

YOUTH UNEMPLOYMENT

AN AGENDA FOR ACTION

NO COUNTRY FOR YOUNG PEOPLE

The crisis of youth unemployment and what to do about it



CENTRE FOR
DEVELOPMENT
AND ENTERPRISE



About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

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Youth Unemployment

An agenda for action

Youth unemployment is the country's most pressing socio-economic crisis. This devastating reality for millions and millions of young people is the result of the malign legacies of apartheid and the failure of a democratic society to adopt policies that respond to the extent and severity of the crisis. South Africa's economic strategy has not produced the growth or employment that we desperately need. There have been numerous targeted initiatives to address the challenge but they have had only limited impact on the vast numbers of young people without work.

CDE's Youth Unemployment project has involved engagements with key stakeholders in the 20 municipalities that have the largest number of unemployed young people, workshops with experts and academics, as well as commissioned research into the impact of the policy choices and actions prioritised to date.

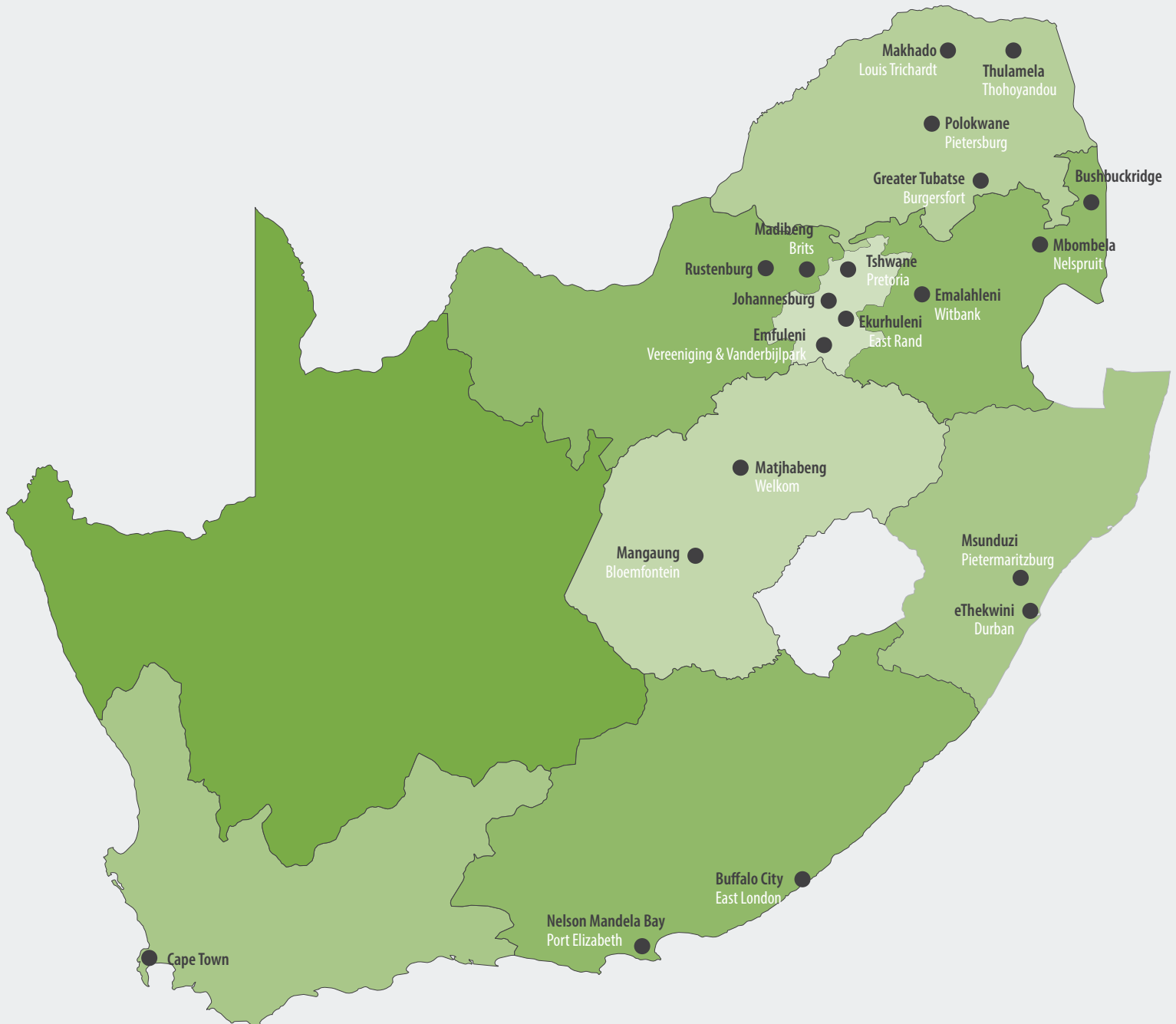
This report is one of three in a series on youth unemployment:

- **No country for young people:**
The crisis of youth unemployment and what to do about it
- **Business, growth and inclusion:**
Tackling youth unemployment in cities, towns and townships
- **Citizens in Action:**
How to build constructive business-government relationships in urban areas.

The key recommendation is that the scale of youth unemployment in the country must shape a bold, new agenda for action. Most of the current projects, initiatives and approaches are useful but they only make a small contribution relative to the scale of the challenge.

South Africa needs millions of new jobs for the workforce we actually have, not the workforce we wish we had. If we are to move the dial, the country needs system-wide reforms that produce accelerated inclusive growth that is urban-led, private sector driven, enabled by a smart state and targeted at mass employment. This requires strong national leadership by politicians, business and civic leaders and a recognition that more of the same will not result in change for the better.

The 20 youth unemployment “hot spots” in South Africa.



