

Youth Unemployment: A South African Story

2194 Words

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 employment. In your view, what are the causes of youth unemployment and what should government do to improve the levels of youth employment? Identify the pros and cons of each of your proposals.

Introduction

The National Development Plan set forth by the South African government targets an ambitious goal of decreasing the unemployment to as low as 7.7% by 2030. The current level sits at 25.2% (Stats SA, 2013). However the unemployment rate does not reveal the entire situation. Crippling Youth unemployment is evident with reports of figures as high as 58% (SAIRR 2011). In this essay the causes will be examined and a detailed three step solution will be proposed.

The Causes

Classic Microeconomic Theory and Youth Unemployment

Youth unemployment is not a problem unique to South Africa (Du Toit 2003). The 2011 youth¹ unemployment rate (16.2%) of OECD² nations was almost double the general unemployment rate (8.2%). Likewise, as seen in figure 1, South Africa's youth unemployment is well above other age cohorts. Youth unemployment is ubiquitous in most countries. According to general microeconomic theory outlined in (Mlatsheni, Rospabé 2002), asymmetric information regarding the productivity of young candidates decreases the desire of firms to hire youth. Young workers with no previous work experience or formal tertiary qualifications have no way in which to signal to employers their potential productivity. Thus firms choose not to take the risk in employing the inexperienced workers.

The Skills Gap

There are however several internal issues aggravating the situation. One such issue is a major skills shortage in major industries. This skills shortage has resulted in firms struggling to find personal with the required skills. In 2006 a survey conducted by the South African Association of Consulting Engineers, reported that 95% of firms struggled to find engineers and technologists (Solidarity, 2006). (Solidarity, 2006) further outlined many major industries which were unable to fulfil their demand for skilled workers.

Furthermore the unemployment rate of those with degrees sat at 4.46% for men and 5.27% for women³, while those with other post matric qualifications faced 11.99% unemployment rate for men and 19.25% for women (Levinsohn 2007). Youth with degrees are also sheltered from the effects of unemployment with around 10% of university graduates between the ages of 20-29 unemployed, a rate comparable to many European states (Van der Berg, Van Broekhuizen 2012). It may be concluded that it is labour supply rather than labour demand which is insufficient. There is an undersupply of skilled individuals to fill labour demand in certain industries.

¹ Youth were defined as 15-24

² Organisation for Economic Co-operation and Development

³ See Figure 2 for a graph of education versus unemployment

The Education system Fiasco

The skills shortage outlined above cannot be solved if the primary and secondary education systems are not improved. The World Economic Forum's 2013 Global Information Technology report ranked South Africa fourth last in terms of education of the 144 countries considered and second last for Mathematics and Science. The poor quality of the education system especially in Mathematics and Science, has contributed further to the skills shortage with few students obtaining matric passes in those subjects required by fields such as engineering (Derek 2013). Many of those who do enter university have not obtained the required knowledge in high school to cope with the standards set by universities (Carte Blanche 2012).

The quality of infrastructure apparent in most South African schools is partly to blame for the poor quality of education offered. A 2001 NEIMS⁴ report revealed that of the 24793 schools in South Africa, only 5252 had a library while 3772 had laboratories and 5756 with Computer centres. This will severely hamper the development of future Engineers as well as those working in countless other crucial fields.

Labour Market regulation

The World Economic Forum's 2013 Global Competitive Report painted a distressing picture of South Africa's labour market. Out of the 144 countries surveyed, South Africa was 143rd for hiring and firing practices, and 113th for overall labour market efficiency. (Levinsohn 2007) describes how firms (somewhat incorrectly) believe that they will be unable to fire employees if they prove to be unproductive and thus are unwilling to take on the added risk. Strong labour market regulation intensifies the effect of asymmetric information in the labour market. This compounds issues of asymmetric information which traditionally cause youth unemployment.

An Overall Effect

The above mentioned causes combine to lower national productivity, and weaken the aggregate supply side of the economy. The low levels of productivity hamper potential for medium run and long run economic development. Thus any solution must take into account methods in which productivity can be increased.

