

# The Youth Unemployment Challenge: a South African perspective

Acknowledgements:

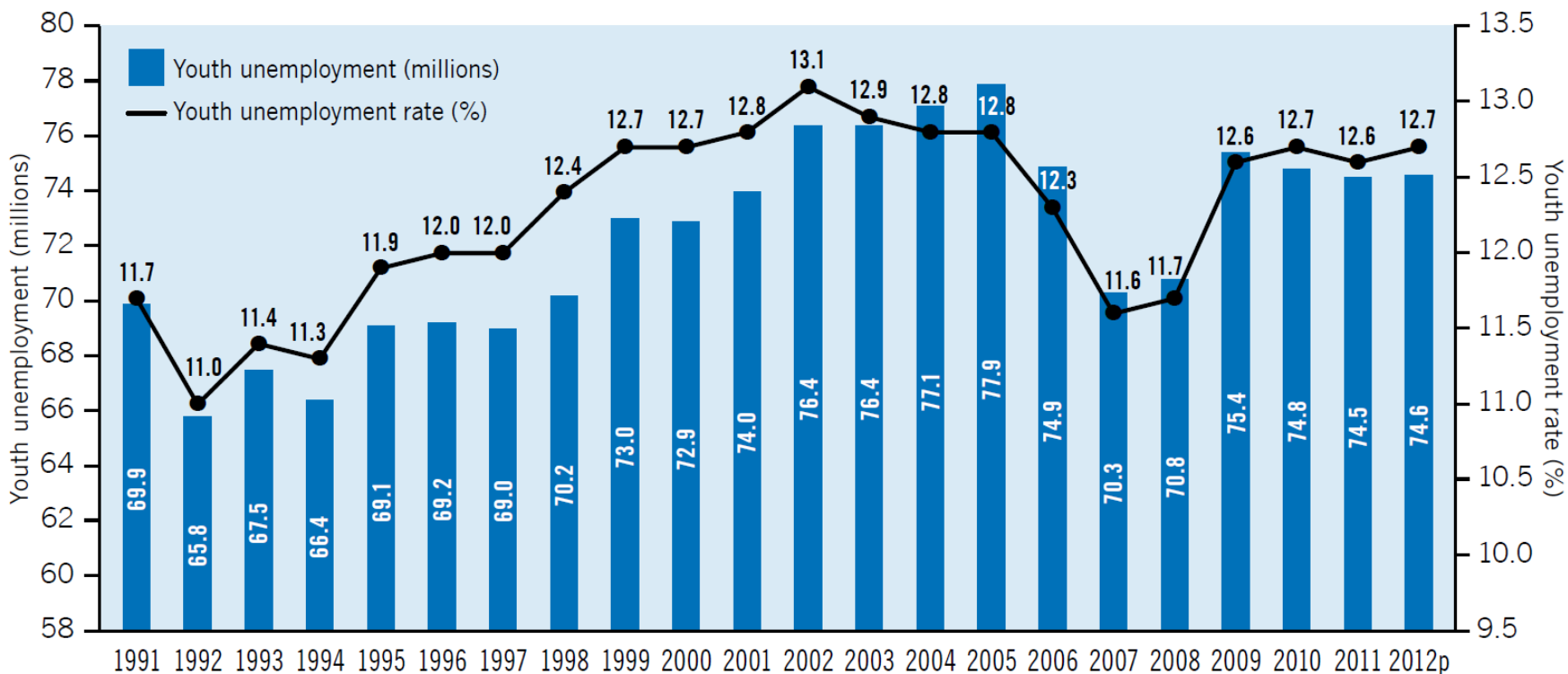
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Program