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NO COUNTRY FOR YOUNG PEOPLE

The crisis of youth unemployment and what to do about it

This report seeks to do three things. In the first section, we try to provide a clear account of the scale of the crisis of youth unemployment, making the point that the sheer number of unemployed young people means that South Africa needs to think hard about the extent to which the approach to addressing this issue has any chance of success. The second section reviews the principal approaches that are commonly discussed for resolving youth unemployment and seeks to show that there is little likelihood that these approaches will have much more than a marginal impact on the numbers of young unemployed. The final section makes the case that only systemic reforms that increase the rate of job creation and reduce the rate of job destruction significantly will lead to rapid reductions in youth unemployment. This will generate faster growth and push South Africa onto a more labour-intensive development trajectory.

Youth unemployment by the numbers

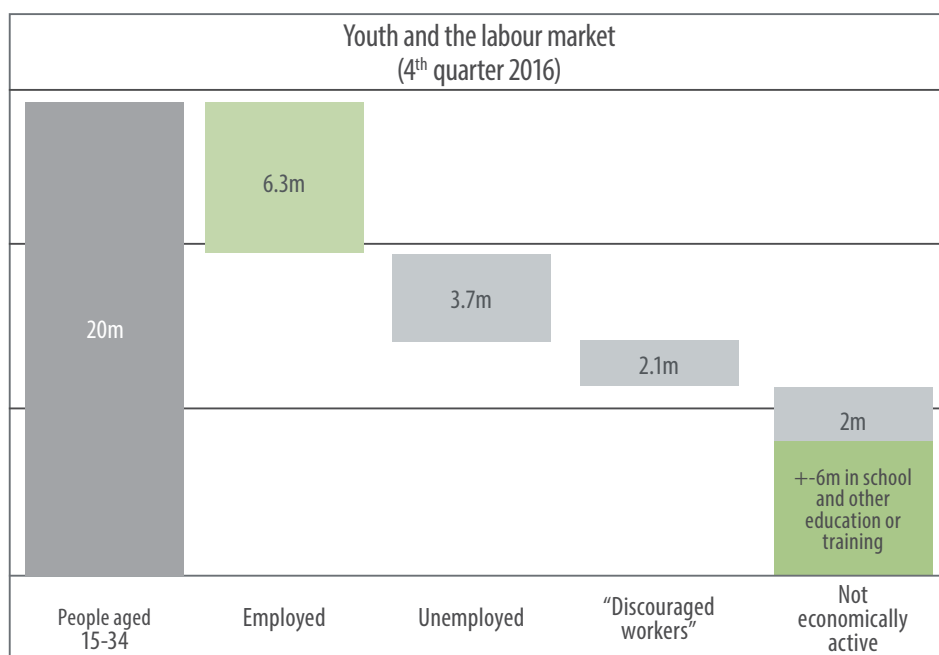
At the end of 2016, there were just over 20 million young people (i.e. people aged between 15 and 34 years) in South Africa. Of these, 6.3 million were employed, 3.7 million were unemployed but looking for work (the definition of unemployment used to calculate the 'narrow' unemployment rate), 2.1 million were unemployed but were no longer looking for work (the 'discouraged' workers used when calculating the expanded rate of unemployment), and eight million were not economically active. Of those who were not economically active, five million were still in school and around a million more were in some other form of educational institution or engaged in adult basic education. Overall, about 7.5 million young people (nearly 40% of all young people) were so-called 'NEETs' – not in employment, education or training.¹

In a country with 20 million young people, for 7.5 million of them not to be in school, training or employment poses an enormous challenge. To put that number into perspective, it is equivalent to the entire labour force of Gauteng (including both the employed and the narrowly unemployed); it is more than the total number of women in employment in the whole of South Africa; it is twice as large as the number of people employed in the South African economy's largest sector (community and social services), nearly three times as large as the number of workers in our third largest sector (finance), and nearly six times as large as the number employed in mining and agriculture *combined*.²

An unemployment crisis of this scale is not just a matter of an economy wasting vast resources, but that the social and political consequences are equally serious. Unemployed young people are much more likely to engage in undesirable activities,

¹ The reason the NEET number (7.5 million) is not quite the same as the sum of the number of people recorded as unemployed, discouraged or not economically active (7.8 million if we exclude school-goers) is that some people recorded as unemployed are in education or training.

“For nearly 40% of young people not to be in school, training or employment poses an enormous challenge.”



CDE 2017 based on data from StatsSA

including criminality and substance abuse, and to become disruptive presences in their communities. The political consequences of a large cohort of young people who lack confidence in the ability of their society to provide them with the employment and income they need to live their lives with dignity are also considerable.

