

QUESTION:

South Africa is currently struggling with large unemployment amongst the youth. The National Development plan has identified a number of policy interventions to improve youth unemployment. In your view, what are the causes of youth unemployment, what should government do to improve the levels of youth employment? Identify the pros and cons of each of your proposals.

NEDBANK AND OLD MUTUAL BUDGET SPEECH COMPETITION

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In 2010 the minister of higher education, Mr. Blade Nzimande, described youth unemployment as a “ticking time bomb” (SAIRR: 2011).

1. INTRODUCTION

Since the transition in 1994 to form a newly democratic government South Africa went on to establish its self as an economic power house in Africa, but like many countries around the world it has failed to deal with the issue of unemployment, and the people that have felt the most consequences are the youth as they make up a large percentage of the unemployed population (Kelto: 2012).

This essay will first look at the background of youth unemployment in South Africa, a brief discussion of the National Development Plan (NDP) will follow concentrating on a few policies it put forward to solve youth unemployment, I will then look at the causes of youth unemployment followed by possible solutions. In my solutions I will highlight the pros and cons, and then I will conclude.

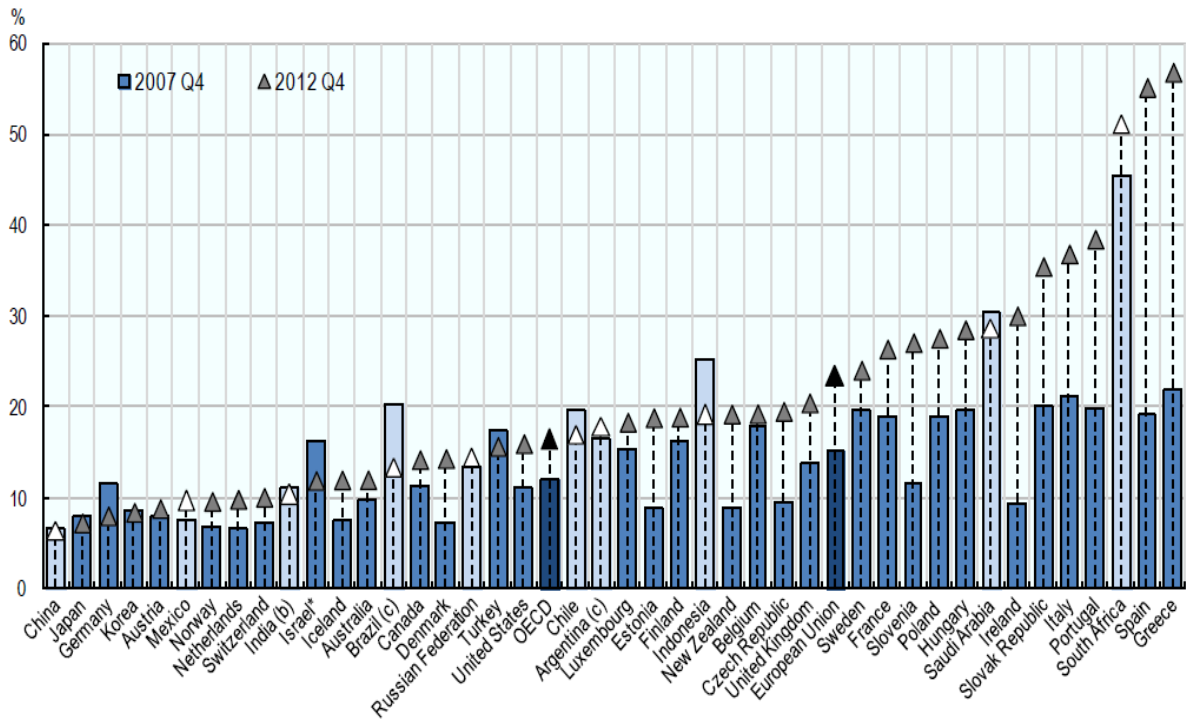
2. BACKGROUND

The South African National Youth Policy (1996) states that a youth is anyone between the ages of 15 and 34. The youth make up 37% of total population (Statistics South Africa: 2012).