⁴ National Education Infrastructure Management System

The Way Forward

As outlined above, the causes of unemployment are numerous. The solution I shall propose will look to develop the skills needed through education and labour experience.

Vocational skills development

The nuts and bolts

The first method through which skills can be developed is through government subsidised courses for vocational skills. Similar to the models used in both Chile and Argentina (de Moura Castro & Verdisco 1998), the government will issue tenders for the courses instead of running the programmes. This will be done in order to prevent bureaucratic inefficiencies however given South Africa's history of tender fraud; the process will need to be well regulated. The courses will be limited to the unemployed and under the age of 25. The selection of courses will be dependent on the required skills of the region. This will be done to target those industries which are adversely affected by the skills shortage. This will also help prevent substitution of newly trained individuals for the firm's incumbent. Lastly the courses will also include a module on methods for job searching and required interview etiquette.

Success in South America

The success of vocational skills training is a matter of widespread debate. (de Moura Castro & Verdisco 1998) analysed the training programmes implemented by Chile, Argentina and Brazil. In Chile⁵, 55.5% of those who attended the courses were employed compared to 41.3% of the control group (de Moura Castro & Verdisco 1998). In Argentina⁶ where the programme which largely mimicked the structure of Chile's programme also saw success with 51.5% of those who attended the school employed eleven months later (de Moura Castro & Verdisco 1998).

Additionally the programme was highly successful in attracting women with 45.5% of woman who attended the schools in Chile finding employment compared to only 27% of the control group while Brazil saw an overrepresentation on women in their programme compared to labour force participation (de Moura Castro & Verdisco 1998). This is encouraging given the high level of unemployment among women in South Africa (Stats SA 2013).

Productivity Benefits

Additionally, there are indirect benefits from increases in productivity (de Moura Castro & Verdisco 1998). The increases come as a result of the greater skills acquired. Increases in productivity can cause an increase in the aggregate supply relation, lowering the natural rate of unemployment.

⁵ The programme was known as Chile Joven

⁶ The programme was known as Proyecto Joven

Past Failures

However skills development programmes have not been universally successful. (Richardson & Van den Berg 2001) concluded that given the high costs of it, Sweden's skill development programme was ineffective. Thus the programme must be implemented with caution so as to prevent any deadweight loss.

The Youth Wage Subsidy

One of the most contentious proposed solutions is the Youth Wage subsidy. While South Africa's issues have largely been labour supply orientated, the subsidy aims to stimulate labour demand for inexperienced candidates. This will allow youths to attain the required experience and skills the labour market demands. Research has shown that once a person receives their first job in the formal sector, they are likely to remain employed (Levinsohn 2007).

The nuts and bolts

For unskilled labour, the financial benefits of the scheme will come in the form of tax rebates for those firms who hire subsidised labourers. Firms who employ subsidised workers will only receive the rebate if their net employment figures are positive. The subsidy values will vary depending on the level of the wage offered. However an emphasis will be placed on work at the minimum wage. The length of the initial subsidy will be one year. The length should be sufficient for the recipients to develop the skills required to acquire unsubsidised private employment. Given that many of the recipients would never have been employed, basic classes will be compulsory on protocol concerning searching and applying for work.

Past success

Employment subsidies are a ubiquitous active labour market policy in many modern economies and its merits and faults have been widely researched. The Proempleo experiment engaged by the Argentinian government is one such example. It was determined that wage subsidies have a disproportionately positive effect on future youth unemployment compared to that of other age groups (Galasso, Ravallion & Salvia 2001). While it did show future employment was more likely for recipients (Galasso, et al 2001), the large effect on youth unemployment shows its greater assistance in introducing the labour market to those who have never worked.

The theory of substitution

A common criticism of subsidised labour is the threat of substitution and further deadweight losses (Nicaise 2001). The deadweight loss could arise when a firm would have employed the individual regardless of the subsidy (National treasury paper). (Rotger & Arendt 2010) challenged these views in their analysis of the Danish wage subsidy programme. Their statistical model proved that any deadweight loss was statistically insignificant, in that firms were unlucky to have hired the recipients had it not been for the subsidy (Rotger & Arendt 2010).