South Africa has fewer youth jobs than in 2008

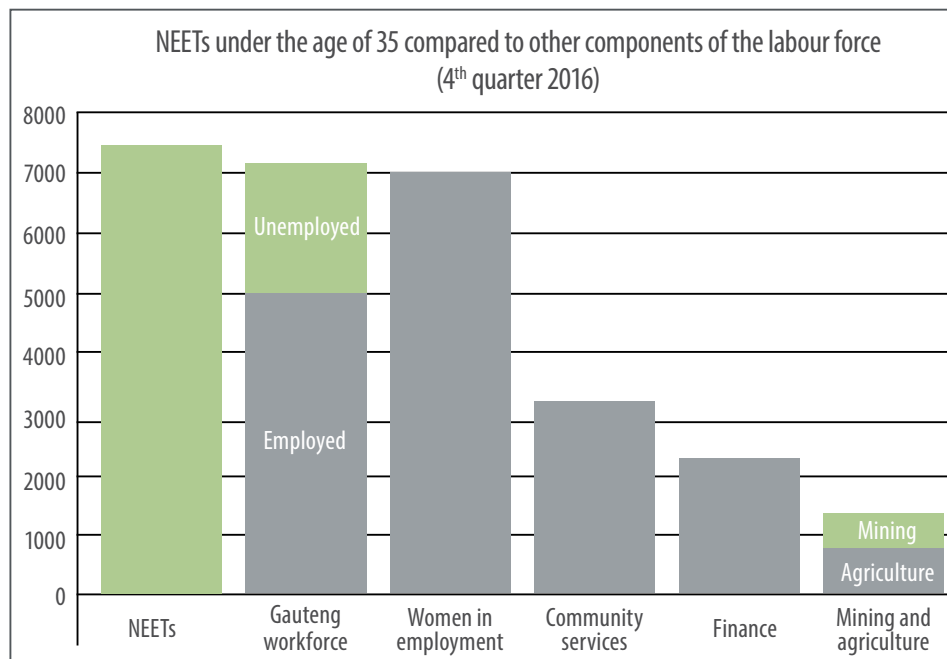
An alternative way to think about this daunting challenge is to think about the recent performance of the youth labour market, and to ask how that relates to the scale of the challenge. Here the key fact is that there were fewer young people in employment at the end of 2016 than there were at the beginning of 2008. On average South Africa lost around over 170 000 jobs and over the last nine years, or about 60 per day. Because the population of young people has continued to rise over that time (by about 200 000 a year), the aggregate number of young people in unemployment (broadly defined) has risen by about 140 000 a year, or 380 per day. The result is that the proportion of young people in employment fell from around 35 per cent in 2008 to 31 per cent in 2016, while the proportion who were unemployed rose from 41 per cent to 48 per cent.

This performance bears thinking about: in the best ever quarter for youth job creation – the third quarter of 2013 – about 160 000 new jobs were created for young people. At that rate – and bear in mind this was the best performance in 36 quarters – it would take over 11 years to create 7.5 million jobs for every NEET or nine years for the 5.8 million young people currently unemployed.

² It is perhaps worth noting that a decision taken in the late 1990s to impose a maximum age for school-goers who are repeating years at school contributed significantly to the number of NEETs. One estimate, of the total increase in the number of unemployed between 1997 and 2003, which rose by 2.3 million over that period, 900 000 may have been young people who, prior to the imposition of the age cap, might have stayed in school. This means that over a third of the increase in unemployment in that period was the recounting of what was really hidden unemployment. On this issue, see Burger, van der Berg and von Fintel (2013) "What caused the increase in unemployment in the late 1990s? Were education policies partly responsible?" available at <http://www.econ3x3.org/article/what-caused-increase-unemployment-late-1990s-were-education-policies-partly-responsible>.

"There were fewer young people in employment at the end of 2016 than there were at the beginning of 2008."

“There is at least some prospect that the number of jobs needed to achieve high levels of employment will not expand at anything like the rate it has done in recent decades.”



CDE 2017 based on data from StatsSA

An important caveat is worth making at this point: current population estimates suggest that the rate of growth of the population of young people is slowing. In the context of reasonably full employment, this would probably reduce the demographic dividend and slow the rate of economic growth. But in the context of mass youth unemployment, the slowing growth of the population means that fewer jobs will be needed to absorb young people than might otherwise be the case. The numbers, of course, are still enormous, but there is at least some prospect that the number of jobs needed to achieve high levels of employment will not expand at anything like the rate it has done in recent decades.

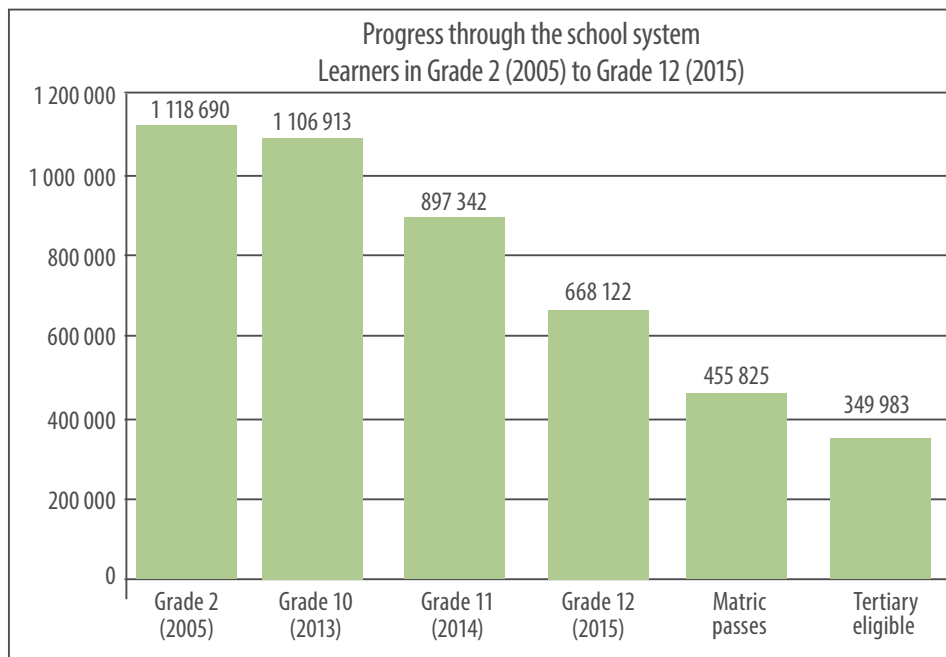
Number of young people	20 million
Young people in employment	6.3 million
Employment rate for young people	31%
Young people in workforce (narrow): i.e only those in jobs or actively looking for work	10 million
Narrow employment rate	37%
Young people in workforce (expanded): only those in jobs, actively looking for work or discouraged from looking for work	12.1 million
Expanded unemployment rate	48%
Number of young people in educational institutions	6.2 million
Number of young people not in employment, education or training (NEETs)	7.5 million
% of NEETs in young population	37%

CDE 2017 based on data from StatsSA

If the poor performance of the job market is one reason for worry about South Africa's capacity to find productive activities for its young people, another is that rapid expansion of education and training is not necessarily much more promising.