# Outline

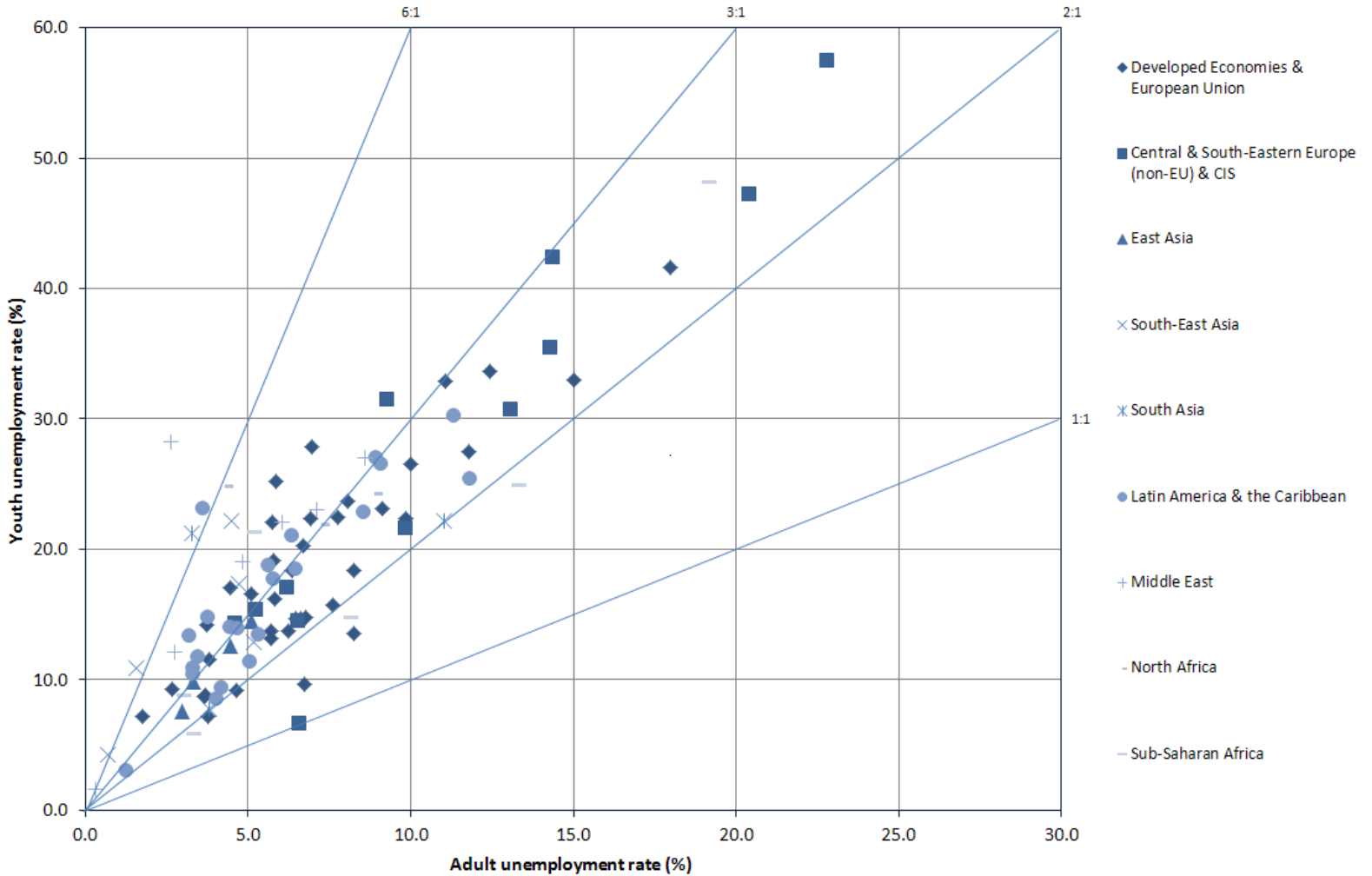
- The international context
  - The Economic Crisis
  - The Youth Bulge
- The extent of the unemployment challenge in South Africa
- Is youth (15-24) unemployment a different problem to overall unemployment? Does it require a different policy approach?
- Policy responses in South Africa