According to a statement to the United Nations by the special advisor of the Minister of Social development, youth unemployment stood at 70%, which he stated as extremely high, he also stated that the percentage of youth owned businesses remained low at 33% (Dangor:2012).

South Africa currently has the highest unemployment rate in the world amongst 15-24 year olds which stands at 46% (Action Plan: 2012). The graph below shows youth unemployment rates of different countries around the world for 15-24 years. South Africa has the highest unemployment rate of 46% followed by Saudi Arabia with unemployment of 30%. Compared to Brazil and India who are members of BRICS and have relatively similar economies, unemployment rates for the same age group are 20% and 12% respectively which are very low compared to that of South Africa. This prompted action from the government and they introduced the National development Plan.

INTERNATIONAL YOUTH UNEMPLOYMENT RATES (15-24 years)



Source: Giving Youth a Better Start: An Action Plan (2012)

3. **NEW DEVELOPMENT PROGRAM (NDP)**

Implemented in January 2013, the NDP identified a number of policies intended at reducing youth unemployment. These include:

3.1 **Further Education and Training (FET) Expansion and Improved Efficiency**

The NDP intends to strengthen and expand the number of FET colleges to increase the participation rate to 25% (NDP: 20). Graduates from second-tier universities, particularly FET colleges, have a very poor placement rate (unemployment statistics: 2013). The main reason for this was identified by the new development policy where it states that FET colleges are both not effective and the quality of output is very poor (NDP: 40) and this has generally led to lack of confidence from employment agencies and the general employer. The target of increasing participation rate by 25% in 2030 is very much attainable but if changes are not made to improve

the relations of FET colleges with the employer young people might be demoralized by this initiative which will further stigmatise the system (NDP: 40), Therefore the aim must be to better the quality of graduates experience by including skills training.

3.2 INCENTIVE FOR YOUTH EMPLOYMENT

Employers will be offered a tax incentive to minimize the costs employing young entrants (NDP: 20). This was explained by the Minister of Finance Pravin Gordhan to mean that employers who employ the youth would get tax breaks via the PAYE system, and that it would be a replacement of the youth wage subsidy (SANEWS: 2013). This will encourage entities to hire more youths as it will cut down labor costs. Lewis identified this as Targeted employment incentives, where he said that the government only incentivizes new jobs only (Lewis: 2001). The national treasury however thought that this might cause what they termed substitution effect (National Treasury: 2011) whereby firms fire unsubsidized workers to hire those that are subsidized in order to take advantage of the tax incentive scheme. The estimated figure of those that would be vulnerable to substitution was at least 3.7 million (COSATU: 2012).

4. CAUSES OF YOUTH UNEMPLOYMENT

4.1 Aggregate Demand and Small to Medium Enterprises(SMEs)

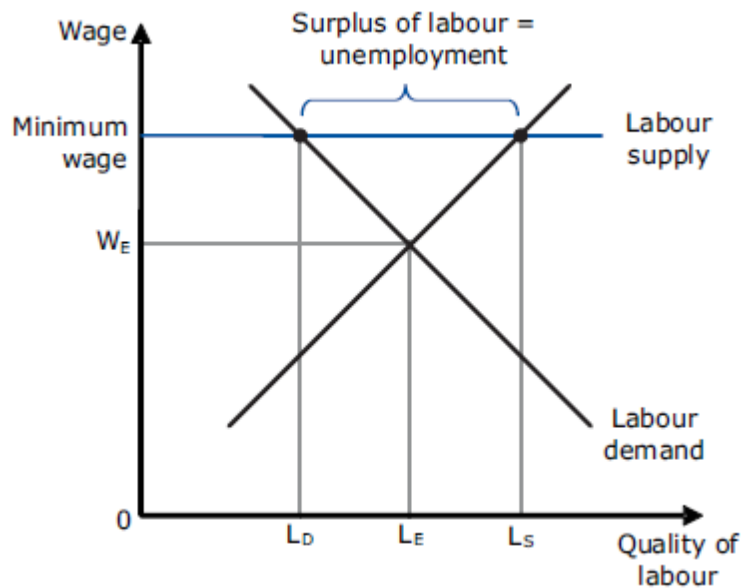
Demand for local products has been declining because of high import of foreign goods and this has led to most local firms losing business. Shokts (2012) states that local textile manufacturers cannot compete with cheap Asian countries for instance China. Small to Medium Enterprises are the most vulnerable as they have experienced a failure rate of 75% (Olawale and Garwe: 2010). This indicates how important it is for South Africa to increase demand for local goods to increase the survival of SMEs which currently employ 56% in the private sector (Olawale and Garwe: 2010).