The Department of Higher Education and Training, following the NDP, has proposed a dramatic expansion of the higher education system to accommodate many more young people, but the reality is that our resource-constrained universities and TVET colleges are already unable to cope with the number of students they have. Clear evidence of this is that many institutions' throughput rates are extremely low. One estimate suggests that only 25 per cent of those eligible to complete a course in any given year actually do so, with some courses having much lower throughput rates even than this (CDE, 2016: 3-4).³

More importantly, there is little sign that the school system will be able produce sufficiently large numbers of matriculants who have obtained results that would make them eligible for higher education to justify increasing enrolment into tertiary institutions dramatically any time soon: only two in five of the of the 1.1 million children who were in Grade 2 in 2005 passed matric in 2015, and only three quarters of those who passed achieved a mark high enough to make them eligible for higher education.⁴



CDE 2017, based on statistics from various reports from the Department of Basic Education⁵

“The reality is
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³ See CDE (2016) 'Skills', a report prepared as part of The Growth Agenda: Priorities for Mass Employment and Inclusion (CDE: Johannesburg).

⁴ The reason the population of Grade 2 learners in 2005 is used rather than that of Grade 1s in 2004 is that the latter includes the large numbers of underage children that are admitted into school early and who repeat Grade 1. Including them results in inappropriately inflated Grade 1 population numbers.

⁵ Department of Education (2005) Education Statistics in South Africa at a Glance in 2004, Department of Education (December 2005); Department of Basic Education (2015) School Realities 2015; and Department of Basic Education (2016) National Senior Certificate Examination Report 2015.

Thinking about scale

These facts about youth unemployment in South Africa are a reality check, framing how we should assess the plausibility, practicality and likely impact of the myriad proposals made for addressing youth unemployment. Just how likely is it, we must ask, that these proposals will make serious inroads into the vast scale of youth unemployment?

The bottom line is that there is no plausible single project, initiative or programme that stands any real chance of dramatically reducing the number of NEETs in the short term. Even if such programmes deliver on their promises, none of the initiatives proposed by government and others will make a very substantial dent in the number of unemployed young people. The Jobs Fund, for example, an ambitious and, by most accounts, well-run challenge fund with a budget of R9 billion launched in 2012. It aims to create about 150 000 jobs over the course of its life-span, half of which will be for young people. Similarly, when it was first proposed in 2011, the National Treasury calculated that the youth employment tax incentive (i.e. the youth wage subsidy) would create about 178 000 net new jobs in a three-year period (at an estimated cost to the fiscus of R5 billion over three years).

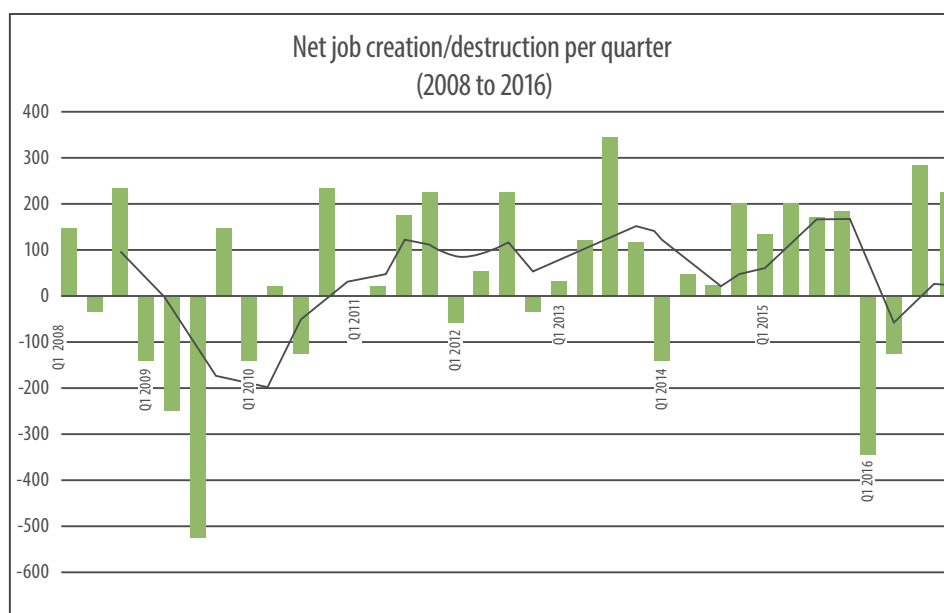
Framed this way, the only possible answer to any question about whether a particular intervention or project has the scale and scope to make a meaningful difference is that none has. But this is a consequence of how the question is framed, and the context within which it is answered. South Africa's economy, generates over R4 trillion in GDP each year, and, on any given day, 15 million people are employed (over six million of them between the ages of 15 and 34). In the context of an economy of this size, no project or initiative – even those that aim to work with tens of thousands of young people – is likely to make a measurable difference to aggregate employment. What matters is not the size of the employment-generating projects, but their quantity. And the best way to get more employment-generating projects is to foster an economic environment in which employment-generating projects are growing quickly. And, to preview a conclusion we come to later, the best, most sustainable “employment-generating projects” are called firms.

The same point can be made another way: over the past 36 quarters, the net change in employment has been anywhere between *minus* 500 000 (in the immediate aftermath of the global financial crisis) to *plus* 300 000. However, in roughly 25 per cent of quarters, around 200 000 net new jobs are created. If the economy is large enough to be capable of creating 200 000 jobs in a quarter, there is little hope that even a relatively large project will make a measurable difference.