# Global youth unemployment and unemployment rate, 1991–2012



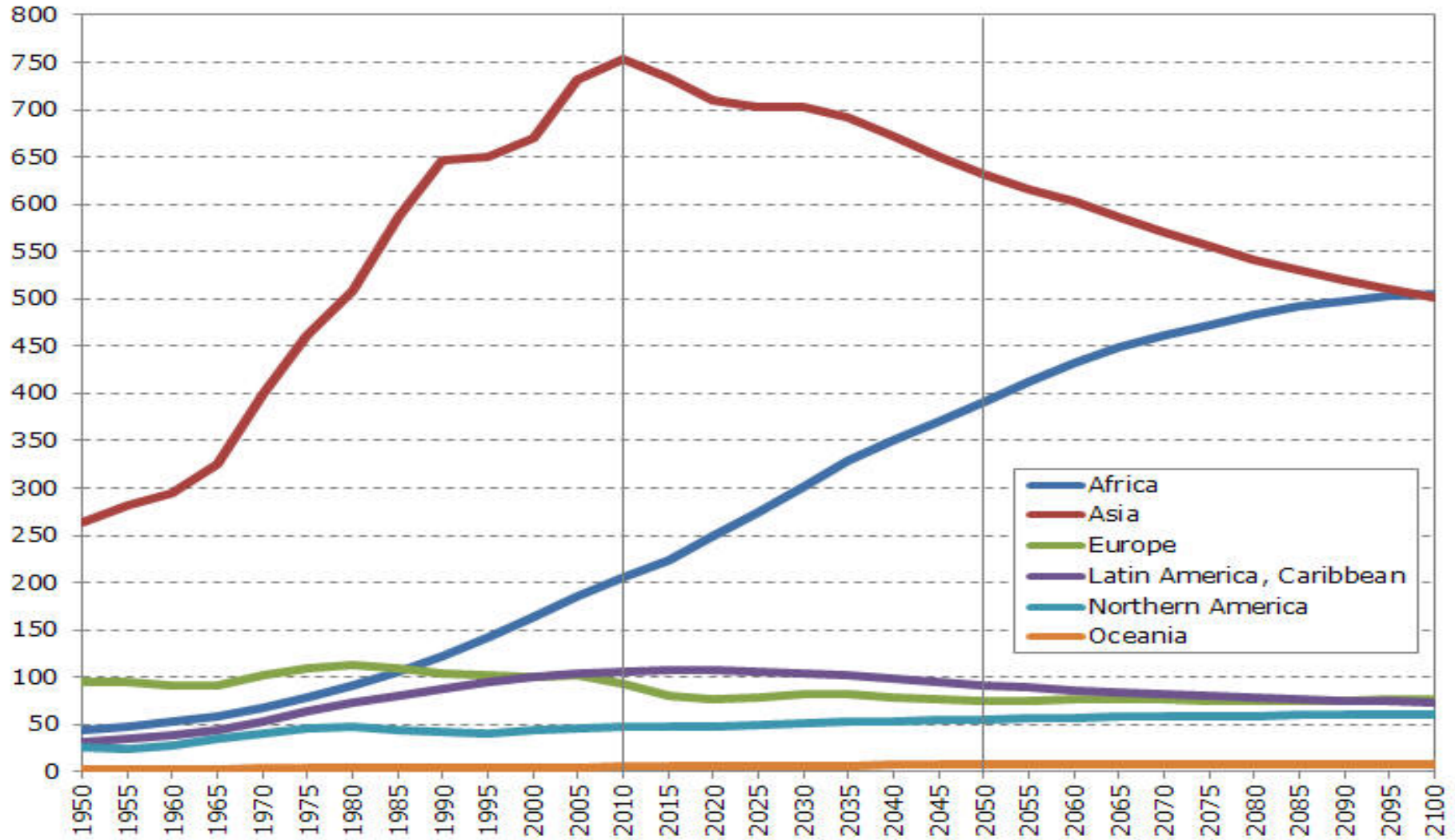
Source: ILO, 2012

# Youth:adult unemployment rates



