work in this publication is the importance of addressing inequality in the production system and the emphasis that a narrow focus on fiscal redistribution will inadequately address the tide of growing inequality. This is

especially true as governments are faced with shrinking revenues as evidenced by declining tax-to-GDP ratios and increased demands from multiple and intersecting crisis at the domestic and global levels (Valodia et al., 2025). It is therefore crucial to understand how the structure of markets and political institutions produce distributional outcomes before the intervention of fiscal authorities. Altogether, this body of work will improve our understanding of how current approaches to ownership and production actively increase and entrench inequality and how policy interventions could proactively address these issues.

1.2 The focus of the paper

This summary of initial work undertaken and the definition of pre-distribution highlights the need to expand our focus to better understand the relationship between the distribution of pre-taxation income, skewed ownership patterns in product markets and the impact on inequality. In particular, we wish to focus on the relationship between the ownership profile of the means of production and how this variation affects inequality. Consequently, this report seeks to build on earlier work reflecting on the intersecting themes of competition in product markets, the structure of ownership and labour market outcomes. The study will characterise the relationship between firms, noting how this has evolved over time to provide crucial insights into the general performance of the economy and how this affects wages earned by different groups of individuals and the overall impact on inequality.

Underpinning this work is the premise that the firm, as an embodiment of the production segment of the economy, plays an important role in the determination of wages (Bassier, 2019; Card et al., 2018; Lazear and Shaw, 2018) and the principle that firms that are dominant in the product market can exert power over smaller firms allowing them to concentrate profits, rents or other surpluses among a small elite (Adam Cobb, 2016; Blundell, 2024; De Loecker et al., 2024).

There are two areas of focus with this work. First, rising aggregate markups negatively affect consumer welfare and the impact varies across different sectors of the economy and groups of individuals. The principle of consumer welfare encourages the production of output at a level that is maximally high and within the constraints of sustainable competition while ensuring that consumers face low prices (Hovenkamp, 2019). Such a focus, it is hypothesised, will increase total welfare for both producers and consumers as any surpluses are redistributed between both groups. Due to the potential for a redistribution effect, it is important to understand the exact source of rising markups, whether it is a drop in labour' share of national income, increased concentration and monopolistic conduct or technology-based reasons (De Loecker et al., 2024). This calls for empirical studies to develop and test the link between competition and inequality. Second, competition policy, largely influenced by the Chicago school of thought, has traditionally used the yardstick of consumer welfare to guide the actions of competition authorities and policymakers (Posner, 1978a). While this standard does of course have implications for distribution – high prices impact more negatively on lower-income consumers – addressing inequality

through competition law extends the purview of competition law beyond a narrow consumer welfare standard. This raises questions on the appropriate welfare standard for competition policy if it is to significantly impact on inequality. We consider this question specifically within the context of the labour market, a key source of high and stubborn levels of inequality in South Africa (Hundenborn et al., 2018).

Consequently, this report will assess the relationship between observed concentration levels across various industries of the South African economy and the relationship, if any, on labour market outcomes such as labour productivity and the labour shares. In so doing, we will provide some stylised facts on this relationship so as to begin making the argument for expanding the consumer welfare approach to consider more closely the intersection of the structure of ownership at the firm or industry level with labour market outcomes. Labour market concentration warrants stricter thresholds than product markets due to the limited ability of certain categories of workers to switch between employers compared to consumers who can switch between products (Fedderke, 2012). Since employees face greater barriers to switching employers than consumers do in choosing products, Bell and Tomlison (2018) argue that monopsony power may emerge at lower concentration levels than monopoly power in product markets.

1.3 Definition of terms

Before we proceed with the rest of the report, let us define some terms that will be used throughout this paper.

Consumer welfare

This word has multiple interpretations and is frequently misread or even misunderstood by researchers. It is sometimes used to allude to economic efficiency or a specific consumer interest without defining its exact meaning (Cseres, 2006). It is generally defined as the maximisation of consumer surplus, which is the portion of total surplus distributed to consumers. This is accomplished by assessing the price or quantity of a product or service, as a measure of the specific economic benefit accruing to its consumers (Cseres, 2006; McHardy et al., 2023). According to the consumer welfare model, the ultimate purpose of competition law should be to prevent monopolistic price setting, restrictions on output levels, or deteriorations in quality arising from the presence of few firms exerting their dominance within the market (Cseres, 2006; Vickers, 2025).

The consumer welfare standard or the protection of the competition standard is subject to considerable debate. On the one hand, until recently, many observers would have acknowledged that most jurisdictions followed a single criterion, the consumer welfare norm. On the other hand, is ongoing disagreement about what standard should be used (Albaek, 2013; Cseres, 2006; Vickers, 2025).

Market power

This primarily measures the extent to which firms can extract rents from consumers by setting prices that far exceed the marginal cost of the product or service (De Loecker et al., 2020; Kreuser et al., 2024). Concentration measures are imperfect attempts of

measuring market power as it is harder to assess how firms extract these rents.

Globally, markups and concentration have been on the rise and this is attributed to greater concentration as a large share of activity is pushed towards larger and more productive firms (Autor et al., 2020; Kreuser et al., 2024).

Markups

Markups measure the extent to which prices exceed marginal cost because theory holds that in the case of perfect competition, price equals the marginal cost (Bell and Tomlinson, 2018; Buthelezi et al., 2019; De Loecker et al., 2024). It is also worth noting that markups may vary per sector. In a concentrated market, markups are a good indicator for market power, although firms with lower costs or more attractive products may also dominate the market resulting in greater market power and concentration (Buthelezi et al., 2019). Reducing markups will positively affect total productivity growth. Buthelezi et al (2019) estimate that reducing markups in a sector by 10% will increase productivity growth by at least 2%.

There are various issues that relate to the calculation of markups (De Loecker et al., 2024). One, it is challenging to measure the markup of price over marginal costs, because while prices are easy to determine, marginal costs are less so. Two, across a large range of goods, it is difficult to obtain pricing information, and a popular approach is to begin with the production function and relate a factor's share of revenue to the elasticity of output[1] (De Loecker et al., 2024). Third, the cost of goods sold (COGS) is the more easily observable proxy for variable costs – a fall in the value of COGS indicates rising markup levels.

Rising aggregate markups will negatively impact on welfare effects as evidenced by higher prices and lower real wages for workers. However, it is important to study changes to markup levels, profit margins and rising concentration in context to fully understand the underlying reasons driving the changes (De Loecker et al., 2024).

Studies on mark-ups in South Africa found evidence of high mark-ups in South African markets (Budlender, 2019a; Du Plessis et al., 2013; Fedderke et al., 2006a, 2018). Mark-ups are high in South Africa are generally high across many sectors, this suggests that firms enjoy significant pricing power. (Fedderke et al., 2006a). Fedderke et al, 2006 discusses how regulatory frameworks, barriers to entry and high market concentration levels give rise to these pricing dynamics.

On 'estimating mark-ups and the degree of market power in the South African economy', Fedderke et al (2018), using firm-level data and production function estimation techniques, the authors find that mark-ups are relatively high and persistent, especially in capital-intensive and highly concentrated industries. These high mark-ups suggest that

[1] In a perfectly competitive market, the share of a variable factor will equal the output elasticity of that factor, for instance, technology or labour. As aggregate markups rise, the share of the variable factor will fall relative to the elasticity.

many sectors operate under imperfect competition, allowing firms to set prices well above costs. The study also highlights that trade exposure and competitive pressures tend to reduce mark-ups, reinforcing the role of openness and market discipline (Fedderke et al., 2018).

Concentration

The South African markets are highly concentrated (Buthelezi et al., 2019). Even though high levels of concentration are not inherently anti-competitive, in the South African context they pose a threat to economic transformation and achieving of a greater spread of ownership. The South Africa economy inherited a highly concentrated market structure left behind by the era of apartheid which led to historically dominant firms retaining their leadership many years post democracy. The high and sustained levels of concentration by historically dominant firms prevents historically disadvantaged individuals from participating and increasing their portion of the economy (Hodge et al., 2021a).

Concentration ratios measure the aggregate market share of a given number of firms within the market. For example, CR5 refers to the proportion of the market supplied by the five largest firms. The ratios are provided in absolute value terms and do not account for the relative sizes of the firms or even the fact that one of the firms might have monopoly power (Buthelezi et al., 2019).

Concentration ratios are a second best alternative where it is difficult to obtain data on marginal costs and market prices for all individual firms in the market or sector (Bell and Tomlinson, 2018). De Loecker et al (2024) note that while concentration may be a poor measure of market power studying them is still informative especially as their calculation is based on market shares. Furthermore, rising concentration and economic power poses serious socioeconomic concerns such as rising inequality which is already at endemic levels in the South Africa (Ndamase, 2023).

However, it is not an easy matter to provide estimates for markets with multiple firms or at the industry level. It is important to distinguish between concentration in well-defined product markets as defined by competition policy and firm concentration occurring in SIC industries, that are broader than the former. While both are relevant, and discussed at length in the South African literature, this analysis will focus on concentration at the industry level.

This paper will begin with a discussion of the consumer welfare standard in section 2, followed by a discussion of inequality in South Africa and makes the case for why we should care about inequality in the production market as well as discusses competition policy and the specific levers within the Competition Act to reduce inequality. Section 4 of the report discusses the structure of the post-apartheid South African economy and the impact this has had on the labour market. Section 5 then outlines work done by the Competition Commission to track and measure concentration levels and trends at the sectoral level (Buthelezi et al., 2019; Hodge et al., 2021). The work by Buthelezi and colleagues forms the basis of our analysis in Section 6 where we introduce our data, perform our analysis and provide some initial findings. Hodge et al.'s (2021) draws on

administrative data and other information routinely collected by industry associations, regulators and other government departments to provide useful measures of concentration. [2] Their findings are used to explain some of the market dynamics throughout this report. Finally, we conclude.

[2] Their analysis relates to the period 2011 to the 2016 period.

2 Consumer Welfare

We begin the paper with a discussion of the consumer welfare standard, that is central to competition policy across many jurisdictions such as the United States, United Kingdom and the European Union. We discuss the various schools of thought guiding the standard and the limitations of the standard, the most prominent criticism being that it ignores the distribution of benefits and abuse of market power by large firms.

Cseres (2006) states that consumer welfare can be framed in three ways:

i. focusing purely on total economic efficiency,
ii. prioritising short-term consumer interests, or
iii. balancing long-term consumer welfare with overall societal welfare.

The first approach, which emphasises total welfare without regard for consumer interests, is generally unattractive to policymakers and the public, as it neglects the negative impact of wealth being transferred from consumers to producers. The Chicago School supports the efficiency-based model, arguing that antitrust (competition) law should not address income distribution, which they believe is better managed through other public policies. They view policies as efficient if the overall gains outweigh the losses, even if consumers are negatively affected by higher prices due to monopolies. In practice, competition authorities and governments are unlikely to adopt policies that harm consumers, even if they offer broader efficiency gains (Hovenkamp and Morton, 2019; Posner, 1978).

The second approach prioritises consumers' immediate, short-term interests over broader societal goals. However, it overlooks the fundamental conflict between satisfying short-term consumer demands and maintaining producers' motivation to innovate and operate efficiently. By focusing narrowly on short-term benefits, this approach neglects potential efficiency gains and innovations that could ultimately lead to greater long-term advantages for consumers (Cseres, 2006).

The third approach focuses on promoting long-term consumer welfare by prioritising overall societal well-being, even if it means compromising short-term consumer interests—provided consumers still receive a fair portion of the overall economic benefits. According to this view, competition policy does not need to directly target income inequality, as it indirectly improves consumer welfare by preventing monopolies and cartels in the pursuit of efficiency (Cseres, 2006; OECD, 2023).

However, despite its prevalence in many jurisdictions, the consumer welfare standard is not without shortcomings. These limitations are becoming increasingly apparent in the face of growing inequality, high levels of concentration, and calls for more inclusive economic frameworks (Albaek, 2013; OECD, 2023).

While the consumer welfare standard has the advantage of being relatively straightforward and focused; measuring the effects of firm behaviour on price, output and product quality, is complicated and the approach is overall criticised for its narrow scope (Albaek, 2013; OECD, 2023). It often fails to take into consideration broader societal impacts such as employment effects, long-term innovation, and structural shifts in market power. As such, firm behaviour that may be beneficial to consumers in the short-term by reducing prices may be harmful to the overall market and society (Huang, 2023; Vickers, 2025).

The welfare consumer standard is criticised for its disregard of the distribution of income and inequality in general. The standard assumes and thus treats all consumers equally and focuses on aggregate consumer benefits with no regards to the distribution of these benefits. For instance, a merger resulting in a small price reduction might be seen as beneficial under the consumer welfare standard, even if the merger has negative impacts on small businesses, leads to job losses or leads to high levels of concentration of wealth and power in the market at the hands of a few large firms (Cseres, 2006; OECD, 2023). This is particularly an issue in jurisdictions like South Africa that already have high levels of inequality, market concentration and persistently high levels of unemployment (Goga and Valodia, 2025).

Another limitation of the consumer welfare standard is its neglect of the power imbalance that exists within markets. Also overlooked is the fact that dominant firms can exercise undue influence over suppliers, workers and even government – if they meet the requirement of low consumer prices. This in turn, allows firms to engage in exploitative business practices while avoiding regulatory scrutiny – which can lead to lessened competition and reduced economic opportunities over time (Cseres, 2006; OECD, 2023; Posner, 2023).

The consumers welfare standard also disregards public interest issues and issues of social justice, which are important in emerging economic and post-racial discrimination countries such as South Africa (Ndamase, 2023). Issues such as employment protection and creation, empowerment of historically disadvantaged persons and their businesses, and protection of small and medium enterprises, fall outside the scope of the standard due to its narrow scope. In contexts like these, the consumer welfare standard undermines developmental goals that are aimed at producing a more inclusive and equitable economy (Cseres, 2006; Vickers, 2025).