The number of net new jobs is the difference between the number of new jobs created (whether by existing firms or by newly established firms) and of pre-existing jobs that are lost. This is the churn-rate of the labour market, and one estimate of this is that about 20 per cent of all jobs in South Africa are ‘reallocated’ – i.e. either created or destroyed – every year, a figure that is very similar to international norms.⁶ Given that there are 15 million employees in South Africa, that means that something

⁶ Kerr, Wittenberg and Arrow (2013) ‘Job Creation and Destruction in South Africa’ (Saldru working papers 1 of 2013) available at <http://www.opensaldru.uct.ac.za/handle/11090/608>.

“The best, most sustainable ‘employment-generating projects’ are called firms.”



CDE 2017, based on data from StatsSA

like three million jobs are either created or destroyed every year. Again, given the scale of this, the impact of projects will tend to be too small to measure.

Thinking about the issue of scale in these terms offers an immediate clue as to what kinds of interventions could make a material difference to the employment prospects of the millions of people who are unemployed. These are policy reforms that would increase the rate at which new jobs are created across large numbers of existing and newly emerging firms, or which slow the rate at which existing jobs are destroyed.

As we shall see, most of the kinds of projects and programmes that are usually proposed as solutions to youth unemployment aim at increasing the employability of young people or increasing the likelihood of individual beneficiaries finding a job. Neither approach, however successful in its own terms, is likely to make a really significant difference to increasing the rate of job creation or lowering the rate of job destruction. System-wide reforms that would achieve this kind of impact are those that would allow existing firms to grow more rapidly and create the space for new firms to emerge much more successfully. These are key to achieving measurable and meaningful change in employment levels.

Interventions to increase youth employment

When most people with whom we engaged in the course of this project talked about the kinds of policies, programmes and initiatives that they believed would reduce youth unemployment, they generally referred to six kinds of intervention:

- *Protectionist measures* that seek to ensure that local jobs are for local people;
- *Training programmes*, whether for hard or soft skills, whether for a qualification or simply for work-readiness skills;
- *Job search and matching interventions*, such as those that seek to improve the efficiency of the labour market, make information more widely available, or help work-seekers find jobs more quickly;

“Something like three million jobs are either created or destroyed every year.”

- *Public employment programmes*, such as the Expanded Public Works Programme (EPWP);
- *Entrepreneurship promotion*, which seeks to help young people start their own businesses; or
- *Wage subsidies* which use public funds to reduce the costs of employing people or to increase their take-home pay.

To understand why initiatives of these varying kinds are proposed most frequently, it's necessary to understand how they relate to the way in which people generally think about how young people enter the labour market.

The imagined school-to-work transition

When people think about the process of young people entering the workforce, they probably make some implicit assumptions about how this is supposed to work. In an ideal world, the process runs something like this:

1. The young person completes school and decides whether to study further or enter the labour market, perhaps seeking an apprenticeship somewhere.
2. If she chooses to study further, she enters a college or university and acquires a post-school qualification of some kind. While studying, she may acquire some experience working part-time in a restaurant or in some other workplace.
3. If the school-leaver doesn't study further, or when she has completed her studies/training, she applies for jobs or apprenticeships for which her skills are suited.
4. After some period of searching for a job, the work-seeker finds one. It isn't perfect – the hours are long, the work is hard, the pay is low – but she has a first toehold in the workplace and, as she acquires experience and if she keeps her eyes open, better opportunities will come her way, allowing her to move into better, more rewarding work. How far this will go depends on many factors, but once in the workplace, opportunities for advancement will materialise for many.

People who think about the school-to-work transition in this way know that there are any number of side-tracks and dead-ends along the way, and that most individuals' experience will diverge from this in some way or another. However, something like this process is understood to be the dominant current pulling people into and through their working lives.

When fantasy collides with reality

For most of its young people, South Africa's reality diverges from this quite dramatically.

- For young people to move smoothly from school into work, there must be some correspondence between the number of entry-level jobs being created every year and the number of young people exiting the education system (school and higher). In practice, South Africa produces far more young work-seekers each year than there are entry-level jobs for them: as shown above, there were fewer young people in employment at the end of 2016 than there were at the start of 2008. In addition, far too many people who have entry-level jobs never progress very far up any corporate or career ladder. We know this from wage data, which show that in most industries the median wage is not very much higher than the minimum wage, one implication of which might be that older, more experienced workers are doing jobs that are similar to those that young people would be doing if they had jobs. Thus, the National

“South Africa produces far more young work-seekers each year than there are entry-level jobs.”

Treasury notes that ‘the average minimum wage across all sectors is about 62 per cent of the average formal sector wage. This is very high by international standards and far above the average in the OECD (37 per cent), which is already elevated compared to emerging and developing countries.’⁷

- It is assumed that young people know how to find jobs for which they are suited and that such jobs are available in reasonably close proximity to where they live. In practice, work-seekers often come from households in which no-one holds a full-time, formal-sector job, or in which those with jobs have no meaningful way to open up a path for their children/siblings. Many also have very little knowledge about what kinds of jobs are out there, for which jobs their skills and aptitudes are best suited, or how to maximise their chances of getting one of the few jobs that are available.

The principal reason for the gap between the South African reality and the assumptions many people make about the labour market is that employers have little incentive to employ young people. In a society in which most workers earn more as they acquire experience, young workers can offer their services to employers at a discount relative to the wages being paid to older workers. If there is little gap between mean and minimum wages, why should employers take on more unreliable, less experienced young people?