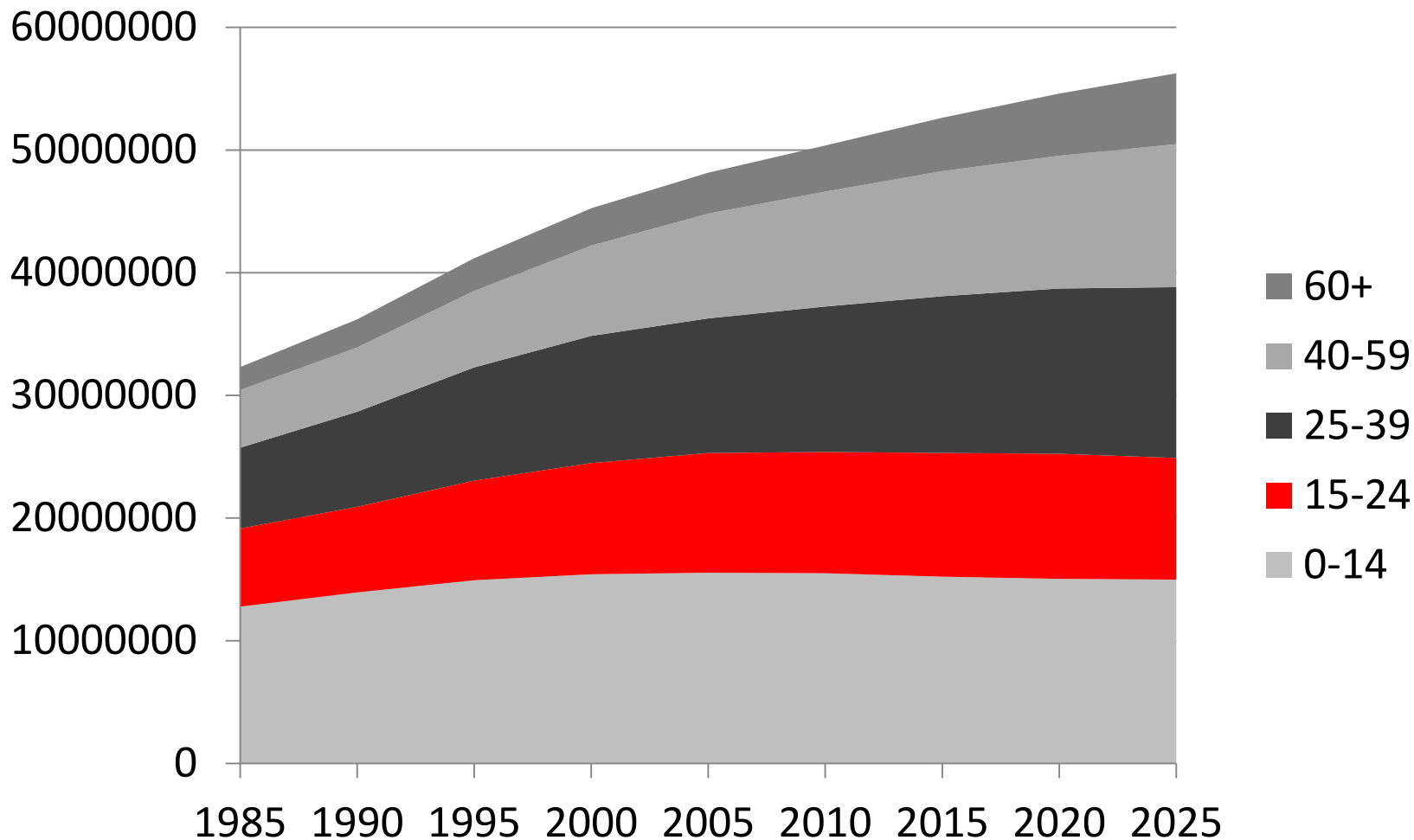
Source: ILO, 2012

# Africa's youth population is projected to continue to grow faster than anywhere else



Source: United Nations, 2010.