3 Inequality

South Africa has one of the highest levels of inequality in the world and research attests to the fact that inequality has risen in the democratic era (Francis and Webster, 2019; Makgetla, 2020; McKeever, 2024). Also uncontested is the fact that wealth inequality is far higher than income inequality. The World Bank (2022) estimates an income Gini coefficient of 0.67 for South Africa. Using 2019 estimates, researchers conclude that the top 10% own 86 percent of South Africa's total wealth, with the top 0.1% accounting for about one-third (Chatterjee et al., 2022). The wealthiest 0.01% of the distribution (an estimated 3 500 individuals) control 15% of household net worth (Chatterjee et al.,

2022). This value is far more than the cumulative share owned by the bottom 90%. Such high levels of disparity can be attributed to variations in the ownership of high-end assets, namely, real estate, pension funds, and other financial assets that are disproportionately more likely to be held by individuals or households at the top

The development of inequality in South Africa is deeply rooted in the apartheid era of exclusion where the majority Black population was systemically denied access to key resources such as land, capital, education, and economic opportunities (Francis and Webster, 2019). As a result, wealth and economic control were concentrated in the hands of few individuals and firms. Hence, the economy in the pre- and post-apartheid period remains highly concentrated, particularly among a few large, historically white-owned firms. In the democratic era, economic structures remained racially skewed, limiting the participation of black-owned businesses and workers in key industries (Mncube and Ratshisusu, 2023; Ndamase, 2023; Vilakazi and Ponte, 2022).

Rising inequality in developing countries jeopardises long-term and sustainable economic development and poverty reduction (Balisacan, 2020; Ezrachi et al., 2023; Goga, 2022). This shift is evidenced by increasing returns to the wealthy and contractions in real incomes earned by the middle class and the poor. Such within-country differences account for a larger share of higher global inequality witnessed (Milanovic, 2024). Decades of progress and increased wealth, as well as concerted efforts by governments to result in equitable outcomes, are now threatened by rising inequality that poses a systemic risk to the society (Ezrachi et al., 2023).

3.1 The product market and inequality

The firm, an embodiment of the productive sector, is a key site for the reproduction of inequality as it influences how and where economic output is generated, how any production surpluses are distributed as well as how investment decisions that may have bearing on the firm and the household are made (Agarwal et al., 2017; Gneitling and Rodriguez, 2024). The structure and behaviour of the productive segment of the economy plays a pivotal role in shaping economic inequality (Blundell, 2024). Addressing disparities at the firm level is essential for creating a more equitable economic landscape.

The firm also relies on labour power to produce goods whose sale finances other undertakings (Beckert, 2009; Gneitling and Rodriguez, 2024). How a firm distributes these returns is instrumental for shaping the distribution of wages and therefore understanding income inequality and has repercussions for other types of pay gaps, directly and indirectly (Agarwal et al., 2017; Gneitling and Rodriguez, 2024). This arises from decisions made around worker and managerial compensation, the distribution of production surpluses to shareholders, payment or abuse of corporate tax provisions, and through decisions made to outsource segments of production and decisions on pay and whether to share any savings (Agarwal et al., 2017; Gneitling and Rodriguez, 2024; OECD, 2021).

However, the relationship between the firm and inequality is less direct as there are many channels through which these two intersect and it is at times impossible to sufficiently disentangle the effects of one from the other (Benveniste, 2024; Gneitling and Rodriguez, 2024). First, there are multiple dimensions of inequality and potential starting points to consider which further complicates the estimation process and method. Not only do firms impact economic inequality among firms and among individuals (vertical inequality), but they also influence economic disparities between social groups – types of workers or firms (horizontal inequality). Second, there are various business functions through which the company can affect inequality: employment practices, procurement or environmental decisions. Third, there are long lead times between the firm's activities and the impact on inequality. While some, like pay gaps or ratios are easier to observe, others are not easily attributable to specific firm activities. Changes to ownership and other policies require longer periods of time before impact can be estimated. Finally, firms affect inequality within their organisation and across other firms. Various sectoral dynamics will have bearing on the nature of inequality.

These factors that drive and derive from the firm have their own determinants which might be more significant on inequality than those that are determined by the firm. These limitations will have significant impact on the overall measurement and the ensuing analysis will consider these and mitigate for them as there is great value to considering the impact of business and policy decisions on inequality relations in South Africa, where inequality poses a systemic socioeconomic burden (Gneitling and Rodriguez, 2024).

Goga (2022) asserts that concentration can affect firm profitability and therefore the ability to deliver dividends or returns to shareholders. In the absence of vibrant competition, existing uneven ownership patterns can be reinforced, resulting in wealth accumulating to individuals who already own shares in incumbent businesses. Additionally, muted competition might lead to higher production costs. Depending on the elasticities within the product market, these costs might be wholly or partly passed on to consumers. Market power affects individuals based on the distribution of consumption and shareholding (Goga and Valodia, 2025). There might be a decline in consumer surplus as consumers are met with higher prices. However, this impact might be neutral where consumers own shares that pay profits that might offset these consumer losses (Goga and Valodia, 2025).

To influence inequality, researchers are shifting focus to policies that impact on the nature and structure of firms (Blundell, 2024; Diamond and Chwalisz, 2015). These could take various forms and are not limited to the following options, a robust policy on competition that is agile enough to deal with significant changes to the economy such as globalisation, changes in technology and market structure and how these have allowed firms to benefit from increasing returns which provide them with even greater monopoly power. Other options include newer regulations on corporate governance and the introduction of policies that diversify ownership to ensure equitable distribution of returns to production. These could be undertaken in concert with other policies that focus on increasing productivity across the economy (Diamond and Chwalisz, 2015).

Although we discuss and our primary focus is on the firm and inequality, we aggregate the effects to the industry or sectoral level, and this forms the basis of the analysis in the remaining sections of the paper.

3.2 Competition law and inequality

There are various dimensions of inequality. In a background note prepared for the OECD (2024) by Eleanor Fox, the following are identified as the most relevant elements of inequality when it comes to matters of competition: inequality in opportunity, income and wealth. Inequality of opportunity has to do with allowing entry into markets on competitive terms, free of any anticompetitive barriers. Competition authorities are responsible for overseeing market behaviour and imposing penalties on violators to deter future anti-competitive practices. Equality of outcomes such as wealth and income relates to ensuring that the gains from production are equitably distributed equitably between consumers, workers and the owners of capital rather than surpluses accruing to a single group at the expense of the other. These three elements of inequality further intersect with other characteristics such as race, gender, regional and between country differences which result in varying participation rates as sections of the public are fully or partially excluded from participating (OECD, 2024).

High levels of market concentration undermine the inclusivity of growth and the overall transformation of the economy. Persistent barriers to participation can reduce market efficiency by excluding individuals and businesses from entering the markets. This limits overall dynamism and has negative and direct effects on employment. The overall levels of innovation are restricted as large and incumbent firms instead shift their focus to activities that maintain or increase their dominance, while simultaneously undermining competitiveness. This has resulted in the decline of a sector such as manufacturing that is plagued by higher intermediate prices and premature deindustrialisation (Andreoni and Tregenna, 2021; Buthelezi et al., 2019).

Inequality of opportunity is closely related to competition law, since many jurisdictions have a clear objective of ensuring equal market access without anticompetitive barriers (Zac, 2024). Competition law often does not aim to achieve equality in wealth and income outcomes, except in South Africa and increasingly in other African jurisdictions that have adopted an "inclusivity" goal for competition law, which prioritises both dignity and efficiency. This stands in stark contrast to the prevailing view that separate policy tools should be applied to ensure efficiency (greater economic welfare) and equity (through the redistribution of income). Competition, by its nature, will yield winners and losers and provided it is not anticompetitive, it is necessary to produce high-quality goods and services at reasonable prices (OECD, 2024). Where fair market competition has inadvertently led to increasing inequality, certain authorities have introduced redistributive transfers or taxation to correct for such distortions in the production or capital markets (OECD, 2024; Qaqaya and Lipimile, 2008; Stucke, 2013).

The extreme levels of inequality in South Africa have compelled its competition policy to move beyond traditional objectives like market efficiency and consumer welfare. Research emphasises

that market power exacerbates inequality, as dominant firms extracts rent that disproportionately profit firms at the expense of the poor (Roberts, 2017). This supports the broader interpretation of competition law that includes equity and fairness. Through the public interest provisions embedded in the Competition Act, the policy explicitly addresses issues of transformation and equity (Buthelezi et al., 2019; Klaaren et al., 2025a; Majenge, 2024; Ndamase, 2023). Expressly stated in the South African Competition Act is a desire to restructure the economy and address distorted and concentrated patterns of ownership (Ndamase, 2023). Accordingly, South Africa's post-apartheid competition policy stipulated specific clauses that ratified the inclusion of broader social issues into the competition policy. Public interest considerations are embedded in the Competition Act No. 89 of 1998—both in its preamble and as explicit criteria in the assessment of mergers. By incorporating public interest considerations into the Act, the potential conflict between socioeconomic programs and market competition was reduced (Hodge et al., 2012).

However, the inclusion of inequality or socio-economic considerations in South Africa's Competition policy remains a highly debated issue. The proponents argue that, given the history of racial segregation, which was marked by concentrated ownership, competition policy should include inclusive growth. Competition policy can be used as a tool to empower the Historically Disadvantaged Individuals (HDIs) and reduce structural barriers to entry (Klaaren et al., 2025b; Moothoo Padayachie Nair, 2023; Moothoo Padayachie Nair and Vilakazi, 2022). Critics, on the other hand, caution that expanding the scope of competition policy to address issues of inequality is diluting the core focus of competition law – which is ensuring market efficiency (Klaaren et al., 2025b).

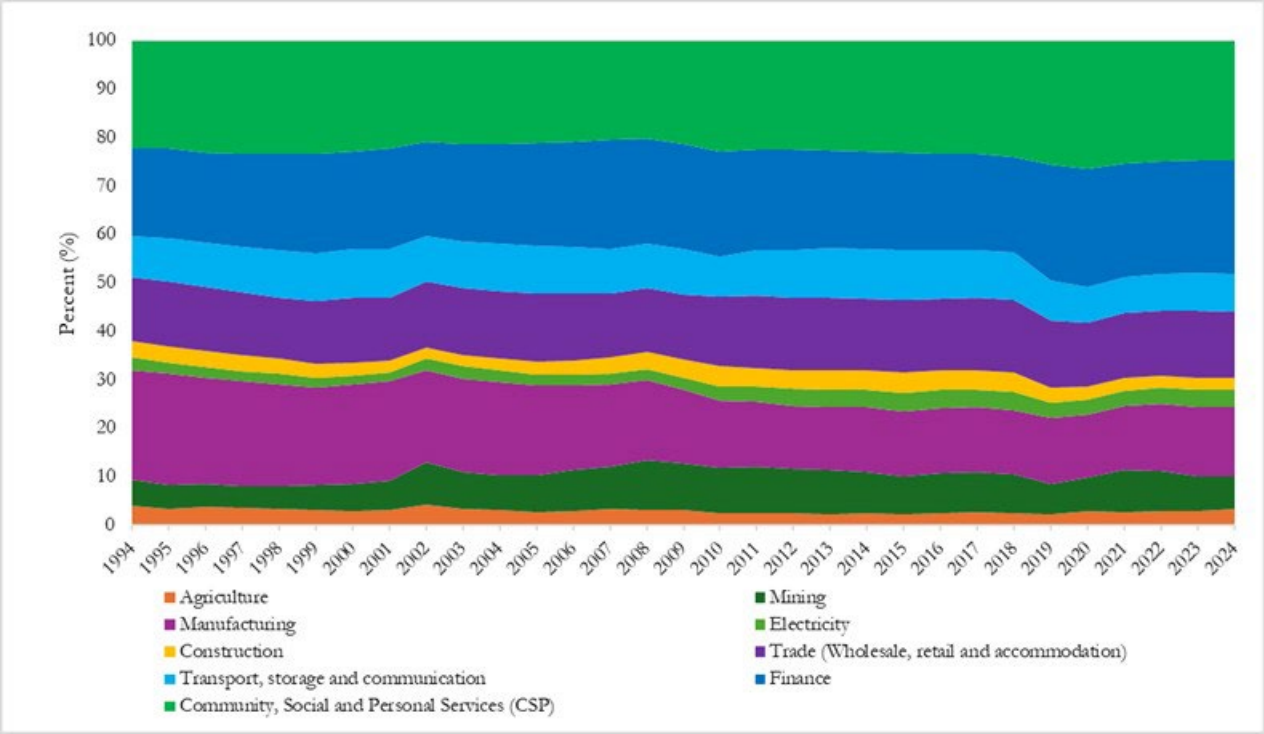
Other jurisdictions, like the Philippines, that have also embraced competition policy that jointly promotes economic welfare by ensuring competitive market structures and social inclusion have argued for a dual focus arguing that these economies contain certain structural and institutional characteristics like high market concentration and a desire to encourage industrial development (Balisacan, 2020). Proponents of a competition policy with a broader scope argue that it can be a powerful tool to address economic inequality when applied with a broader policy lens that includes market efficiency coupled with fairness, inclusion, and opportunity.

Traditionally, competition policy has used the yardstick of consumer welfare to guide the actions of competition authorities and policymakers (Hovenkamp, 2019). While this standard does have implications for distribution – high prices impact more negatively on lower-income consumers – addressing inequality through competition law extends the purview of competition law beyond a narrow consumer welfare standard (Cseres, 2006; OECD, 2023). This raises questions on the appropriate welfare standard for competition policy if it is to significantly impact on inequality (Vickers, 2024). The consumer welfare model does not account for the inequality that results from an economy dominated by a few powerful corporations. For instance, even if consumers in general enjoy low prices, the distribution of wealth might still become more unequal due to the concentration of economic power in the hands of a few firms (OECD, 2023).