4.2 Wages and Labour Costs

When a minimum youth wage is set by the government, it means relative wages for the youth are higher compared to those of adults; this gives firms an incentive to hire adults compared to young labour (O'Higgins: 2001). This is because production (labour) costs will increase, which goes against the policy of many firms of keeping costs as low as they can be. Mroz and Savage (2001) state that minimum wage hikes will increase the cost of hiring young employees, and have a record of causing joblessness among the youth.

High labour costs can increase youth unemployment especially for the unskilled and those with no work experience (ILO: 2011), because the minimum wage is set high compared to the skills and productivity of an employee (Action Plan: 2012). The Intention with the Minimum wage may be to reduce poverty but once set too high it means that firms will be discouraged from employing unskilled youth and encourage them to employ the youth on a part time basis (Action Plan: 2012).

Minimum wage and youth Unemployment



Source: ILO, Tackling Youth Employment Challenges (2011)

The equilibrium youth wage is W_E and the labour is L_E , at this point there is full employment. When a minimum wage is set firms reduce their hiring, demanding L_D and hiring quality labour.

Labour supply will be more than labour demand at L_S . The difference between L_D and L_S is surplus labour or unemployment.

4.3 Technological Dependence

Unemployment in South Africa has been largely linked with high Technological dependence and structural changes, with the primary sector mainly mining and agriculture shedding off labour in the past years (Banerjee et al: 2007). According to Todaro (2011) dependence on laborsaving machinery and equipment inhibits the success of employment creation. This implies that the number of jobs available is reduced, reducing future employment opportunities and shedding off current labour, between 1970 and 2005, the agricultural sector went from employing 33% to 11%, and the wholesale, financial and retail sector increased employment capacity from 9% to 25% (Banerjee et al: 2007). The wholesale sector has not been able to compensate for the loss of labour in the agricultural sector, with 6 percent employment opportunities lost. The youth are then affected because there is reduced employment probability for them, and for those that are employed, firms find it cheaper to fire young workers than old workers (Mlatsheni and Rospade: 2002), because the youth are less experienced and have less redundancy costs compared to the old workers.

4.4 Education

There has been a link between educational qualifications and employment opportunity (Mlatsheni and Rospade: 2002). Most youths possess no, or very minimal academic qualifications because of the high rate of school dropouts. Dropouts have been highest in the upper grades of secondary school, and this limits the chances of one getting higher education which reduces their probability of accessing decent work (Dangor: 2012). The dropout rate stood at around 55% with less than half of students that started school in 2000 sitting for the Matric exams in 2011 (Doughty: 2012). Reasons for the high school dropouts are most learners in South Africa come from very poor backgrounds and hence they drop out of school because their parents are not able to pay school fees (Dekeza and Ntombikazi: 2012). Teenage stress

contributes to school dropout because, many teenagers face challenges during the transition to adulthood, hence they are vulnerable to emotional and physical stress (Dekeza and Ntombikazi: 2012). Another contributing factor is teenage pregnancy. (Dekeza and Ntombikazi: 2012).