# South Africa's age profile

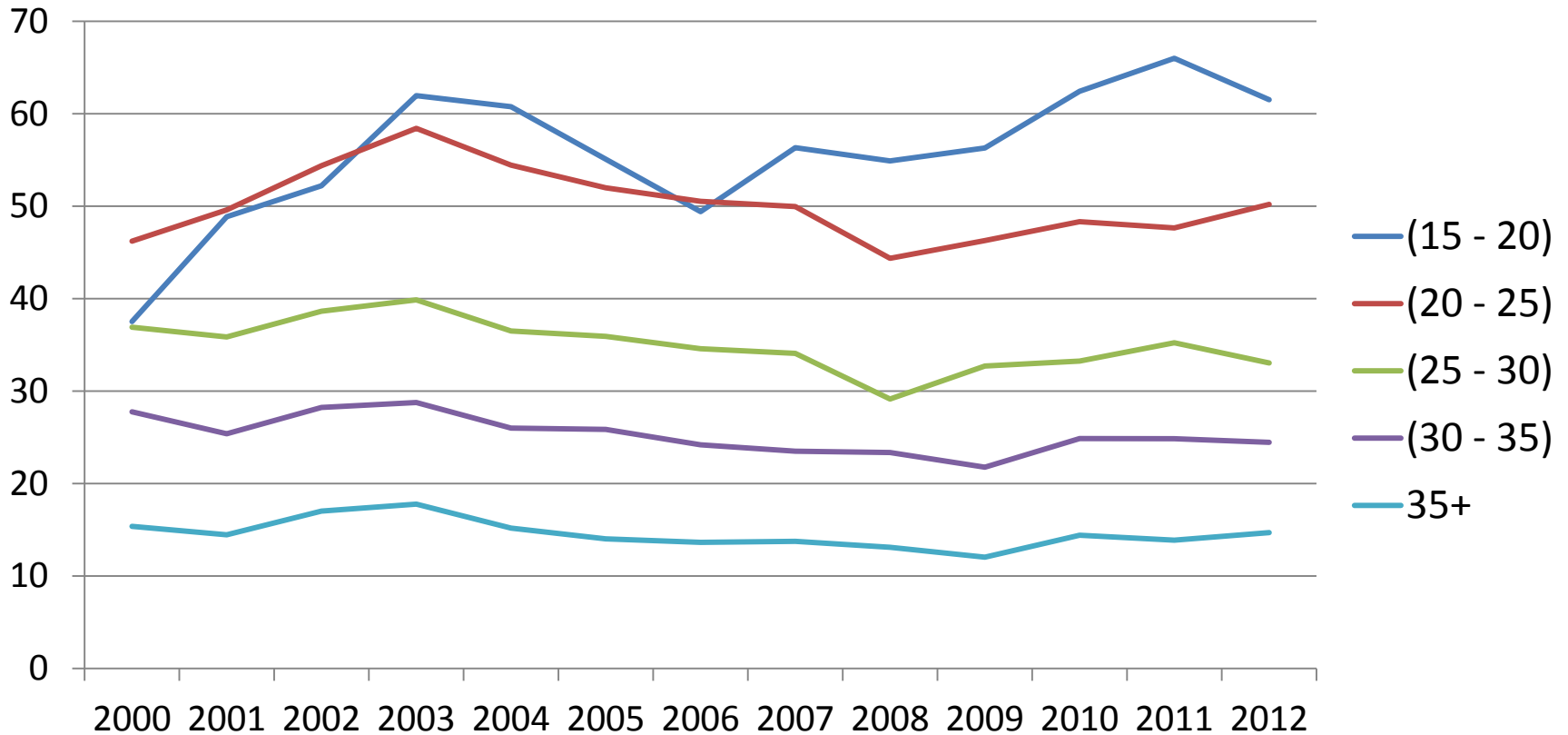


# Key facts about the South African Labour Market

- Official unemployment rate is 25%
- Using the broad definition, unemployment is 33%
- *But only 41% of working age people are employed*

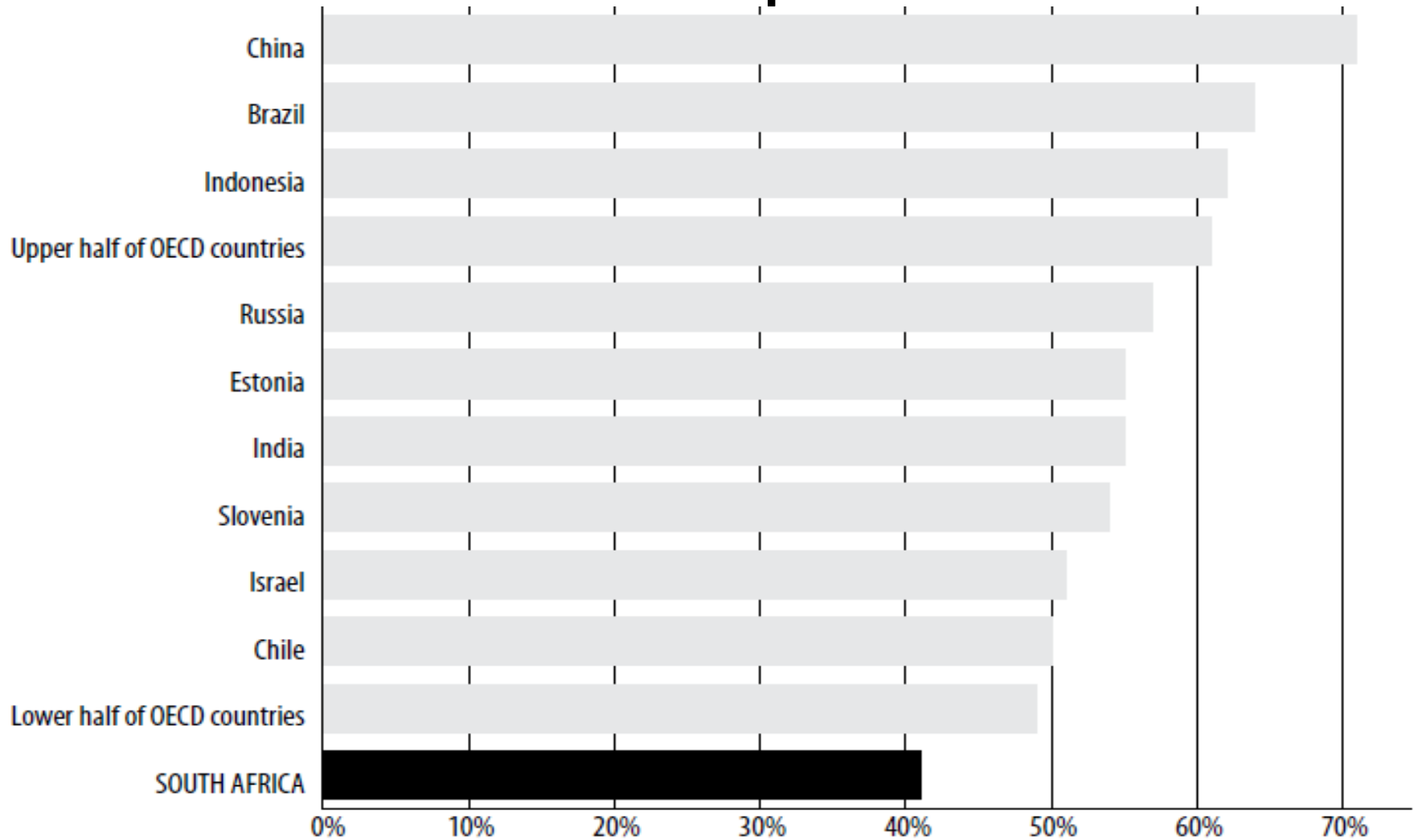
# Have things been getting worse?