More generally, the gaps between fantasy and reality have their roots in employers’ doubts that they can put more young people to work profitably, believing that the returns from doing so do not justify the costs and associated risks. These risks include that, over time, the cost of employment will rise much more quickly than the revenues that new employees will help generate, and that employing people means taking on the risk that employment costs will spiral upwards.

Young work-seekers, then, confront terrible odds:

- The economy is growing too slowly to generate the demand employers need to expand employment;
- Many have too few skills to be put to work in activities that generate very much value; and
- The costs of employing young people – and employers’ expectations that South Africa’s wage-setting mechanisms will tend to raise wages in the future – exceed what employers expect to be able to earn by taking on new workers.

In light of these considerations, we now return to our assessment of the kinds of proposals most frequently made to address youth unemployment.

Protecting local workers from competitors

Many people in South Africa appear to accept the argument that one of the keys to reducing unemployment is to restrict the role foreigners can play in the economy. Proposals of this kind come in a variety of forms and are made in relation to both skilled and unskilled foreigners, as well as in relation to some kinds of foreign businesspeople, especially shopkeepers. The intuition behind this idea is that there is

“Employers have little incentive to employ young people.”

⁷ National Treasury (2011) *Confronting Youth Unemployment* (National Treasury: Pretoria).

a certain amount of work available in the economy, so if we could limit the number of people competing for it to just locals, then more South Africans would find work.

This view raises a few important points about this approach to improving the employment prospects of South African youth. One is that the intuition about how work is shared out is wrong: the number of jobs that exist in an economy is not fixed; it is determined by how easy it is for people to do productive work. The easier it is to work productively, the easier it is for people to find work, irrespective of how many people are already in jobs. Restricting the number of people allowed to work may open opportunities for some, but it is at the expense of making it harder for everyone to work, and the difficulties created will usually tend to reduce the total number of jobs in the economy more than it restricts the number of job-seekers. The easiest way to see this is in relation to skilled workers: preventing skilled immigrants from working in South Africa may appear to help locals with skills, but in practice the effect on the economy can be so profound that total demand for skilled labour may actually fall. Preventing skilled migration, in other words, reduces demand for unskilled workers and may even constrain growth so much that employment levels fall, reducing demand even for skilled workers below what might otherwise have been achievable.

The case of foreign traders is a little different: it is plausible that the presence of foreign traders has made it harder for locals to remain competitive in poor communities, and may, therefore, have led to more unemployment or lower incomes among those engaged in retailing there, but it is not obvious that preventing foreign shopkeepers from working in South Africa is an appropriate response. This is because preventing communities from using cheaper options means imposing higher costs on poor consumers. If foreigners are prevented from operating in an attempt to protect more expensive locals, then the cost of widening local shopkeepers' opportunities is higher prices for consumers.

More important than these arguments, however, is that preventing foreigners from working in South Africa in the hope that this will encourage local employers to hire local workers reflects an assumption that if a particular job exists, restricting competition for it means raising the wage. This may be true in the short term, but, generally, when wages are high, employers reconfigure their activities to use less labour. Restricting who can work in South Africa, in other words, does nothing to change the central fact that employers are reluctant to employ people whom they think are not worth their cost of employment.

Training programmes

The set of proposals that is most frequently made in response to high levels of youth unemployment, whether in South Africa or elsewhere, consists of various forms of education and training, whether provided by publicly funded institutions (universities, TVET colleges), private providers or NGOs. Programmes might include university degrees, college-based diplomas, workplace-based apprenticeships, and any number of different soft-skill programmes aimed at increasing trainees' work-readiness.

The logic of these proposals is that young people with more skills are able to do more productive work, making them more attractive to employers (assuming employment costs do not rise proportionately).

“Preventing skilled migration reduces demand for unskilled workers.”

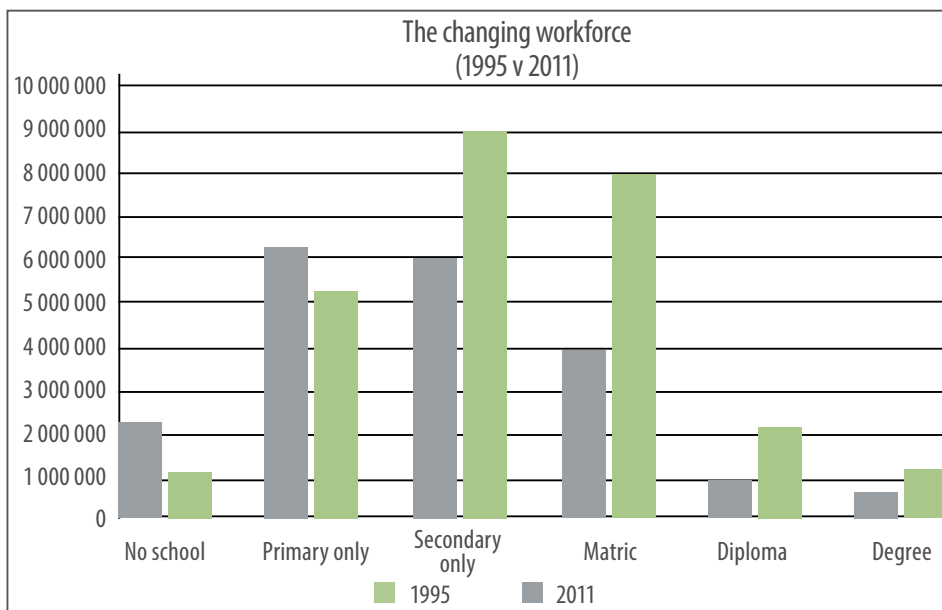
It is self-evident that some of this is true, and this is the main reason why unemployment among people who have university degrees remained in single digits throughout the period between 1995 and 2011, despite the doubling of the number of graduates in the working-age population. It also explains why the rate of increase of the number of people in employment in South Africa between 1995 and 2011 was much faster for those with matric or with tertiary qualifications (at nearly 5 per cent a year) than it was for people who did not complete schooling (between -4 per cent and 3 per cent a year).⁸

To the extent that training does, in fact, increase the actual and potential productivity of young work-seekers, this approach has much to recommend it. Not only does it increase a young person's likelihood of finding work, it also increases the productive potential of the workforce, thereby increasing the economy's capacity to grow.