Theories of Substitution somewhat fail to account for the relative productivities of experienced workers compared to those who are subsidised. For firms to substitute their experienced employees with inexperienced subsidy recipients is poor business acumen (National Treasury Paper). However the successful Danish model required firms to have a net gain in employment levels (Rotger & Arendt 2010). (Rotger & Arendt 2010) went on to further prove that substitution was highly limited and, in fact, in the months following the introduction of the subsidy, there was an increase in employment of ordinary employees. The overall effect of the subsidy was a net increase in employment (Rotger & Arendt 2010).

Education and long run development

While it may not lower youth unemployment in the near future, a reformation of the education system is crucial in mitigating future youth unemployment. The benefits of education are various. Two such reasons are that education levels have been shown to have a positive relationship with productivity (Lau 1991). Many of those professions with skills shortages require university degrees, where a strong primary and secondary education is crucial.

Conditional Welfare programmes

The first policy is an amendment to the child grant system. In order to qualify for a child grant, children over six must be in school. Conditional welfare programmes have seen success in Brazil with Bolsa Família where school absenteeism was down 3.6% (Soares, Ribas, Osório 2010). Further success was seen in Mexico where (Behrman, Jere et al 2005) found that children who had early access to the grant increased their schooling grades completed by 2.4% for boys and 2.7% for girls. A conditional welfare programme aims to incentivise children to register for school and continue attending.

Teaching reforms

(Craig, Kraft, Du Plessis 1998) showed that for any educational reform to work, the teachers must be involved in the process. Their “on the ground” knowledge will be crucial in implementation and thus the government must work with the unions in order ensure successful implementation.

The first aim must be to improve the standard of educators. Incentivised systems are one mechanism to promote successful teaching (Craig, Kraft, Du Plessis 1998). In this proposed system, teachers who are to improve the grades of the children will be rewarded with a salary increase as well as promotion possibilities. Those teachers who perform poorly will be required to return to specifically designed training programmes.

It is key however that these tests are externally moderated to prevent a moral hazard from occurring where teachers falsify their students results (Levitt & Jacob 2005). Furthermore these incentives will promote the teaching profession as one with potential opportunities, something it currently is lacking.

Infrastructural development

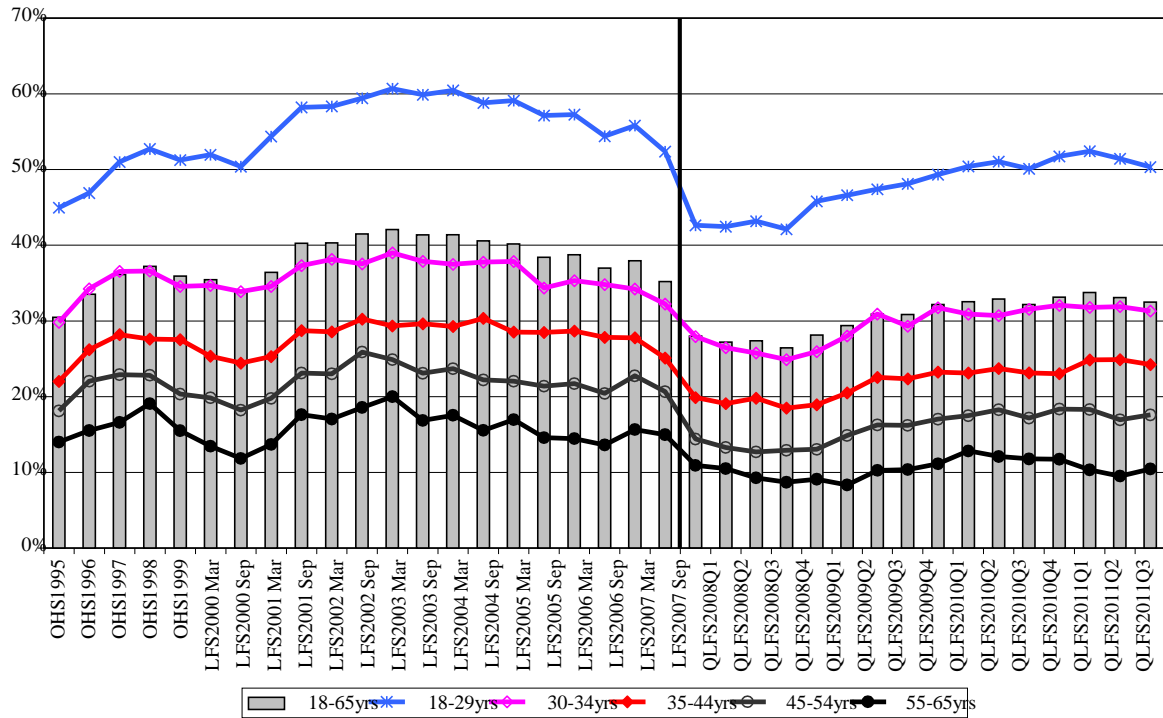
Social Activism group Equal Education has been at the forefront of the campaign to improve schooling infrastructure with libraries prioritised. (Fuller 1985) found that in 15 out of 18 studies library activity was a crucial determinant in academic achievement. Another more modern source of information is the internet. Computer centres with internet access should be available at all schools. This will allow students to develop basic computer skills and access the vast educational resources of the internet.