## Unemployment Rate - by Age-group



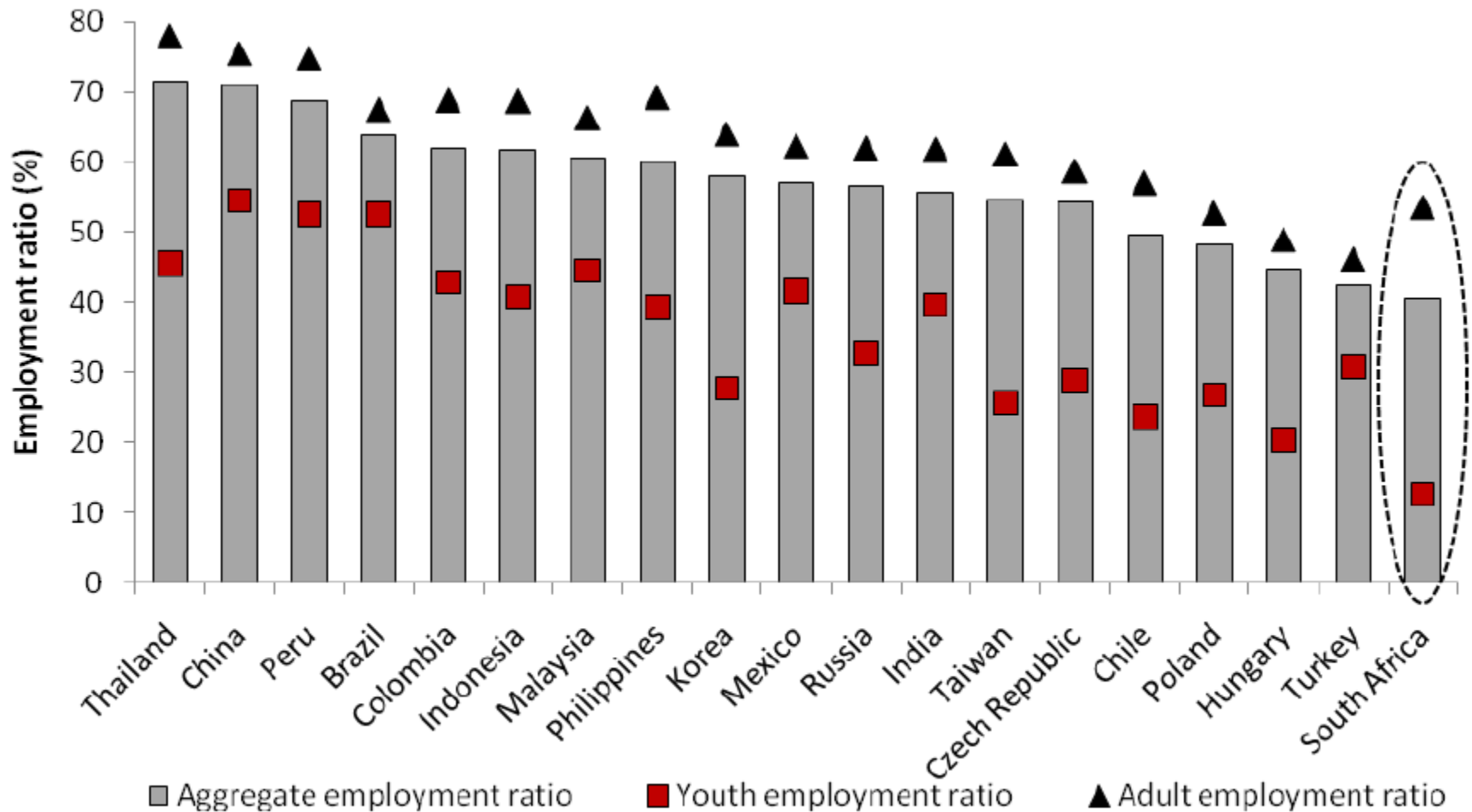


# Labour absorption ratios



Source: OECD, Economic Survey: South Africa, 2010.