There are two challenges with this approach, however. The first is that it is not obvious that every kind of post-school training actually makes young people more productive. It may be that the value of a post-school qualification is the signal it sends to employers about the recipient's diligence and perseverance, rather than her acquisition of particular skills, and that this is information that employers cannot glean merely from looking at school results. Employers, in other words, may not be attaching any real value to the new skills obtained by those who went on training programmes, but are using the acquisition of a qualification as a signal of something that might already exist, but which is unobservable to them.

The second, and more significant, challenge relates to the scale at which these kinds of intervention might plausibly impact on youth unemployment. In this regard, it is worth asking two questions: (i) how much faster can the number of people in the post-school education system plausibly grow? (ii) how much faster is it possible for the economy to generate jobs for skilled people?

“How much faster can the number of people in the post-school education system plausibly grow?”



CDE 2017, using data from StatsSA

⁸Van den Berg and van Broekhuizen (2012) 'Graduate unemployment in South Africa: A much exaggerated problem', Stellenbosch Economic Working Papers: 22/12.

The answers to both questions are uncertain, but, it is worth repeating that South Africa's schools currently produce only 350 000 matriculants a year with marks deemed high enough to make them eligible for higher education, and that as many as 70 per cent of children born in any given year will not meet this standard. Other data reflect the challenges in different ways. According to researchers from the HSRC,⁹ between 2010 and 2016:

- the number of full-time learners who achieved bachelor degree passes increased by an annual average of 4.7 per cent from 126 500 to 162 500, a rate of increase that is some way short of that needed to achieve the NDP's goals of 300 000 bachelor's passes by 2024;
- the number of learners writing the maths examination increased only slightly (from 263 000 to 266 000), though the pass rate did increase from about 47 per cent to just over 51 per cent; and
- the number of learners writing the physical science examination decreased from 205 500 to 192 500, though, again, the pass rate increased from 48 per cent to 62 per cent.

The researchers conclude that 'the pool of matrices who achieved above 50 per cent in maths and science and who could therefore access the tertiary courses related to science, engineering, technology and health is low but growing slowly'.

Obviously, South Africa can and should work to improve these numbers, but there is a 'speed limit' on how quickly the system can improve, and it is unrealistic to think that the number of people emerging from the school system who are ready for higher education can grow much more quickly than 5 or 7 per cent a year, which is higher than current rates of progress.

In this regard, it is worth bearing in mind that South Africa has already achieved quite a lot in improving the skills levels of its workforce. Thus, in 1995, 72 per cent of the working-age population had not completed matric, a figure that had fallen to 58 per cent by 2011. Similarly, while only 8 per cent of the workforce had a degree or diploma in 1995, by 2011, the figure was 12 per cent. Given that over the same period the working age population expanded by over 30 per cent, these figures represent a rapid increase in skills in the workforce.

The second point is that, while employment growth for those with post-school qualifications has been rapid over the past two decades, a significant driver of this has been in public-sector employment, a category that will likely grow much more slowly (if at all) in the short and medium term.

A final consideration: even if it is possible to rapidly expand post-school education for school-leavers, this would do nothing for the employability of the millions of young people who have already left the education system. South Africa needs to create jobs for the workforce it has, not for the workforce it might wish it had. And we need to recognise that if the primary route into employment is through more education, then millions of current work-seekers are, in effect, being abandoned. Having said that, there is undoubtedly more that the country could do with work-based training programmes – especially apprenticeships. Given the vast need for training programmes that are suitable for people who do not have their matric certificate, the

⁹Reddy, Juan and Hannan (2017) 'Class of 2016's mixed bag of results' in Mail and Guardian (13 January 2017) available at <https://mg.co.za/article/2017-01-13-00-class-of-2016s-mixed-bag-of-results>.

“South Africa has already achieved quite a lot in improving the skills levels of its workforce.”

poor performance of the existing system of learnerships and the under-provision of training through the SETAs and the National Skills Fund certainly need attention.

Job search and matching interventions

A third approach to the challenge of youth unemployment is to propose interventions that help link work-seekers to jobs or firms more efficiently. Proposals of this kind include:

- Training interventions for work-seekers that seek to help them look for work more effectively;
- Career advice offered to school-goers, school-leavers or work-seekers;
- Travel vouchers for the unemployed to lower the cost of job search;
- Temporary employment services companies ('labour brokers') who assist firms with recruitment and some of their HR management functions;
- Jobs fairs; and
- Labour centres (where firms advertise openings and work-seekers are directed to opportunities).

The logic of the argument for interventions of this sort is that they will offset inefficiencies in the process of matching work-seekers and employers and, in that way, assist both to achieve their goals at lower risk or cost.

These interventions can be useful. However, the extent to which they create value for society depends heavily on the extent to which youth unemployment (or unemployment more generally) is what economists call 'frictional', which is the unemployment that exists in all economies as a result of the fact that, at any given time, there are people entering the labour market or moving between jobs. Frictional unemployment rises during recessions and falls during booms, but it is present in all economies. Improving the matching process reduces frictional unemployment by shortening the time it takes to find work.