4 South Africa's Sectoral and Employment Dynamics

South Africa's economy has undergone notable structural shifts over the past three decades, marked by a steady transition from a commodity-based economy to one dominated by services. The tertiary sector has consistently expanded its contribution to GDP, while the primary and secondary sectors have declined or stagnated. This structure increasingly resembles that of developed economies, despite South Africa's classification as a middle-income country. The expansion of services—particularly finance and community-based services—has occurred alongside a decline in manufacturing and mining, raising concerns around premature deindustrialisation, jobless growth, and persistent inequality (Andreoni et al., 2021; Ewinyu et al., 2025; Tregenna et al., 2021). Below we examine these sectoral trends in greater detail (Figure 1).

Figure 1: Share of GDP by sector, 1994 – 2024 (%)
Source: South Africa's National Accounts, South Africa Reserve Bank (SARB)



Notes: Trade refers to the combination of the following sub-sectors: Wholesale, retail and accommodation

The primary sector has seen a slow decline in its overall contribution to GDP, falling from 10% in 1994 to around 9.3% by 2024, despite some volatility in between. Agriculture remained largely stagnant over this period, consistently contributing between 2% and 4% of GDP, which reflects limited transformation and ongoing underinvestment (Chisoro and Landani, 2024). Mining, although more dynamic, followed a similar long-term trend. Its share of GDP peaked at over 12% in 2009 during a commodity boom but steadily declined to just under 7% by 2024. Despite this contraction, mining continues to play a critical role in boosting foreign exchange reserves and developing the rural economy.

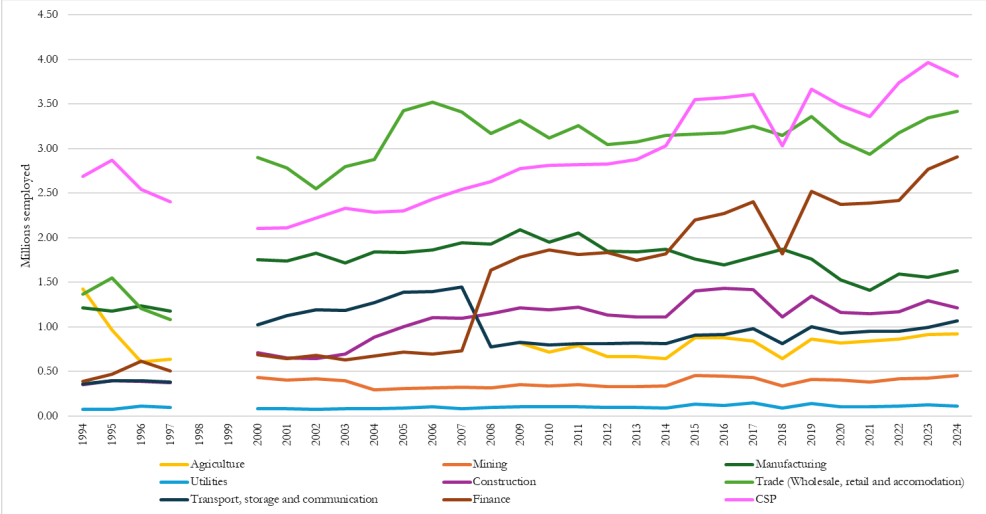
The secondary sector also contracted significantly, declining from 28% of GDP in 1994 to approximately 20% in 2024 – this shift was largely driven by shifts within the manufacturing sector whose contribution contracted from nearly 23% to around 14%. This shift arose from increased global competition, trade liberalisation, and domestic constraints such as infrastructure bottlenecks and electricity insecurity (Naidoo, 2023). This decline reflects a broader pattern of premature deindustrialisation as manufacturing's contribution to overall GDP is far below the level of comparator economies. And as we shall see in the next section, its contribution to employment has also declined in this period (Andreoni et al., 2021; Ewinyu et al., 2025). The contribution of the other industrial components, electricity and construction remained relatively small throughout the period.

By contrast, the tertiary sector has expanded its dominance, growing from 62% of GDP in 1994 to nearly 70% by 2024. Much of this growth was driven by the finance sector, which increased its share from 18% to over 23%, reflecting financial liberalisation, the deepening of capital markets, and

growth in institutional and investment activity. This growth is also attributed to the reclassification of the temporary employment services which were classified as belonging to the business services sub-sector (Tregenna et al., 2021). The public-sector-dominated Community, Social and Personal (CSP) services also grew from 22% to over 24%, underscoring the growing role of the state in delivering health, education, and administrative services (OECD, 2020). Trade, comprising wholesale, retail, and accommodation, remained stable. Transport, storage and communication rose slightly in the early post-apartheid years but declined marginally in later periods, although communication continues to be a dynamic sub-sector.

These sectoral shifts will have significant bearing on labour market dynamics; we now shift our focus to discussing trends in the democratic era (Figure 2).

Figure 2: Employment by sector, 1994 – 2024, millions
Source: StatsSA – October Household Survey, Labour Force Survey, Quarterly Labour Force



Notes: The gap in data between 1998 and 1999 likely stems from the transition between the October Household Survey (OHS) and the Labour Force Survey (LFS), during which disaggregated employment figures by industry were not available

Employment trends have largely mirrored structural shifts as the services sector increased its share of employment, while traditional industries such as mining, manufacturing, and utilities have either stagnated or shed jobs.

Trade and the financial and business services, led by temporary employment services, were the largest sub-sectors of service that accounted for this rise in employment (Bhorat et al., 2021; Cassim, 2020). However, the financial services sectors' demand for highly skilled workers has meant that expansion in employment has tended to favour higher skilled individuals and lower skilled workers in the more elementary occupational categories within the sector (Bhorat et al., 2021).

The community, social and personal services (CSP) sector remained the largest employer across the period, growing steadily from approximately 1.5 million workers in 1994 to approximately 3.8 million by 2024. This increase of over 2.3 million jobs was largely driven by the expansion of public service employment in education, healthcare and social development (Bhorat et al., 2021; Sachs et al., 2024). While the sector has been vital in cushioning unemployment, especially in periods of weak

economic growth, the bulk of its employment growth has been state-led, rather than reflecting market-driven absorption (OECD, 2020).

The manufacturing sector, by contrast, has shown weak and inconsistent employment performance. Employment in manufacturing hovered around 1.5 million in the 1990s and peaked at just over 2.1 million in 2008, before falling sharply during the global financial crisis. By 2024, employment stood at around 1.6 to 1.7 million—only marginally higher than in 1994. A modest post-2020 rebound added roughly 100,000 jobs, but this was insufficient to reverse earlier losses. Manufacturing's long-run stagnation confirms broader trends of premature deindustrialisation (Andreoni and Tregenna, 2021; Ewinyu et al., 2025).

Despite the growth of services in the post-apartheid era, this expansion has not delivered employment gains for the majority. Many of the fastest-growing sectors, particularly finance, are skill-intensive and absorb relatively few workers. Meanwhile, the sectors with higher labour absorption potential—such as manufacturing and agriculture—have either stagnated or declined. This mismatch between the nature of economic growth and employment outcomes continues to constrain inclusive development in South Africa. While the trajectory toward a services-led economy is clear, it has unfolded without resolving the country's long-standing unemployment challenge. In fact, the lack of inclusiveness has widened the already high rate of inequality as higher skilled workers continue to outearn lower skilled workers who face longer spells of unemployment and low wage work, when employed. It is within this context that this study seeks to relate concentration in the product market with labour market outcomes to expand our definition of the consumer welfare standard.

5 Market Structure and Dominance: Evidence from South Africa's Competition Authorities

This section discusses the incidence of high levels of concentration in South African markets and how this reifies existing levels of inequality. The discussion in this section is limited to the analysis undertaken by researchers based at the Competition Commission.

5.1 Market concentration and power: transmission and impact

Concentration refers to the number and distribution of firms within the market, and is crucial for understanding the structure of the economy and how this affects people (Bell and Tomlinson, 2018; Buthelezi et al., 2019; De Loecker et al., 2024). High levels of market concentration undermine the inclusivity of growth and the overall transformation of the economy and this is accomplished through the following channels (Bell and Tomlinson, 2018; Buthelezi et al., 2019):

- *Prices.* Prices will be lower in more competitive markets where no single firm is dominant and has monopoly power over prices.

- *Wages.* High concentration matters for input and final consumer product markets as well as in the labour market as it directly correlates with how much firms pay workers. In a sector dominated by fewer firms, workers may receive relatively lower wages. By contrast, in markets with competitive labour markets, employees are theorised to have bargaining power over wages received.
- *Productivity.* Theoretically, more competitive markets provide businesses with a greater incentive to efficiently allocate their resources towards innovation resulting in lower prices and wages, and this is a key driver for productivity growth.

High levels of concentration are a common feature of the South African economy, both historically and in the democratic era. These are observed in scale-dependent products as well as consumer products (Buthelezi et al., 2019; Goga and Valodia, 2025; Hodge et al., 2021; Ndamase, 2023) Competition policy is one of the main policy tools in democratic South Africa for reversing skewed ownership patterns and regulating conduct in private enterprises in order to restructure the economy and correct historic distortions (Majenge, 2024; Ndamase, 2023).

Although the overall Gini on household expenditure has remained high in the post-apartheid era, Hodge et al (2021) note that this is even higher when calculated at the firm income level stemming from a convergence of high concentration and high inequality levels. Based on National Treasury tax data, an anonymised data set consisting of matched employer-employee data, their analysis reveals that the firm income Gini remained at 0.84 over the 2011 to 2016 period. Across all sectors of the economy, an extremely high Gini was measured, exceeding over 0.67 over a similar period.

Their results show that one in two firms is classified as a small or medium enterprise and that these firms jointly generate under 1% of total turnover (Hodge et al., 2021). By contrast, the largest 10% of the firms in the data accounted for an overwhelmingly large share of the turnover. Higher returns to the larger firms arise from significantly high concentration ratios.

Finally, the Gini coefficient and concentration ratios of the top 10% of firms reveal that the trade sector is the least inequitable followed by the trade and construction sectors. At the other end of the spectrum, the most concentrated sectors based on similar measures are the mining, utilities and manufacturing sectors.

This clearly shows that returns to workers vary depending on the size and profile of the firm employing them, reflecting broader structural inequalities in the labour market These disparities are exacerbated by shortcomings in the consumer welfare standard which overlooks the effects of market concentration, abuse of dominance by few large firms and corporate monopolies, which can disproportionately harm disadvantaged groups.

5.2 Concentration across the Commission's priority sectors

A comprehensive analysis of market concentration across various sectors of the South African economy was undertaken by Buthelezi et al (2019). This study concludes that many South African

economic sectors are highly concentrated, controlled by a few large firms that enjoy dominant firm status. Their analysis focused on the Competition Commissions' priority sectors[3], namely:

(i) food and agro processing.
(ii) infrastructure and construction.
(iii) intermediate industrial products.
(iv) financial services.
(v) energy; and
(vi) information communication technologies sectors.

For their analysis, the authors (Buthelezi et al., 2019) drew on 2 150 merger reports submitted to the Competition Commission between January 2009 and March 2016 to calculate market concentration levels, employing the Herfindahl-Hirschman Index (HHI)[4] and firm market shares. Their approach, based on legally defined markets and verified data from merger filings, provided a detailed snapshot of concentration within defined product markets

The merger reports, that form the basis of the analysis have 44 sectors, of these 31 have a dominant firm with the defined product market (Buthelezi et al., 2019). Hence, 70% of South Africa's economic sectors have a defined market that includes a dominant firm – that is, a firm that has market shares larger than 45% of the total. Table 2 below indicates that the average market share for the dominant firm in each of the defined markets and across the sector is 52.5%. Higher concentration rates are revealed if the sample is restricted to dominant firms – the average market share is almost ten percentage points higher, 62%. Their analysis further reveals that markets across these priority sectors are highly concentrated as indicated by HHIs that are above 2 500.

The financial services sector, that in the post-apartheid era has consistently increased its contribution to GDP, is also the most concentrated – both at the average level (62%) and amongst the sample of dominant firms (69%). An unanticipated finding about the financial services sector is that it has the lowest HHI of all nine priority sectors – it is still concentrated but by the least measure. By contrast the HHIs for information communication technologies and transport reveal that these were the two most concentrated priority sectors in the period under review. These results confirm previous findings on extremely high levels of concentration in ownership in South Africa that listed the mining, utilities and manufacturing sectors as being more concentrated (Hodge et al., 2021).

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[3] These sectors are referred to as priority sectors since the Commission's enforcement and advocacy activities are significantly focused on them since they directly impact on poor consumers, align with the government's growth and development objectives and as they discourage the development of anti-competitive conduct (Buthelezi et al., 2019).

[4] The Herfindahl–Hirschman index (HHI) is one of the most used measures of market concentration. Informing this calculation is the understanding that the behaviour of the industry and its structure are strongly correlated. HHI is calculated by adding up the square of the market share of each firm in the market. For instance, if a given market or sector has three firms with the following market shares: 30%, 45% and 25%, the total HHI for the market is 3 550 ($30^2 + 45^2 + 25^2$). The score of HHI can range from close to 0 (where the market is composed of several firms of almost equal size) to 10 000 where there is only one firm. Often, a score of greater than 2 500 is considered as indicative of a highly concentrated market.