# Youth and adult employment ratios in South Africa and selected emerging market economies



Source: ILO, 2010.

# But should one specifically target the youth?

- Reducing overall unemployment will reduce youth unemployment. Isn't that enough?
- Youth face specific barriers
- Youth may be particularly vulnerable
- Economic cost is higher if youth unemployment leads to long-term unemployment

# Youth-specific issues

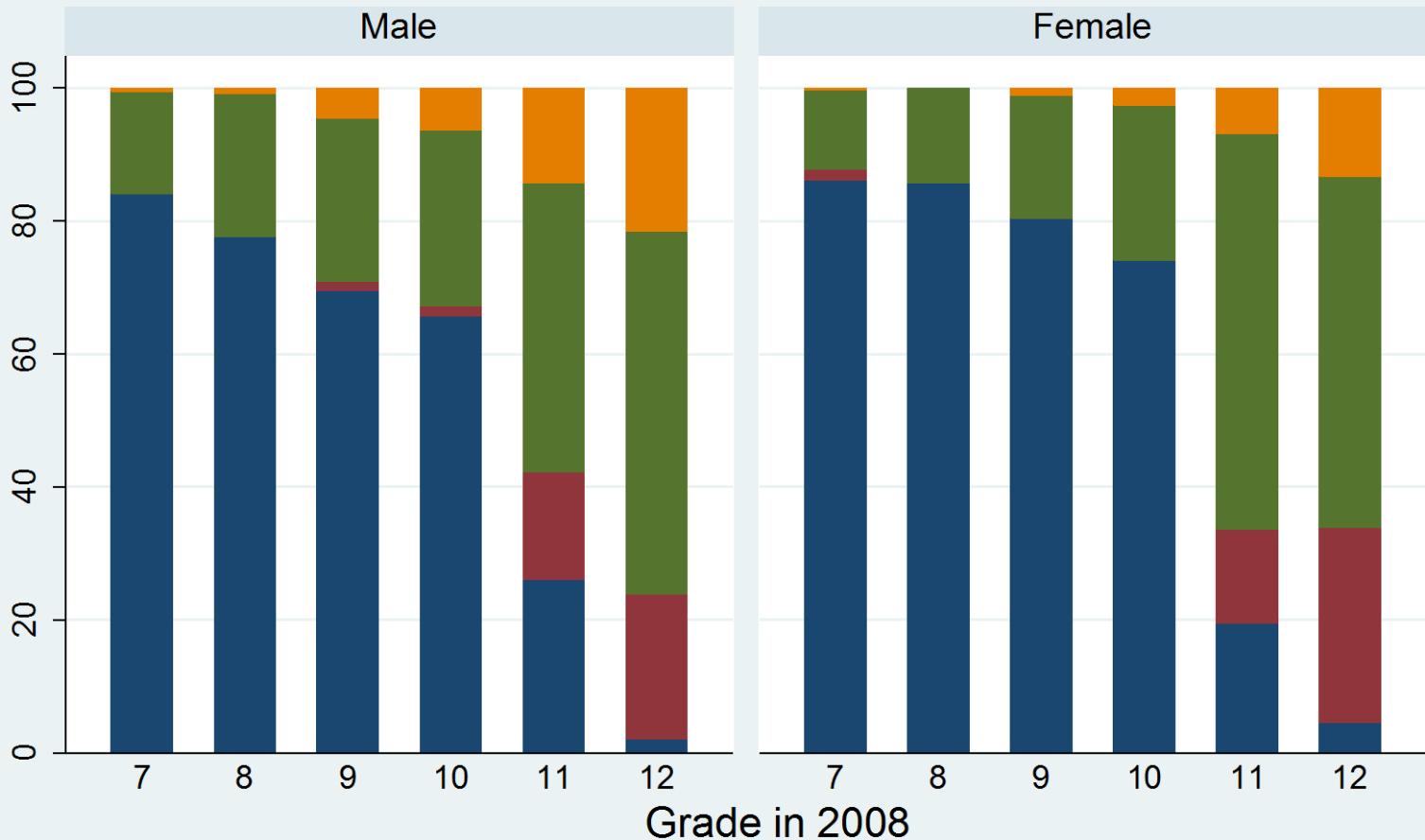
- Youth are “different”
  - More educated, less experienced, more “risky”
- Wage scarring
- Mental and physical health
- Social discontent and political instability