4.5 Work Experience and Skills

Skills mismatch has been one of the leading causes of youth unemployment globally (ILO: 2013). The skills that are offered by potential young employees do not meet the demands of the employers. Mlatsheni and Rospade (2002) stated that the main reason causing high youth unemployment compared to the adults is the levels of experience, compared to their adult counterparts the young generally possess fewer skills. According to SA qualifications there is a huge gap from hiring a fresh graduate student and what the employers expect with 600000 graduates unemployed (City press: 2012), because they do not have work experience, a vital tool. The South African Graduates Development Association (SAGDA) blames the Government for failing to match individual skills to required jobs (City Press: 2012)

5. RECOMENDATIONS

5.1 Development Of Peripheral Cities

Unlike most African countries where development is centered in one big city, South Africa has managed to have numerous developed cities around the country, but at the same time there are some marginalized towns like Alice where development is extremely poor with minimal economic activity, with high populations of unemployment among the youth. The government should try and stimulate development in these cities, by increasing investment thereby lowering youth unemployment in these small towns.

5.2 Early Education On Career Choices

Quality information on career choices must be made accessible to students. Maqubela from SAGDA states that people should start mapping their career paths at least in grade nine, before they can choose the subjects they want to do in high school (City Press: 2012). England developed a website in common format on career prospects, requirements and any labour related information, which was recently adopted by France and Korea(Action Plan: 2012), this could be of great benefit to South Africa as the rate of youth with access to internet and social media is increasing rapidly. Parents play a pivotal role in influencing a career path taken by their child, hence educating them also would lead to improved decision making. The advantage is that students become aware of the requirements of the career path they choose to take at an early age and begin working on them. The disadvantage is this information might not be accessible to everyone.

5.3 Include Experience Training In College Curriculum

The government must make it compulsory for universities and other high tertiary institutions around the country, to make skills training compulsory in their curriculum through attachments, internships or having workshops were students can view and work with qualified employees. This will allow students to acquire some practical skills on up to date machinery and be taught by mentors familiar to recent work method (Action Plan: 2012). Countries like France have

made it compulsory for students to work for two weeks after the eighth grade (Action Plan: 2012), exposing students to work related environment at an early age. The advantage is that students gain work experience and not only theory concepts . The main disadvantage is it will only assist current university students and ignores those who are out there with no skills.

5.4 Making Resources Available In All Schools

The schooling system in South Africa shows some inconsistencies, where schools from developed towns and cities have enough resources and low teacher student ratios, and have a different scenario in underdeveloped cities. The government must ensure more resources and teachers are deployed in these underdeveloped towns. The advantage is the education background of our young learners will be good which is crucial in their youth life and the decisions they will make. The disadvantage this requires immediate action but the government might not be able to make all deployments at once and may take time.

5.5 Enable Second chances

Given that education is essential in improving the prospects of one being employed, the government should try and make second chance schooling for school leavers easy. This could include providing accommodation to those affected by poverty, increasing social grants to teenage mothers. Some youths may come from socially disadvantaged backgrounds and may require all the assistance getting back to school. It may be expensive to provide second chances, but the economic and social cost of doing nothing is greater (Action Plan: 2012).

5.6 Reduction of Labour Costs

To counter the problem of minimum wage the government can, have firms apply to set wages for teenagers below the adult rate which was implemented in Chile, India, Australia, and Belgium for those under the age of twenty, in the United Kingdom and France lower rates apply to those

aged below 17 (Action Plan: 2012). However applications should only be approved if there are training opportunities and wages are to increase in the future as efficiency and productivity of an employee increases.

6. CONCLUSION

The essay focused on the causes of youth unemployment in South Africa, and lack of skills among the youth seems to be a major cause of youth unemployment. This is a major factor considered by employers when hiring. This raises the need by the government to introduce skills training and internships very much.

The NDP has policies that have the potential of reducing youth unemployment for instance the tax subsidy reduces total costs of the employer enabling them to increase their employment budget. FET expansion has the potential of attracting school leavers, but if skills training are not included in the curriculum it could be less effective.

Implementing the above recommendations would go a long way in reducing youth unemployment, for instance career education where most students are not knowledgeable on this subject.

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