Table 2: Market shares and HHI for priority sectors, 2009 - 2016
Source: Table 1 and 2 from (Buthelezi et al., 2019)

Priority sectors	Average market share (entire sample) (%)	Average market shares (firms defined as presumptively dominant) (%)	Average HHI
Information communication technologies	49.3	55.2	3 539
Energy	50.1	60.8	2 832
Financial services	62.2	68.8	2 788
Food and agro processing	52.9	60.5	2 861
Infrastructure and construction	45.5	52.6	2 859
Intermediate industrial products	51.4	63.3	2 958
Mining	57.1	62.0	#
Pharmaceuticals	52.4	59.6	3 003
Transport	57.1	67.4	3 254
Other	51.8	61.5	2 891
Total	**52.5**	**61.6**	**#**

Notes:

1. *The average figures provided in these samples relate to the period 2009 – 2016*
2. *Column 2 and 3 provided the average market share estimates of dominant firms across identified priority sectors.*
3. *The average HHI column above gives the average HHI in defined markets per priority sector*
4. *# indicates that no HHI was provided for the sector*

On the reason for the observed high levels of market concentration, the authors propose several options and after considered engagement, ultimately concluded that the exact causes are unclear. The considered reasons include:

(i) *Deliberate market conduct by dominant firms.* This is likely given the presence of structural impediments to entry and competition across the productive segment of the economy. It is also possible that firms might have increased their market share legitimately through increased innovation and better prices or quality of products.
(ii) *An uptake in the number of filed mergers and acquisitions*. However, evidence reveals that these are cyclical in nature and distributed across different sectors of the economy – both the concentrated, and the least concentrated ones.
(iii) *Historic privilege that is reinforced in the contemporary era.* The argument here is that firms that received government support during apartheid resulting in larger market power are mostly concerned with safeguarding this market power rather than increasing their investment and productivity levels, and,
(iv) *Increased political influence resulting from market power*. This occurs when firms that have corporate power can finance increased lobbying and engage with government to ensure laws and regulations are made in their favour. Hence, corporate power results in political or other similar power. This heightens inequality between firms as some firms have the power to wield corporate power while others do not. Socioeconomically, this poses a threat to democratic outcomes as few large firms receive increasingly greater power at the expense of other stakeholders.

Although informative, the analysis provided by Buthelezi et al (2019) provide the average market shares and this is condensed into data at a single point in time and this is less instructive on the dynamics of competition across these different sectors over time. The provided values obscure whether the market had a new entrant, if firms exited, the impact of innovation (if any) or any other strategic behaviour. Furthermore, while informative and easy to understand, the simplicity and use of industry-level data to analyse concentration is not without criticism (Buthelezi et al., 2019; CCLE, 2018). First, the measure of whether a sector is concentrated, where a HHI of greater than 2 500 is determined, is arbitrarily set. However, this issue relates to the interpretation of the finding and not the calculation of these HHIs. Second, implied in the calculation is the assumption that the correct market is defined. The determined value remains very sensitive to changes to any shifts in the limit of the relevant product or geographic market. Third, HHIs rely on market share and do not provide additional information on market power as revealed by profitability or mark ups that would be indicative of existing price-based competition within the market. Fourth, in those industries that are dependent on network externalities, a reliance on market shares only might overstate the level of concentration in that sector.

These criticisms do not lessen the importance of the HHI, its usefulness and the information it provides about a market. Instead, it demands a sector-by-sector approach to their interpretation. Also, that it should be relied on together with other measures of concentration to provide a detailed analysis of competition. This emphasises the need to distinguish between broad industries and specific markets, as competition levels can vary significantly across each of these. These suggestions of how to best apply HHI and market shares are suggested by De Loecker et al (2024)

and inform our analysis of the relationship between concentration in product markets and the impact on labour markets. Our approach is discussed in the next section.

6 Concentration in product markets

This study investigates the relationship between industry concentration levels and labour market outcomes—specifically, wages and employment. We extend the analysis undertaken by Buthelezi et al (2019) in the following ways. First, we are utilising publicly available data unlike the confidential information that the authors had in their capacity as competition authority officials which allowed them to calculate an HHI for an entire market or sub-sector. To this end, given our limitation in accessing firm market shares to report on the HHI, in this study we calculate concentration ratios using publicly available data. This method of calculating concentration is widely used and the ratios that more accurately gauge the level of concentration in the market shares of the "Nth" largest companies in the market or industry are used to measure concentration (Hodge et al., 2021a).

Second, since the product and geographic markets do not easily or always chart onto two- or three-level industry codes which might be easier to understand, our study will focus on the industry level and not a defined market. This will also enable us to compare concentration in product markets and observed impacts in a similar labour market. Third, our analysis will include a slightly longer timeline and to the extent the information is available at an annual level, it will be shown. Year on year, concentration might not shift dramatically but dramatic inflection points might still be informative. Finally, as proposed by De Loecker et al (2024), we shall also complement these market concentration indicators with other measures to draw stronger conclusions on the competition dynamics within a given sector or market.

6.1 Data and methodology

The primary sources of data utilised in the analysis are prepared by Statistics South Africa (Stats SA) and the South African Reserve Bank (SARB). From Stats SA, we use information provided in detailed structural industry reports published for 16 VAT-registered sectors. These reports provide concentration ratios for the top 5, top 10 and top 20 firms in the sector (this is abbreviated to CR5, CR20, and CR20 respectively) dating back to 2003, with the most recent data covering the 2018–2022 period for 14 of these sectors. From this broader set, our study selects those sectors that are closes to Buthelezi et al's (2019) work. A reminder that these sectors were selected based on their relative economic importance—measured by their contribution to productivity and their capacity to absorb labour.

A significant limitation of the Stats SA industry reports is their staggered release cycle, typically every 3 to 5 years, owing to the size and complexity of administering the underlying surveys. While this structure allows for a high level of detail—an advantage over many other industry surveys—it poses challenges for time-series comparability, as data are not consistently available for all

industries across all years (see Table 3 below) To address this limitation, the study employs three-year moving averages of concentration ratios to smooth out temporal inconsistencies and enable more robust comparisons over time. However, after this measure, notable gaps remain, particularly in the early years of the analysis. This arises as data were either not collected or not made publicly available. Nonetheless, the availability of more consistent data in recent years reflects progress and offers greater scope for industry-level analysis of market structure and competition

To address the exclusion of certain sectors such as financial services and energy in the structural industry reports, the study incorporates an additional data source - the Annual Financial Statistics (AFS). The AFS report produced by Stats SA provides industry-level estimates of turnover across three business sizes (these correlate with the department of trade, industry and competition revenue cutoffs for small, medium, and large enterprises) across a selection of sectors. This enables us to calculate an alternative estimation of industry concentration based on the distribution of the market share across the three categories of firm size in each industry. Notably, real estate and auxiliary Services are covered in both the AFS and the structural industry reports and thus do not require further supplementation. By contrast, the broader financial services sector is excluded from both datasets. Only a subset of banking activity is captured in the AFS, while segments such as insurance and asset management are omitted entirely. To fill this gap, data from the South African Reserve Bank (SARB) is used to calculate concentration ratios (CR5, CR10, and CR20). Although the SARB data covers only the banking sector, it is used here as a proxy for the broader finance sector. In addition to finance, the utilities sector (electricity, gas and water Supply) is also excluded from the industry reports—likely due to its predominantly public ownership and limited private sector competition, which constrain the applicability of standard market concentration metrics. This combination of sources allows for a more complete assessment of industry structure across key sectors of the South African economy.

For the labour segment of the analysis, we make use of the Post-Apartheid Labour Market Series (PALMS) which is a compilation of microdata from 69 household surveys conducted in South Africa between 1994 and 2019. This time series is then augmented with the Quarterly Labour Force Surveys (QLFS) from 2020 to 2024. Together, these data sources will enable us to document some observed patterns about concentration levels, labour productivity, value added and labour shares across key sectors of the South African economy.

6.2 Findings

A reminder that concentration ratios measure the aggregate market shares of a given market or industry in absolute terms. This is often provided as CR10 for example, to show the proportion of the market supplied by the top 10 largest firms (Buthelezi et al., 2019). Some stylised facts emerge from the concentration ratios over the period 2006 to 2022 – presented in Table 3 and Figure 4 through to Figure 6 in the Appendix.

Firstly, the financial and auxiliary services consistently exhibit extremely high concentration, with CR5 values above 90% and CR20 nearing full market coverage. This reflects a stable oligopoly

dominated by large banking and financial institutions, a trend reinforced by deregulation, capital market liberalisation, and technological advancements over the past two decades. The financial service sector analysis provided above relates to the banking sector and we similarly consider the dynamics of that subsector. South Africa has four dominant banks that enjoy almost total market power, this is the case despite the fact that there are over 17 registered banks (Hodge et al., 2021; Ndamase, 2023). The total value of assets owned by the big four commercial banks and Capitec and Investec, the next two largest in asset value were estimated to total 87.4% in 2019. Two new entrants have entered the market: Tyme Bank and Discovery since November 2018 (Hodge et al., 2021).

Secondly, the retail sector also displays strong consolidation, with CR5 figures hovering around 30% and CR20 approaching 50%, indicating a market led by a small number of dominant national chains. Thirdly, the telecommunication sector shows similarly high but slightly more variable levels of concentration, consistent with capital-intensive growth and infrastructure-driven barriers to entry that favour incumbents. This pattern is evident in multiple competition commission inquiries and merger decisions involving dominant firms such as Telkom, Vodacom, and Transnet, which have historically faced scrutiny for limiting market access to new entrants (Hodge et al., 2021). Despite this continued scrutiny, the mobile market has remained stubbornly concentrated with the top two players, Vodacom and MTN, covering more than 70% of the market which allows them to price independently of other players. This dominance is maintained by some unique features of the market, namely, first mover advantages and high barriers to entry (Hodge et al., 2021). New entrants into the undersea cable network market has resulted in greater competition despite the relatively high levels of concentration in the fibre-to-the-home level as the largest two players, Telkom and Vumatel account for two-thirds of connections in March 2019.

In contrast, sectors such as agriculture, construction, and real estate and auxiliary services show persistently low or declining concentration ratios. Agriculture remains relatively competitive, with CR5 values often below 10% and CR20 below 20%, reflecting the dominance of smallholder producers and a lack of consolidation. Construction and transport sectors demonstrate significant declines in concentration over time—CR5 in transport, for example, fell from 34% in 2006–2008 to just over 20% in recent years, while the CR20 market share declined significantly. These shifts likely result from increasing entry by informal and small-scale firms, enabled by low capital requirements and deregulation, especially in township and rural markets. Policy reforms like liberalisation of the aviation industry, extension of third-party rail access, and broad-based procurement tenders have reduced market concentration. SAA's domestic share dropped from approximately 95% to 10% as low-cost carriers like FlySafair and LIFT entered (Hodge et al., 2021; Paelo and Vilakazi, 2016). In taxi transport, informal minibus operators serve almost 70% of commuters, with added pressure from e-hailing platforms (Walters and Pisa, 2023). In both transport and construction, BBBEE and state procurement have enabled smaller firms to compete with large incumbents (Baloyi and Bekker, 2011).

While falling concentration can signal growing competition, it may also reflect volatility, sectoral churn, and the proliferation of micro-firms operating on thin margins rather than sustained, productivity-driven growth.

Table 3: Levels of concentration across various, 2006 – 2022, %, (CR5, CR10 and CR20)

Source: StatsSA Industry Reports and SARB, 2006 - 2022

CR5 Industry	2006 - 2008	2009 - 2011	2012 - 2014	2015 - 2017	2018 - 2020	2021 - 2022
Agriculture				7.67	8.00	5.00
Automotive	18.90		17.60	15.90	14.00	14.70
Construction	13.10	15.60	13.20	9.80	6.80	
Food and Beverage	13.90	15.00	11.20	10.10	14.20	11.00
Financial Services (Banking)	90.46	91.92	92.03	91.34	91.33	90.62
Manufacturing		13.70	16.20	12.10		12.10
Post and telecoms			59.50	57.20	54.60	55.60
Real estate & auxiliary services		7.60		3.80	8.50	
Wholesale		12.00	10.60	11.00	8.80	9.80
Retail		30.70	32.00	31.30	31.30	29.50
Transport and Storage	34.40	28.90	27.10	22.50	20.30	
CR10	**2006 - 2008**	**2009 - 2011**	**2012 - 2014**	**2015 - 2017**	**2018 - 2020**	**2021 - 2022**
Agriculture				11.67		8.00
Automotive	26.30		23.20	21.00	18.90	20.90
Construction		36.10	40.60	25.10	32.60	
Food and Beverage		20.00	16.10	15.20	19.60	15.50
Financial Services (Banking)				96.78	96.92	97.14
Manufacturing	25.00	22.90	25.90	20.90		21.00
Post and telecoms			74.20	73.10	69.20	70.50
Real estate & auxiliary services				6.10	10.40	
Wholesale		16.20	14.70	14.70	12.00	13.90
Retail		40.00	41.00	42.30	41.50	41.20
Transport and Storage	43.40		34.70	29.70	27.60	
CR20	**2006 - 2008**	**2009 - 2011**	**2012 - 2014**	**2015 - 2017**	**2018 - 2020**	**2021 - 2022**
Agriculture				16.33	16.00	12.00
Automotive				26.60		27.60
Construction	19.70		25.00	19.30	13.90	
Food and Beverage	24.20	25.70	22.10	21.40	26.80	20.80
Financial Services (Banking)	99.38	99.56	99.51	99.21	99.31	99.41
Manufacturing	36.00	32.00	37.00	30.30		31.00
Post and telecoms			86.60	85.90	80.40	82.20
Real estate & auxiliary services		14.90		9.40	13.10	
Wholesale		21.60	19.10	18.70	15.90	19.30
Retail		47.70	49.00	49.60	51.10	49.50
Transport and Storage	51.10	64.00	43.70	38.60	35.80	

Notes:

1. *CR5 refers to the concentration ratios of the largest 5 firms in that industry, CR10 refers to the concentration ratios of the largest 10 firms and CR20 refers to the concentration ratios of the largest 20 firm. These values are provided as an average over a rolling three-year period*
2. *Blanks indicate there was no data collected for that sector in the indicated period*

Data on the turnover by firm size further illustrates the structural imbalances and emerging shifts across industries (Figure 3 below).In all sectors, large firms maintained a market share of larger than 45%, meaning there was at least one or two dominant firms in that sector. In financial services, large firms have retained a dominant market share of around 50–55% throughout the period, with small firms holding about 38–40%. This stability underscores the entrenchment of the few incumbent firms, and the challenges newer entrants face in scaling up under stringent regulatory and capital requirements (Hodge et al., 2021). Similarly, in retail and trade, large firms remain dominant, although small businesses have made some gains — peaking at over 31% in 2021 — before declining slightly. This suggests healthy churn and potential for competition, although the long-term viability of small firms often depends on consumer income levels and vulnerability to economic shocks.