# Youth Employment Policies

# Improving Education

- Given skill-biased technological change, a better educated and more highly skilled workforce is a pressing long-term priority for the SA economy.
- Improving the pace of the transition from school to work is a critical area

# Activities in 2010, by grade in 2008



Calculations by Nicola Branson, NIDS Waves 1 and 2

# Training programmes

- Tax allowances for learnerships and apprenticeships
- 1% pay-roll tax goes to Sector Education & Training Authorities
- Low take-up
- Weak reporting, inadequate management have limited the success of these programmes (Bhorat et al, 2011)
- No rigorous evaluation.



# Entrepreneurship schemes for youth

- Youth may be more adaptable; quick to learn
- These schemes require education, access to financial, technical & social resources
- Transitioning from informal to formal?

# Employment services

- Can improve efficiency of job search and job-matching
- Several existing schemes; little information about how well they work
- The proposed Employment Services Bill would create public employment services institutions to which employers would be obliged to provide information about any vacancies that arose, and about the filling of those vacancies

# Direct public-sector employment targeted at youth

- 9% of ALMP spending in OECD countries is on direct public sector job creation
- Little (international) evidence of positive long-term effects on employment
- South African programme is large and ambitious; requires proper evaluation
- Low take-up among the youth – need different programmes?

# Reducing the ratio of pay to productivity

- Making the youth labour market more flexible
- Lowering the wage expectations of young people
- A youth wage subsidy

# Labour market flexibility

- May be particularly important for young people
- South Africa appears to be moving in the opposite direction:
- ***Proposed amendments to labour laws would:***
  - Require that part-time and contract staff receive benefits of 'similar or equal value' to those received by permanent staff;
  - Allow the minister to 'prohibit or regulate' the use of temporary employment services firms and of sub-contracting.

# Lowering the wage expectations of young people

- Rankin & Roberts (2011) find that young people's reservation wages are unrealistically high:
  - expected wages align quite well with what the big companies pay, but not with what a new entrant in a small firm would earn
- Reservation wages exceed the market clearing wage

# A youth wage subsidy

- Currently under discussion in South Africa
- All youth aged 18-29 would be eligible
- Subsidy of approximately USD800 spread out over 24 months
- Might incentivize formalization

# Possible ways of enhancing the impact of the proposed youth wage subsidy

- Relaxation of labour regulation for young people – e.g. allow for firing during a probationary period (e.g. 10 weeks)
- Reducing minimum wages for young people



# Concerns over the youth wage subsidy

- Erosion of the decent work agenda
- Displacement of older workers
- Deadweight losses
- Unions are concerned that the subsidy will be entirely captured by firms
- Unions reject notion that there is a gap between productivity and wages

Finally, two more ideas that seem to have little traction in the current debate....

- Ease the immigration of skilled labour
- Introduce unemployment benefits for people that have never worked

# Ease the immigration of skilled labour

- Unskilled and high-skilled labour are complements.
  - Relax the skills constraint by attracting skilled labour from Africa & Asia
- raise demand for unskilled labour.

# Need for unemployment benefits for youth that have never worked?

- Some evidence that existing grants increase job search
- Effect might be larger if unemployment benefits went directly to the unemployed person and were tied to sanctions, job placement programmes and/or training schemes

# How do the unemployed support themselves?

Type of support	Unemployed youth	Unemployed adults
Someone in the HH has a job	59%	47%
Person receives a grant	14%	17%
Someone in the HH receives a grant	45%	42%
Home agric production (self)	5%	6%
Someone in the HH is doing home agric production	8%	8%

# Conclusion

- Job growth will not come from labour market interventions alone. Macroeconomic and growth policies are fundamental.
- Nevertheless, some gains to be made from:
  - Addressing skill mismatches (through education, training and immigration policy)
  - Facilitating job search (e.g. through Unemployment benefits)
  - Promoting entrepreneurship
  - Targeting active labour market measures (PES, training & wage subsidies) to incentivize employers to hire young people
  - Increasing labour market flexibility

# Thank you