Conclusion

The NDP set highly ambitious targets for South Africa to achieve. However, efficient implementation of the proposed plans will make those targets a possibility. The above mentioned policies of the Skills Development Programs, the Youth Wage Subsidy and Educational reform have the potential to allow South Africa to reach the lofty heights set out by the NDP and eliminate high youth unemployment.

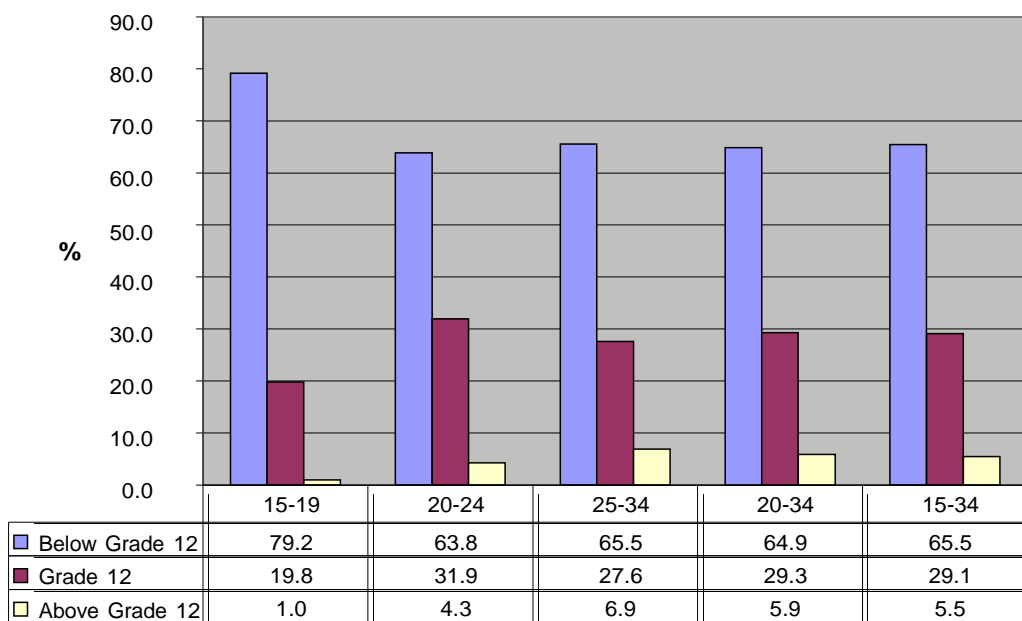
Appendix

Figure 1- Unemployment rate for each age group



Graph from (Van der Berg S Van Broekhuizen H 2012)

Figure 2 – Unemployed vs Education



Graph from (Du Toit, R 2003)

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