Figure 3: Market share of specialised industries by firm size, 2006 -2023 (%)

Source: Annual Financial Statements

	Firm size	2007	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Forestry and fishing	Large	87.4	84.5	84.6	75.2	77.6	90.1	90.8	89.4	86.7	87.4	86.4	87.5	83.3	82.6	82.1	81.2	83.9	85.9
	Medium	6.5	1.5	3.4	5.8	7.2	3.6	3.1	4.2	4	3.9	2.9	4.6	4.4	4.9	5.5	5.7	5.5	4.9
	Small	6.1	13.9	11.9	18.9	15.2	6.3	6.2	6.4	9.3	8.6	10.7	7.9	12.4	12.5	12.4	13.1	10.6	9.1
Mining and quarrying	Large	97.2	97.1	97.5	98.4	95.4	97.4	97.3	96.7	96.1	95.7	95.3	94.6	93.5	94.8	94.19	94.9	95.5	94.9
	Medium	1.8	1.5	1.6	1	2.5	1.7	1.8	1.9	2.4	2.9	2.7	3.1	3.9	3.3	3.89	2.9	2.6	3.1
	Small	1.1	1.4	0.9	0.6	2	0.9	0.9	1.4	1.5	1.4	1.9	2.3	2.6	1.9	1.92	2.1	1.9	1.9
Manufacturing	Large	81.3	80.8	85.7	80.6	77	81.6	82.6	81.2	79.5	79.2	77.3	76.3	75.3	75.4	74.8	72.9	74	75.1
	Medium	9.1	8.7	8.8	13.9	12.3	9.7	9	9.4	10.1	9.9	10.7	10.6	11.1	11.3	11.2	11.9	11.5	11.3
	Small	9.6	10.5	5.5	5.5	10.7	8.6	8.36	9.4	10.4	10.8	12.1	13.1	13.6	13.3	14.01	15.2	14.5	13.6
Construction	Large	61.4	57.7	58.4	71.8	67.9	57.5	64.6	60.5	53.3	54.2	49.8	46.4	48.3	42.6	38.8	36.4	36.2	37.6
	Medium	20.8	20.9	20.4	20.9	14	23.5	17.6	22.2	26.1	22	24.9	23.8	22.3	23.5	25.2	24.3	21.7	21.9
	Small	17.8	21.3	21.2	7.3	18	18.9	17.8	17.3	20.6	23.8	25.3	29.8	29.5	33.9	35.9	39.4	42.2	40.4
Trade	Large	70.1	69.9	69.5	70.9	66.5	65.8	67.3	65.5	59.8	62.7	59.4	59.5	60.1	61.9	59.89	59.9	60.5	63.9
	Medium	8.9	8.7	9.2	8.5	10.5	13.2	10.8	10.5	10.5	10.3	10.9	10.6	9.9	10	9.5	8.8	9.1	9.2
	Small	21	21.3	21.3	20.5	23	21	21.9	24.1	29.7	26.9	29.7	29.8	29.9	28	30.7	31.28	30.4	26.9
Transport, storage and communication	Large	91.3	89.1	90.8	93.1	89.3	89.7	89.8	88.6	84.6	84.3	84.8	84	82.1	80.4	80.9	76.9	79.2	78.1
	Medium	2.8	2.1	2.9	2.8	3.9	4.1	3.8	4.1	4.5	5.2	4.6	4.87	5.5	5.81	6.1	6.3	6.7	6.5
	Small	6	8.7	6.3	4.1	6.8	6.1	6.3	7.3	10.9	10.6	10.6	11.11	12.5	13.78	12.9	16.8	14.1	15.4
Activities auxiliary to finance, real estate and other services	Large	50	52.4	51.6	74.1	56.2	61.4	66.7	61.9	55.7	56.7	56.3	54.2	51.6	49.7	54.5	53.7	53	51.3
	Medium	11.1	7	7.7	7.7	9.8	15.3	9.3	8.7	8.6	8.4	9.5	10.6	9.5	8.5	9.4	8.9	8.5	10.5
	Small	38.8	40.7	40.7	18.1	33.9	23.3	23.9	29.4	35.7	34.9	34.3	35.3	38.9	41.9	36.1	37.4	38.5	38.2
Community, social and personal services	Large	67.3	68.4	64.5	73.9	65.1	63.4	70.6	63.9	60.4	62.2	62.8	59.89	59.8	56.6	58.7	56	59.6	71
	Medium	7.4	5.7	6.5	6.2	6.5	10.9	6.9	6.3	6	5.9	6.2	6.83	6.6	7.5	6.8	7.3	5.2	4.7
	Small	25.3	25.9	29	19.8	28.5	25.7	22.4	29.8	33.6	31.9	31	33.28	33.6	35.9	34.5	36.7	35.2	24.3
All industries	Large	74.7	74.6	75.8	78.7			76.7	74.6	70.4	71.4	69.1	68.4	67.9	67.9	67.6	67	68.1	69.4
	Medium	8.6	7.8	8.1	9.5			8.8	8.9	9.5	9.3	10	10	9.7	9.7	9.6	9.3	9	9.3
	Small	16.7	17.7	16.1	11.8			14.5	16.4	20.1	19.3	20.9	21.6	22.4	22.3	22.8	23.7	22.9	21.2

Meanwhile, construction and transport show more dramatic transformations. The market share of large firms in the construction sector fell from over 70% in 2009 to just 36% in 2023, while small firms surged above 40%, indicating significant entry by smaller players. The construction sector is one of the sectors that had a large share of SME firms enter the market over the 2011 – 2016 period (Hodge et al., 2021). Financial difficulties in the sector have seen several large firms apply for business rescue while others have shut down and exited the sector. This has affected the number of firms still operational which will impact concentration ratios. This is borne out in Table 3 that shows the CR5 between 2006 and 2022 declined from 13.5% to 6.8%. The share of turnover attributed to these large firms also contracted by almost 50%. Mergers in the construction sector have been mostly vertical and have not resulted in significant changes to overall competition (Hodge et al., 2021).

A similar trend is seen in transport, where large firms' dominance declined from 93% in 2009 to 78% by 2023, as smaller logistics providers and informal operators gained ground. In agriculture, small and medium-sized firms have consistently held substantial market shares, reinforcing the sector's competition dynamics and low barriers to entry. Across these industries, the rise of small firms reflects a mix of opportunity and necessity—some driven by entrepreneurial activity, others by limited formal employment options. However, while the diversification of firm size structures may suggest more inclusive participation, it also raises concerns about the scale, productivity, and sustainability of many new entrants in the absence of stronger support mechanisms and structural reforms. The South African transport sector comprises of various subsectors: automotive, air, rail, bus, minibus and e-hailing service providers. However, market competition is mostly present in the air transport and automotive segments of the market. Liberalisation and deregulation of the global airline industry has resulted in greater competition in the airline sector. Post Covid-19, there have been further shifts as the major player, SAA has been grounded, a new player has entered the market (LIFT), another coming out of business rescue (Comair) and another was liquidated (SAX). The automotive sector consists of a manufacturing segment, an active retail sector selling both locally produced and imported cars and independent aftermarket sellers.

Overall, these findings corroborate the findings of Buthelezi et al (2019) whose work revealed that by market share, the financial services sector, communications (ICT) and transport were the least competitive. We do not have data for the mining sector, but their work also shows increasing concentration within the sector. Both studies also show that the construction sector is by far the least concentrated. The CSP sector and business services sub-sector are also fairly equitable in their concentration levels.

6.3 Concentration and the Labour Market

It is a well-established fact in the literature that workers' wages and well-being correlate with the characteristics of their employer, their individual skills and characteristics notwithstanding (Abowd et al., 1994; Bassier, 2019; Bassier and Gautham, 2025; Bell and Tomlinson, 2018; Card et al., 2018; De Loecker et al., 2024). Firm inequality when driven by concentrated market power could have significant implications for the labour market argues Eeckhout (2024). Larger and more productive

firms pay workers higher wages as they enjoy cost savings that are unrelated to their production costs or other efficiencies. This will result in greater dispersion between firms as their productivity varies so widely and as wages paid to workers also shift significantly resulting in higher overall income inequality (Blundell, 2024; De Loecker et al., 2024).

The rise in both the level and dispersion of firm markups can contribute to growing inequality, as it often signals that a larger share of productivity gains and economic rents is accruing to owners of capital rather than being distributed to employees and other stakeholders (Blundell, 2024; De Loecker et al., 2024). Typically, these owners of capital are better off than workers, which further exacerbates inequality. Furthermore, where firms reward a small number of their most senior employees significantly more than the remaining share of employees, then income inequality will be high as better skilled, often older and more experienced individuals earn more than other workers (Blundell, 2024).

If some firms are more successful than others, perhaps because they are more innovative or due to some other monopoly power, then their employees and shareholders may enjoy better welfare at the expense of consumers. If overall firm productivity is declining, then wage growth is likely to stall (Blundell, 2024). Therefore, understanding how business structures have evolved may help us understand broader questions of what is happening to the economy and how it affects people (Bell and Tomlinson, 2018; Blundell, 2024; De Loecker et al., 2024).

The study of the relationship between rising concentration and wages or changes to labour market power remains relevant in the South African context where the returns to growth have centred among a handful of individuals or groups, resulting in high and rising inequality (Hundenborn et al., 2018). To this end, it is worth studying the extent to which concentration trends in product markets are reflected or replicated in labour markets and the implications of this for the broader economy (Bell and Tomlinson, 2018). Therefore, in this section of the report, we shift focus to look at labour market outcomes like, markups, labour productivity and labour shares in very concentrated sectors and those that are less so.

6.4 A summary of previous work relating the product market and labour markets in South Africa

Recent firm level analysis of the relationship between wages and firm characteristics have relied on anonymised employer-employee National Treasury Tax data available for the period 2008 - 2022. We briefly summarise some of the more relevant work here.

Recent work (Bassier, 2023, 2021; Bassier and Gautham, 2025; Budlender and Bassier, 2023) explored the role of firms and central bargaining councils - key institutions that govern the wages and flows of workers - on wage levels. Bassier's (2021) study implemented a stacked event-study designs to study the dynamic effects of extending bargaining councils to majority of workers. His findings reveal that large, negotiated wage increases in firms bound by minimum wage legislations will directly affect wages and employment for workers employed at these firms. Furthermore, the

interconnectedness of the labour market, means that these effects will also spillover into those firms, or sectors, not bound by such legislation (Bassier, 2021). An event study design was implemented by Tan (2021) to study the impact of the 50% minimum wage hike in the South African agricultural sector on the outcome of downstream firms. His analysis reveals that both labour costs and prices increased for downstream firms, the overall impact varied based on how much upstream exposure they faced and the size of the firm.

How do firms respond when faced with increasingly favourable demand conditions ask Budlender and Bassier (2023)? Do they fully absorb these returns as rents, or do they endeavour to share these with their workers through increased wages and what is the impact of either option on employment levels within a context where some firms are bound by sectoral determinations (legislated wage floors) and others are not? To answer this question, they rely on the Ludvigson, Ma, and Ng (LMS) firm-level event study analysis that observes the impact of a shock or treatment at the firm-level. Their findings support their hypothesis, namely, to expect heterogeneity in responses as "lower-productivity, supply-constrained minimum-wage bound firms will absorb revenue productivity shocks as excess profits per worker instead of increasing wages and employment, unlike demand-constrained or unconstrained firms." (Budlender and Bassier, 2023, p. 17)

Within South Africa's context of high structural unemployment and inequality, Bassier (2023) finds that relative to richer countries, firms in South Africa explain a large share of wage variation. His analysis relies on the Abowd, Kramarz and Margolis (AKM) wage equation which decomposes the workers wage into firm effects and worker effects. He then proposes a framework to identify and supply evidence on which of these sources of variation matter within the context of the South African labour market. Foster (2023) relies on a similar methodology to investigate the contribution of firm characteristics in driving up wage inequality in the South African labour market. The analysis includes worker- and firm-characteristics and concludes that within and between firm heterogeneity for characteristics such as firm size, profitability levels, domestic or foreign incorporation status contribute to a significant share of observed wage inequality.

Fedderke and Hill (2011) link labour market characteristics with the structure of the output markets and use this relationship to identify the extent of inflexibility in sectoral labour markets. Underpinning this work is the assumption that those sectors that have market power or a dominant firm, can pass on costs to consumers, increasing the bargaining power of labour and therefore decreasing the variability of the employed labour. It is important to bear in mind that their findings cannot be replicated to all industries as their analysis of the markup of prices over marginal costs was performed on the manufacturing sector and each of its 28 sub-sectors albeit for a longer period, 1970 – 2004. Their analysis suggests a relationship between rising pricing power in the manufacturing sector as evidenced by aggregate markups of approximately 50% over the period under review. The analysis of individual sectors reveals strong variation in the magnitudes and trends of mark-ups at the sectoral level. Relating to time, it is observed that between 1970 and 1980, these markups fell before rising again in the post-1994 liberalisation era. By extending the markup analysis, Fedderke and Hill (2011) also measure the ease with which businesses can switch between

capital and labour costs. Their study reveals that of the total labour employed in the manufacturing sector, approximately two-thirds is associated with rigidities that impose limits on the employer's ability to vary employment or wage level. Labour flexibility, that decreased in the 1970s and 1980s is observed to have increased in the democratic era which follows the introduction of legislation to correct for discriminating behaviour in the labour market.

Kreuser et al (2024) estimate structural, material and labour markups for the South African economy at the three-digit industry level for the period 2012 to 2019. Their work seeks to provide evidence of the extent to which changes in the ownership structure influence welfare reducing trends in the South African economy. In particular, they study the relationship between mergers and recent markup trends in order to identify the types of mergers that further concentrate market power and the specific channels through which the pressure is exerted. Altogether, their results imply that markups in the average industry are falling, while markups in the economically larger sectors remain stable. This study reveals a generally positive association between both labour and structural markups. Mergers approved under conditional terms are linked to declining labour markups and rising structural markups when observed over a three-year rolling period. In contrast, mergers approved without conditions tend to produce sharp increases in labour-based markups. These findings imply that firms are more likely to extract economic rents in contexts where it is easiest. Furthermore, their analysis indicates that large-scale mergers predominantly influence overall markup trends, with vertical mergers playing a particularly significant role in driving growth in materials markups.

With specific regard to gender pay inequality in the formal sector, Bassier and Gautham's (2025) analysis reveals that while women are as equally likely as men to move jobs, from one employer to the next, men are significantly more likely to seek employment in higher paying firm. As a result, this increases the pay gap between the genders and across firms over the life cycle of their employment. Their analysis shows that the gender pay gap persists as women enter formal employment in lower paying positions and then amplified as fewer of them move towards higher-paying firms.

Conclusion

The work summarised in this section highlights the critical role of firm level characteristics in shaping wage outcomes and overall labour market inequality in South Africa. the findings also reveal a strong link between product market concentration and labour market outcomes. In sectors with dominant firms or high markups, employers often have greater pricing power, which can translate into reduced wage flexibility and greater inequality. Conversely, sectors with more competitive dynamics may offer better wage dispersion and mobility, though this is also mediated by institutional factors like bargaining councils and wage legislation.

Moreover, the evidence suggests that mergers and ownership structure play a pivotal role in shaping both structural and labour markups, with implications for economic rent extraction and

worker compensation. Gender disparities in wage progression further highlight the need for policies that address mobility barriers and firm-level wage-setting practices.

Generally, while firm-level data provides valuable insights into wage inequality and market dynamics, a more comprehensive understanding requires integrating informal sector data, longitudinal analysis, and cross-sectoral comparisons to fully capture the interplay between product market concentration and labour market inequality. This section begins to do this by comparing labour productivity, value added, profit and markups between the concentrated sectors highlighted previously (finance – banking services, transport and communication) and the sectors that are less concentrated (construction, CSP, wholesale trade and business services).

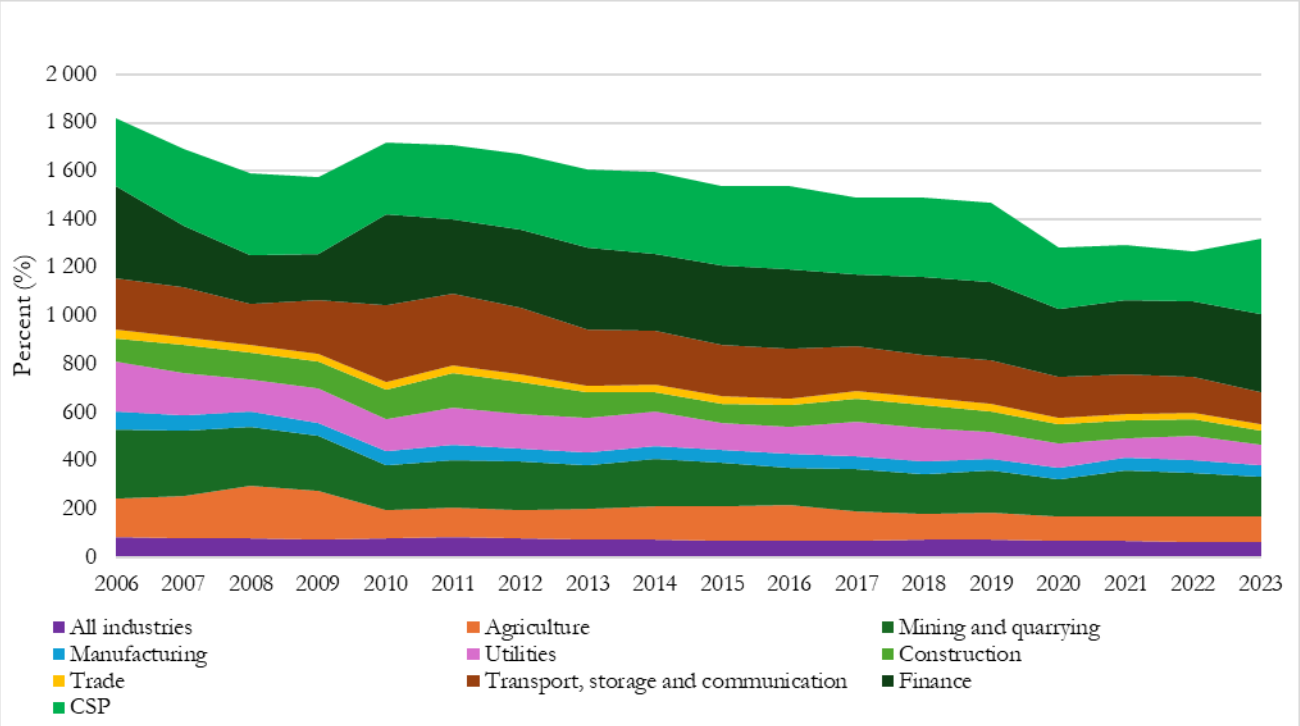
Aggregate markups by sector

The literature of markups in South Africa is dominated by work on the manufacturing sector and its subsectors showing that at the three digit data level, the sector is highly concentrated and has high markups (Aghion et al., 2008; Fedderke et al., 2006; Fedderke and Szalontai, 2009; Fedderke and Hill, 2011; Holden, 2001; OECD, 2008). Markups in South Africa's manufacturing industry are higher than they are in similar countries globally (Aghion et al., 2008). However, recent literature on the growth of markups in South Africa reveals mixed findings varying significantly based on the underlying variables used and the method of analysis (Budlender, 2019; Kreuser et al., 2024).

Budlender (2019) provides an extensive overview of the South African literature, and presents new evidence on the distribution of firms, levels of industrial concentration and the distribution of firm level-markups. He relates these three factors in a regression framework and shows that the level of markups is correlated with the methods used – generally low when accounting markups are calculated, and higher if structurally estimated markups are provided. His analysis also highlights the difficulty of drawing meaningful conclusions on concentration from cross-industry studies and that while the National Treasury tax data allows for greater understanding of firm dynamics, it is not without other limitations. A surprising finding from Budlender's (2019) analysis is that the distribution of firm size in South Africa is quite closely approximated by a lognormal distribution rather than the hypothesised rightly skewed distribution.

We have previously highlighted the difficulty with calculating aggregate markups. Namely, that it is difficult to attain accurate prices information for multiple products, coupled with the fact that marginal costs are also difficult to estimate. An alternative method of measuring aggregate markups is using cost of goods sold (COGS). Armed with turnover values by sector and estimated gross profit margins for the different sectors, we estimated a COGS value that was then used to calculate markups across the different sectors. This is summarised below.

Figure 4: Estimated markups by sector, 2006 - 2023 (%)
Source: StatsSA Annual Financial Statements, SARB National Accounts



Manufacturing Production and Sales, consistent with prior literature (Aghion et al., 2008; Fedderke et al., 2006; Budlender, 2019), continues to exhibit persistently high markup levels throughout the period, despite showing a gradual downward trend from 70% in 2006 to 47% in 2023. This confirms the entrenched market power of dominant firms in the sector, which is well-aligned with the high levels of concentration observed at the 3-digit SIC code level. In contrast, agriculture, construction, and CSP services exhibit both low and stable markups—fluctuating between 25% and 100%—suggesting relatively competitive dynamics, fragmented market structures, and limited pricing discretion.

A sector of particular interest is finance, which consistently displays some of the highest markup levels (ranging from 382% in 2006 to 321% in 2023). These trends corroborate the high concentration ratios seen in this sector (CR5 > 90%), and echo findings from Hodge et al. (2021) and Ndamase (2023) that point to oligopolistic dominance by a few large banks. The introduction of new entrants like TymeBank and Discovery has not materially dented this pricing power, suggesting structural barriers—such as high fixed costs, switching frictions, and regulatory capture—continue to insulate incumbents.

Interestingly, telecommunications and transport sectors show more variability in markups over time, with visible declines after 2016. This likely reflects the impact of new competition in broadband and e-hailing markets, where state liberalisation and digital disruption have enabled entry. For example, the market share of dominant incumbents like SAA and Telkom has eroded due to low-cost carriers and private network operators. Despite high CR20 levels, markup compression in these sectors may indicate increased competitive pressure without a full shift in concentration—a

decoupling that mirrors Budlender's (2019) caution around interpreting concentration as a static proxy for market power.

The decline in aggregate markups (from 81% in 2006 to 61% in 2023) suggests a broader reduction in average firm-level pricing power across the economy. However, as the literature cautions, aggregate figures can obscure intra-sectoral disparities and compositional shifts (Fedderke & Szalontai, 2009; Kreuser et al., 2024). For example, Community, Social, and Personal services, while generally considered less concentrated, have shown a strong rebound in markups post-2020, possibly reflecting consolidation post-COVID or shifts in service pricing. Thus, rather than interpreting markup compression as a definitive sign of increased competition, it is essential to consider sector-specific contexts—including state procurement frameworks, technological disruptions, and demand shocks—that shape pricing power.

Finally, these findings reaffirm the theoretical expectation that high concentration correlates with higher markups, but not uniformly so. Some high-concentration sectors (like retail and transport) show relatively stable or falling markups, likely due to demand-side pressures or regulatory interventions. Conversely, sectors with persistently low concentration—such as agriculture—maintain low markups, indicating limited capacity for firms to extract economic rents above cost. This sectoral variation supports Budlender's (2019) conclusion that meaningful analysis of markups must incorporate both firm-level and structural dimensions, including entry barriers, demand elasticities, and firm productivity levels.

Labour productivity growth

Labour productivity, defined as the ratio of economic output to labour input (such as hours worked or number of workers), is a key indicator of how efficiently labour is being used in an economy. A higher labour productivity value indicates that workers are producing more goods and services per unit of labour, which often reflects improvements in technology, worker skills, or organizational efficiency (OECD, 2022). This metric is crucial for understanding the potential for economic growth, as it allows economies to expand without necessarily increasing the number of workers or working hours. It also helps identify which sectors are performing well and which may require policy intervention or investment to boost efficiency (World Bank, 2021).

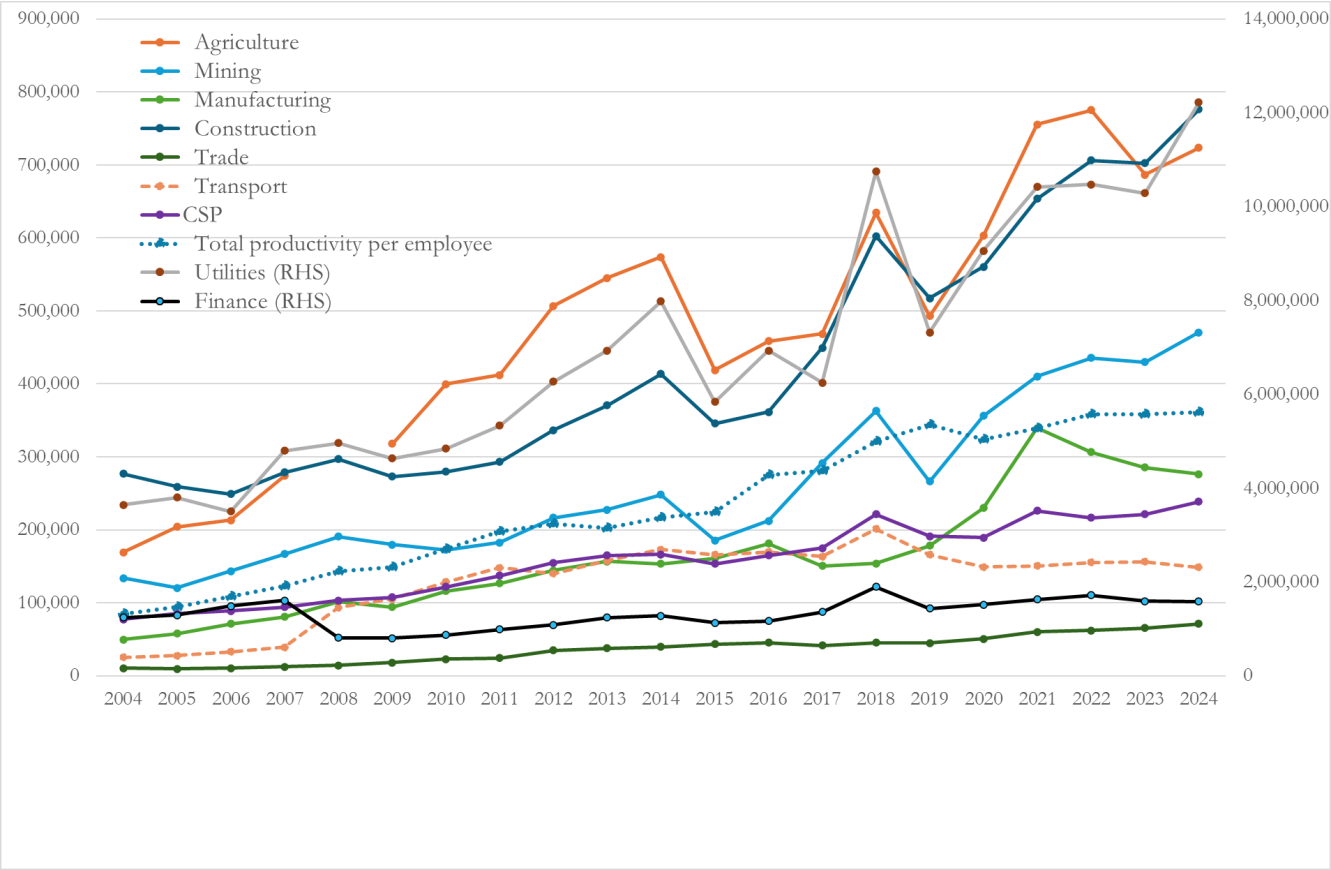
Beyond efficiency, labour productivity has broader implications for national competitiveness and living standards. Economies with high productivity are better positioned in global markets, as they can produce more with fewer resources. Over time, sustained productivity growth tends to lead to higher wages and improved living conditions, provided that the gains are equitably distributed

Globally, there was a slowdown in labour productivity until just before the global financial crisis, thereafter, it contracted and remained significantly low estimates the World Bank (2021). Various reasons are cited for this contraction, a non-exhaustive list includes: technology-driven gains in productivity that has displaced workers in the short-run, a slowdown in the reallocation of labour between sectors as workers reallocate toward high-productivity sectors and slower recovery from

shocks like the Covid-19 pandemic and other crises (World Bank, 2021). How does South Africa's performance compare? We present and discuss our findings below.

The best measure would be to divide the value added by the number of hours worked, since we do not have hours worked data, we used the second-best measure which is to express the total value add per number of employees. Once more, this is undertaken overall and at the sectoral level (Figure 5).

Figure 5: Labour productivity by sector, 2004 – 2024 (%)
Source: SARB Statistical Bulletins (2004 – 2024), Stats SA LFS and QLFS.



Off a low base, we observe increases in overall efficiency as measured by trends in labour productivity over time. Sectors such utilities and finance (read off the right-hand axis) saw significantly large increases in their labour productivity. These changes were cyclical in nature but mostly driven by higher growth in the value-added figures compared to employment levels. Average wages (not shown) in these sectors have also remained consistently high. This is contrasted with the trade and transport sectors where labour productivity is low. In the case of trade, this might be attributed to the large number of informal or unskilled workers selling low value goods which would cause their labour productivity to remain low.

What we cannot observe from this high level of the data is the level of variation within the sector with regards to labour productivity? How do the top 5% of companies with the highest labour productivity compared to the rest or indeed the bottom 5%? Just as we compared the turnover

across three firm sizes, it would be informative to bring in the firm's size into the analysis on labour productivity. This would allow us to calculate the dispersion of labour productivity across these firm characteristics.

Labour shares

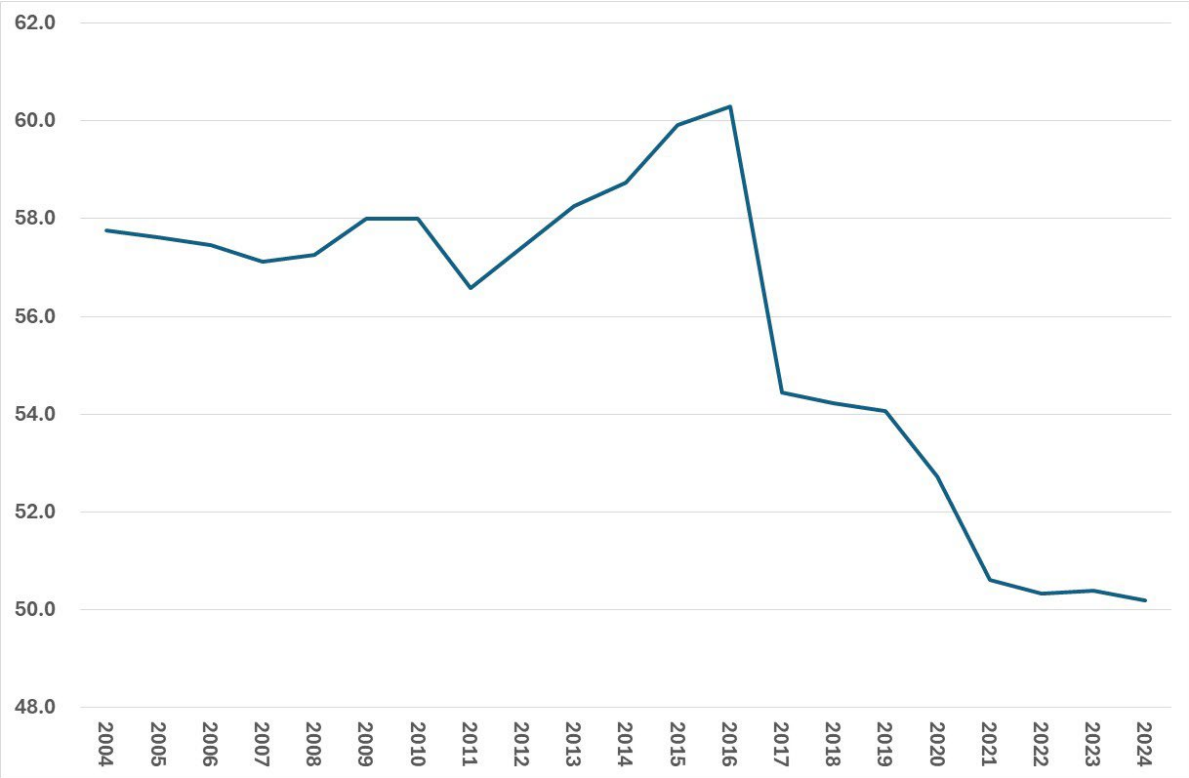
Studying the evolution of changes to labour's share of output is informative. First, it allows us to determine how equitably gains from growth are shared between capital and labour. Globally, labours share has declined driven by a combination of the following factors: increased automation, globalisation and the shifting of jobs to lower cost production centres, weakening trade unions, stagnant wages and increasing concentration (Autor et al., 2020; De Loecker et al., 2024; IMF, 2017). Falling labour shares are indicative of contracting wages, employment levels or both. Second, the distribution of capital income and other forms of wealth is more unequal than that of other forms of income. Falling labour shares will have significant household effects (De Loecker et al., 2024). Finally, stable labour shares are indicative of long-run economic growth. Wage growth tends to weaken as productivity growth contracts this is so because the overall profitability of the firm and its ability to increase wages paid to workers depends on the trend in the labour productivity growth (IMF, 2017).

In our analysis, we assume that technology and the employers labour market power is constant and thereafter proceed to determine how much the labour share has changed as markups have also changed. This follows a similar analysis to De Loecker et al (2024).

We estimate labour shares by expressing compensation of employees (COE) as a share of value added, overall and for each of the sectors. We use two different data sets to calculate this, at the overall level, we rely on the SARB compensation figures. The value of COE has contracted but by a smaller proportion than the value added and real GDP in the period under review. With the COE, we note significant increases in the overall value peaking in 2015 and then steadily declining thereafter. This might be attributed to the extension of an attractive wage agreement to government workers in a bid to professionalise the civil services sector and to attract better skilled workers (Sachs et al., 2024).

In keeping with global trends, we observe that the labour share in South Africa has steadily declined as growth in the level of total compensation costs and the value added have also varied. Overall, the value added has grown by a higher rate than compensation of employees. This is indicative of unequal returns in the sharing of productivity gains between owners of capital and labour – which is a key driver of deepening inequality, between- and within-countries. In the case of this study, it is also a reflecting of deepening concentration in those specific sectors.

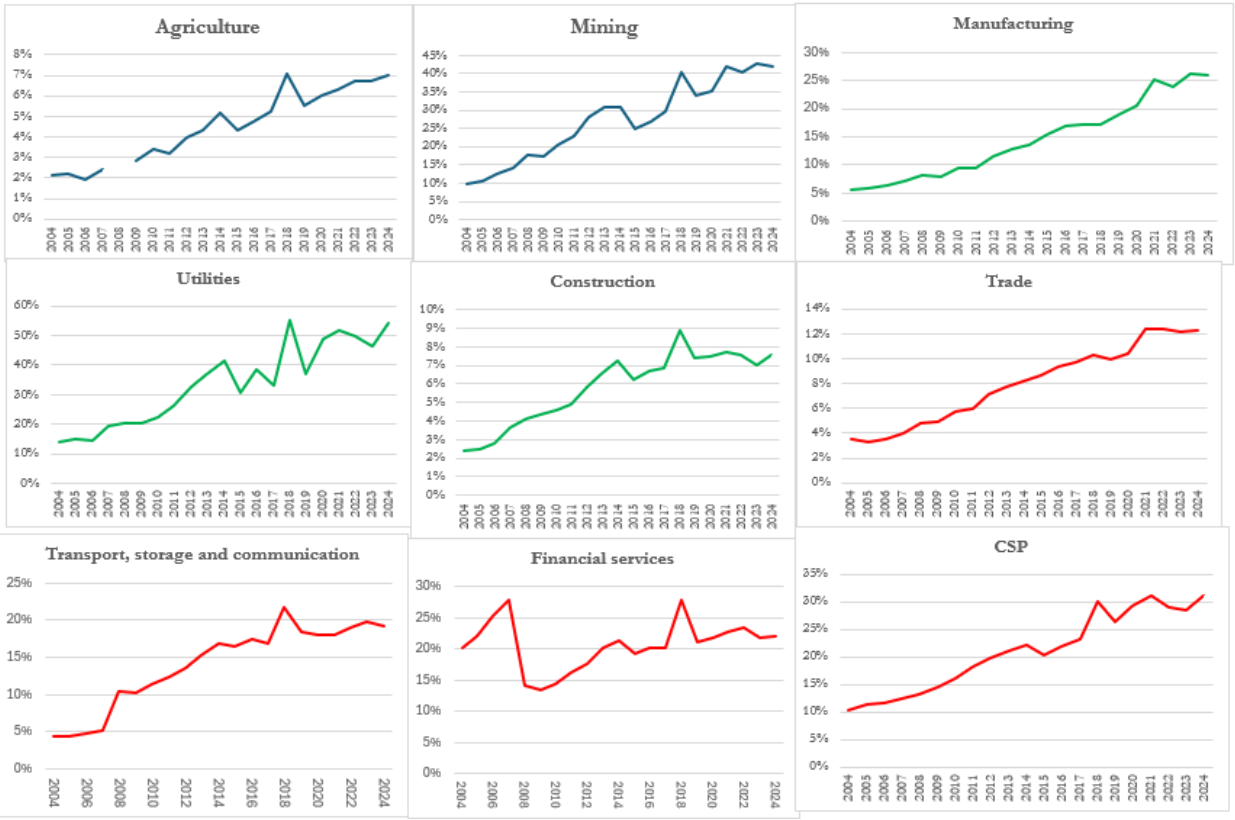
Figure 6: South Africa Labour Share, 2004 – 2024 (%)
Source: SARB Statistical bulletins, 2004 - 2024



A second dataset generated by StatsSA is relied upon to calculate sectoral-level labour shares. The SARB dataset includes all payments made to employees, namely, salaries, bonuses and other benefits, this is not available across the sectors which necessitates augmenting out analysis in this way. StatsSA provides the cost of salaries only and these figures and it is unclear whether other benefits are also measured. Hence, despite a declining overall labour share, it is unexpected that most of the sectoral level information shows modest to large increases. Therefore, in classifying the sectors with the largest or least change to the labour shares, we will be referring to the overall value of change. For example, utilities, mining and finance and allied services were the three largest sectors whose labour shares have experienced the highest levels of growth. These sectors are more capital intensive than others and are characterised by increasingly large demand for skilled labour which might increase inequality as a few workers are employed at these sectors and receive high remuneration for their work – both in salaries and other kinds of benefits.

Those sectors that saw the least overall increases were construction, agriculture and trade. Our previous analysis of concentration ratios shows that construction and agriculture were sectors identified as being the least concentrated – overall and by firm size. Trade that was highly concentrated, especially retail trade, appears to be more equitably sharing the returns to growth with workers as indicated below. Furthermore, these sectors have maintained their share of employment or seen modest increases over time as they are able to absorb labour regardless of skill level.

Figure 7: Labour Shares by Sector, 2004 – 2024 (%)
Source: StatsSA Statistical Bulletin (2004 – 2024) and SARB Statistical Bulletins (2004 – 2024)



7 Conclusion

This research paper provides a comprehensive analysis of how firm structure and market power shape inequality in South Africa, particularly through their effects on the labour market. It introduces the concept of pre-distribution, which focuses on altering the structural conditions of the economy—such as ownership patterns, market concentration, and firm behaviour—before income is distributed through taxes and transfers. The report argues that inequality is not only a result of post-tax income disparities but is deeply embedded in the organisation of production, market dynamics, and institutional arrangements. By focusing on firm-level characteristics and sectoral concentration, the report highlights how dominant firms can extract rents, suppress wages, and limit economic participation, thereby entrenching inequality.

Empirical findings from the report show that high levels of concentration persist in key sectors such as finance, telecommunications, and manufacturing, while sectors like construction and agriculture are more competitive. These concentration patterns correlate with labour market outcomes: sectors with higher concentration tend to have higher markups, lower labour shares, and greater wage inequality. Conversely, sectors with lower concentration show more equitable wage distribution and greater participation by small and medium enterprises. The report also finds that labour productivity growth has been uneven, with capital-intensive sectors showing gains

while labour-intensive sectors lag behind. This divergence further exacerbates inequality, as productivity gains are not equitably shared with workers.

The report concludes that competition policy must evolve beyond the narrow consumer welfare standard to address broader distributional concerns. South Africa's Competition Act already includes public interest provisions, but these need to be more systematically applied to tackle entrenched market power and promote inclusive growth. The findings suggest that market structure reforms, support for small firms, and labour market interventions—such as wage floors and increasing worker voice and participation are essential to reduce inequality. A more holistic approach to competition policy, one that integrates economic efficiency with social justice, is necessary to reshape South Africa's economic landscape.

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ANNEXURE

Figure 8: Market concentration of the top five firms (CR5) across selected sectors, (%)
Source: StatsSA Industry Reports and SARB (2006 – 2022)

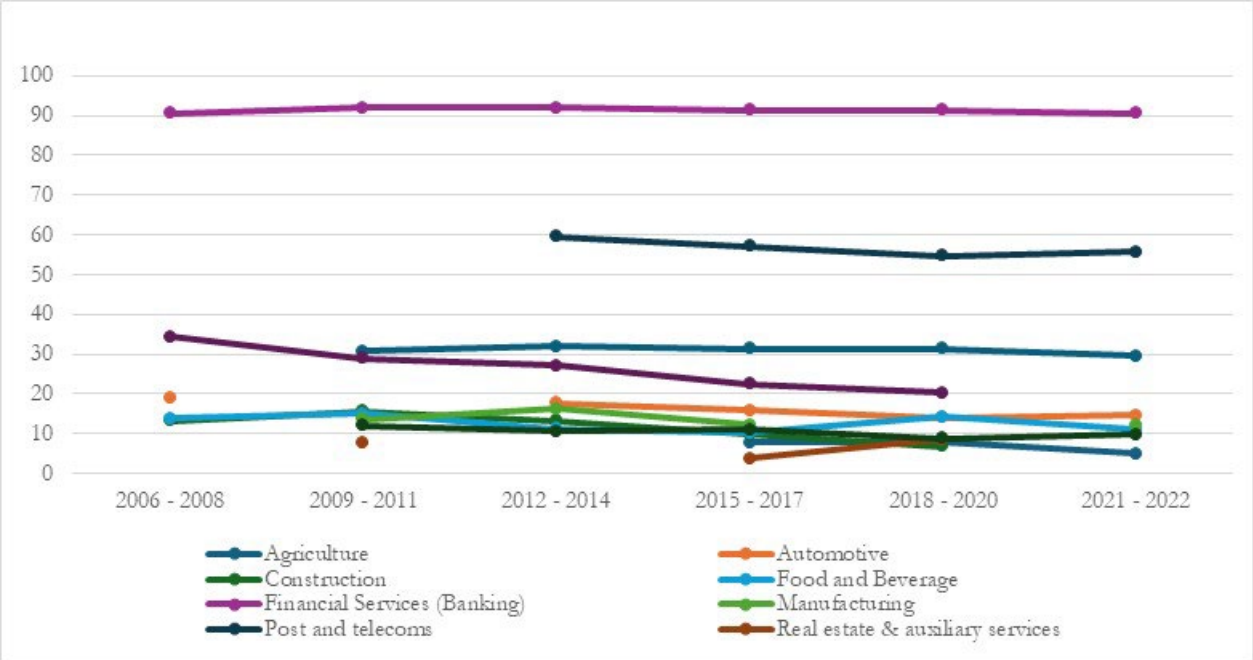


Figure 9: Market concentration of the top five firms (CR10) across selected sectors, (%)
Source: StatsSA Industry Reports and SARB (2006 – 2022)

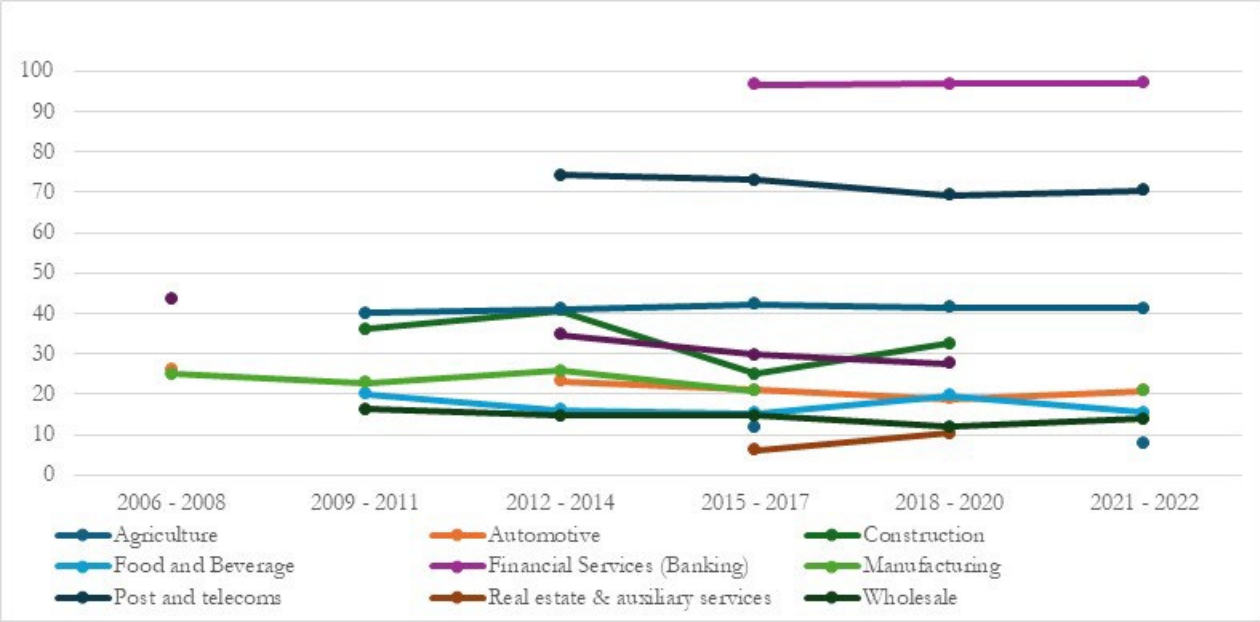


Figure 10: Market concentration of the top five firms (CR20) across selected sectors

Source: StatsSA Industry Reports and SARB (2006 – 2022)

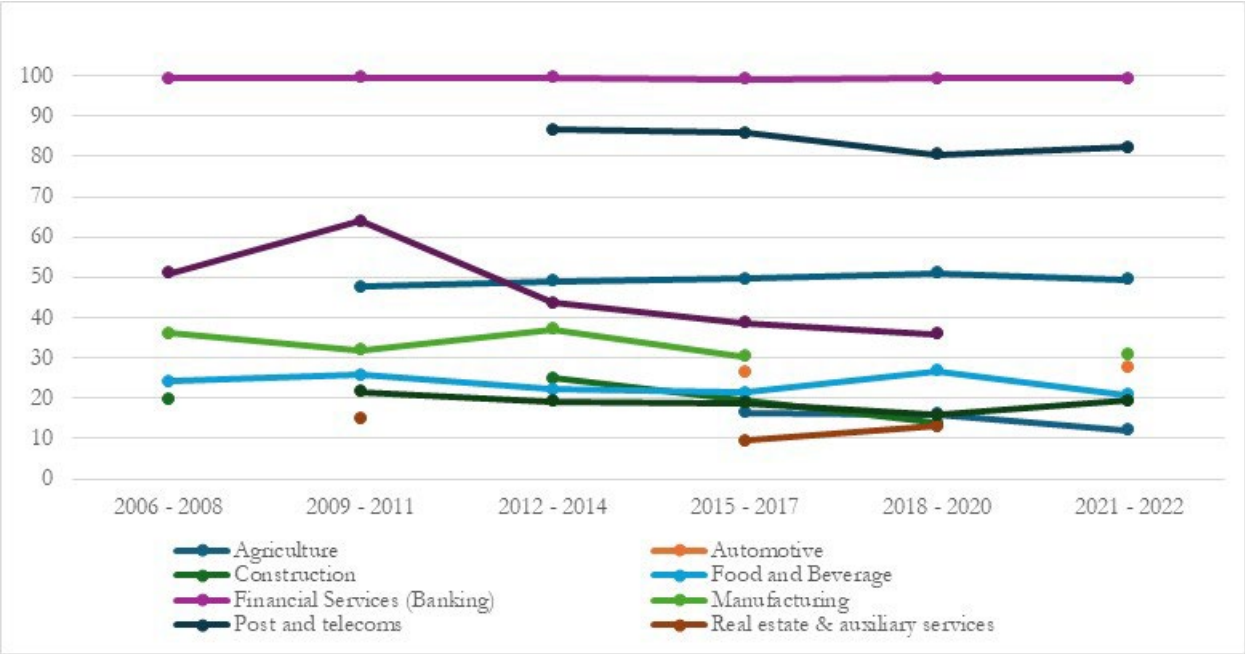
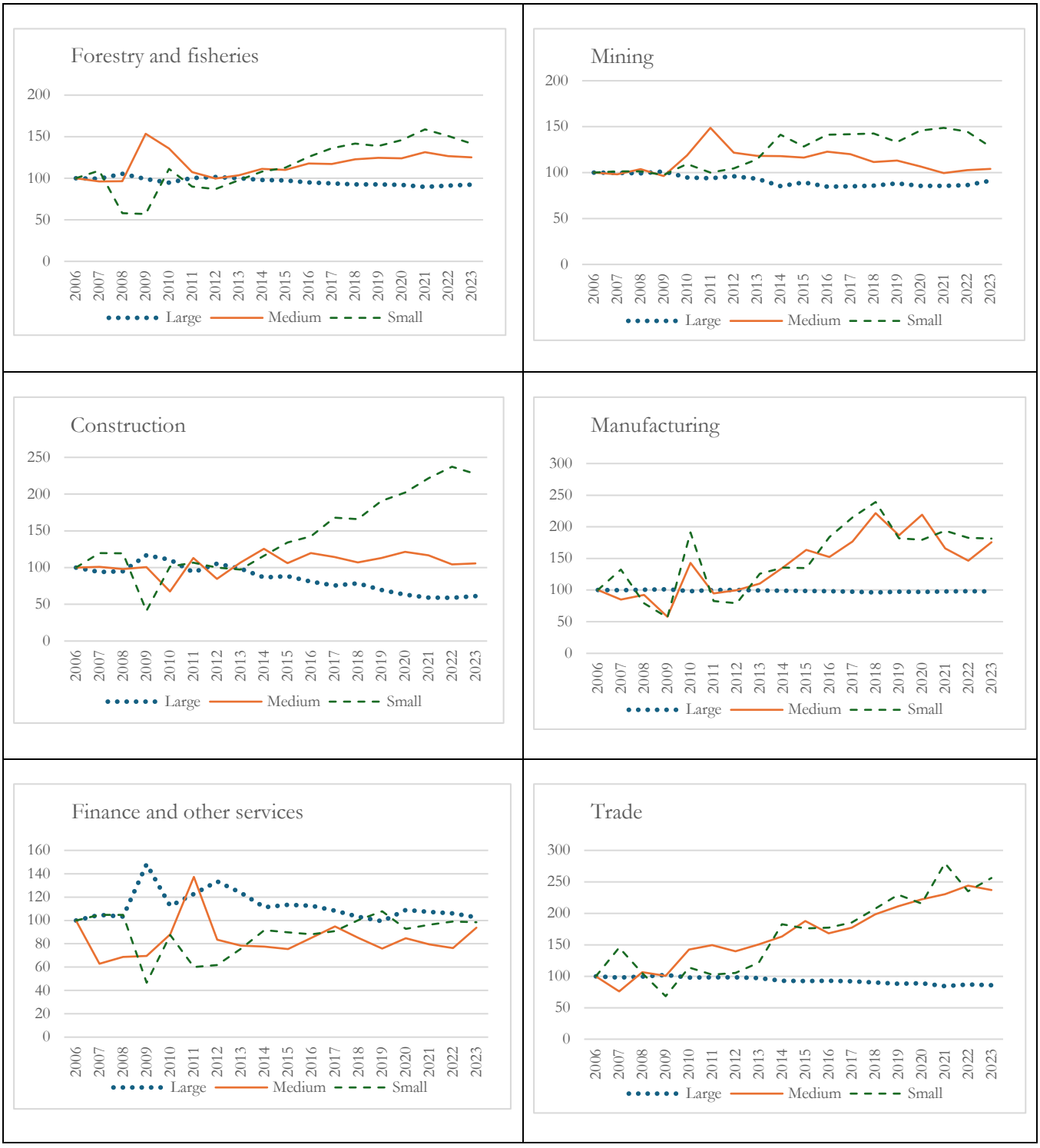
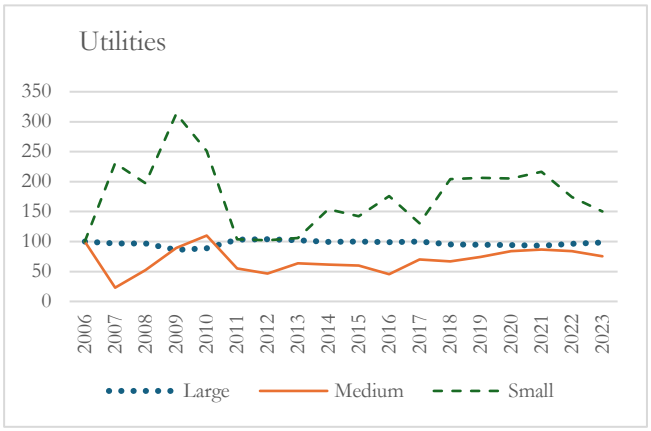
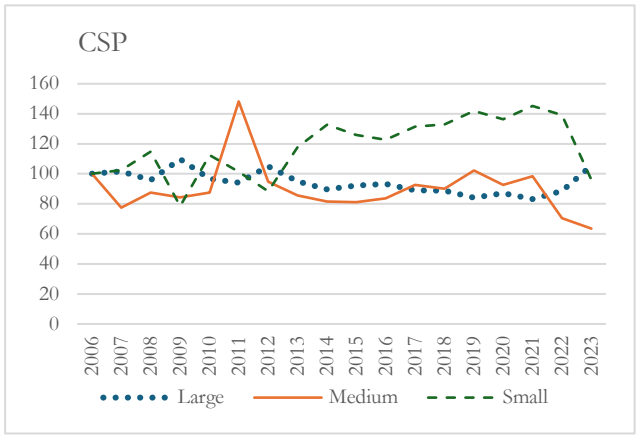


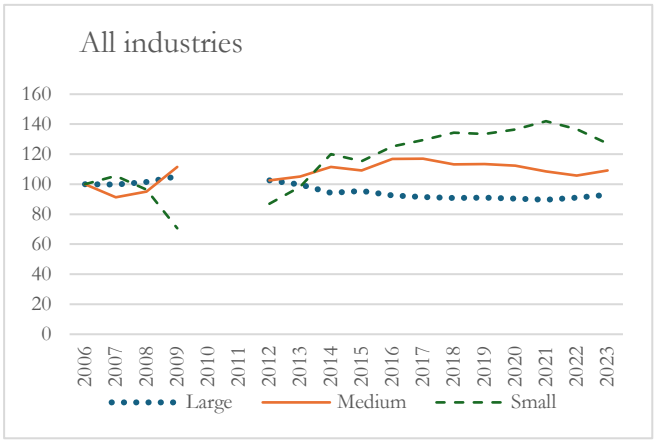
Figure 11: Growth of market shares for selected industries across firm size by sector, 2006 - 2023

Source: Stats SA Annual Financial Statements, Estimates by business size 2006 – 2023









Notes: Base year is 2006

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