Mass unemployment with deep structural roots cannot really be addressed through more efficient job search and matching, however. These interventions may help some people find work more quickly or help firms make better matches and may provide helpful support for work-seekers. This is true unless there really are suitable recruits whom employers would be willing to employ, but are unable to do so because the costs of finding those individuals are very high. It seems somewhat doubtful that these conditions actually exist (though banning labour broking would certainly worsen them if they did). In their absence, it is hard to see how improving the efficiency of job search and matching could dramatically increase the demand for labour and as a result the creation of employment opportunities. Ultimately, these interventions do more to reorder people in the unemployment queue, pushing some people up the line, but they are less plausible tools for reducing its overall length.

Public employment

Public employment is another frequently proposed approach to dealing with large scale unemployment. Its logic is that employment levels can be raised directly by government simply choosing to employ more people. This can be through the expansion of the civil service or through programmes such as the EPWP and the

“Mass unemployment with deep structural roots cannot really be addressed through more efficient job search and matching.”

Community Work Programme, which seek to grow labour-intensive, low-wage, low-skill employment in public projects of various kinds.

This approach has a long history and has been used by many countries, including:

- The United States, where, during the Great Depression the Works Progress Administration, employed as many as 3.3 million people at the end of 1938;
- Apartheid South Africa, where deliberate policy choices were made to create public employment for so-called 'poor whites' deemed to have been left behind by a changing economy; and
- India, where a rural employment guarantee scheme offers 100 days paid labour a year for one member of every poor household, and which government figures show has paid wages to between 30 and 50 million households each year from 2007/8 to 2014/5, paying about \$2 a day.¹⁰

It is difficult to estimate precisely how many new jobs have been created in the civil service or through the EPWP, though the total number is quite large relative to the performance of the rest of the economy (though not in relation to unemployment numbers).

One indication of the trend is that in the first quarter of 2008 there were 2.7 million people employed in the 'community and social services' sector of the economy, which is dominated by government employment but does include other kinds of employers. Employment in this sector rose to 3.6 million by the fourth quarter of 2016, an increase of 32 per cent, though this includes a recent period of declining employment in the public sector, with employment in national, provincial and local government falling by about 1.3 per cent between 2014 and 2016. Over the same period, employment in construction increased by 24 per cent, from 1.2 million to 1.5 million. By contrast, employment in the rest of the economy grew by only 4 per cent, from 10.5 million to 11 million.

A significant portion of the increase in employment in community and social services is likely the result of the EPWP, which, in creating about 1.4 million 'work opportunities' (i.e. short spells of employment at low wages), created the equivalent of about 400 000 full-time jobs, about half of which were for young people. This figure needs to be treated with some caution, however: some of the EPWP projects would have happened even in the absence of the EPWP, which aims, primarily, to make infrastructure spending more labour-intensive than it would otherwise be. It is not clear how many of these jobs would have existed without the EPWP, but it should be noted that average spending on wages in EPWP infrastructure projects is around 10 per cent of total project costs, so it is likely that even less employment-intensive methods would have still generated a substantial fraction of the employment claimed by the EPWP.

There are two critical problems with using the expansion of public employment as the key driver of employment growth, however:

- Employment in the public sector is generally characterised by low productivity growth. This is partly because of the nature of the work government does: education, healthcare and policing are services in which productivity growth

¹⁰Data from the Indian government, and available at <https://community.data.gov.in/household-employment-under-mgnrega-from-2006-07-to-2014-15/>.

“Employment in the public sector is generally characterised by low productivity growth.”

is generally slow. It is also the result of difficulties associated with creating incentives and management structures in the public service capable of driving faster productivity growth. This being so, as more and more of a society's workforce is absorbed into these activities, the slower the economy's average productivity growth, and therefore, the slower its economic growth. Here, it is important to be clear that the nature of South Africa's challenges means that it is very likely that poor people will rely on the state for goods, services and incomes for a considerable period, and that this is not a general argument against public employment. The argument is simply that the larger the claim the public service has on a society's resources, the greater the drag it places on average productivity growth.

- Public servants' salaries are paid for by taxes, so the greater the share of national income being devoted to paying them, the higher taxes will have to be. This, too, has implications for the economy: increased taxes means that taxpayers have less to spend on goods and services, and less disposable income from which to save. Societies cannot afford to fund large state employment budgets on small tax bases, especially when economic growth stagnates. Later, the case will be made for faster growth as the key driver of increased youth employment. One of the key transmission mechanisms between faster growth and more youth employment is precisely through the increased capacity of the state to create employment if tax revenues grow.

Wage subsidies

One of the ways that societies sometimes seek to increase employment is by providing subsidies either to the employed, which increases take-home pay and thus encourages people to look for work, or to employers, which reduces the cost of employing people, encouraging firms to expand employment. In South Africa's case, the key priority is to increase the demand for labour, which suggests that we should emphasise subsidising employers to reduce the costs they face when taking on staff.

As noted earlier, the small gap between minimum and median wages makes it very difficult for young people to sell their labour to employers at a discount to the cost of employing more experienced workers. Under these conditions, a youth wage subsidy should facilitate earlier entry into employment.

The international evidence that wage subsidies increase employment significantly is not overwhelming. In South Africa, reviews conducted by different researchers using different methods to estimate the impact of the existing wage subsidy, have come to divergent and contradictory conclusions. Some researchers have found no apparent impact of the employment tax incentive (ETI) on the likelihood of a young person finding a job;¹¹ while others have concluded that the impact of the ETI in the first year was the creation of something like 60 000 new jobs at an average cost, including all the subsidies paid to young people in jobs that would have existed even in the absence of the ETI, of about R40 000 per job.¹² These divergent conclusions are not contradictory: given the large number of unemployed young people, the creation of 60 000 new jobs could quite easily fail to make a statistically measurable impact on the likelihood of a young person's finding employment.

¹¹ Finn and Ranchhod (2014) 'Estimating the short run effects of South Africa's Employment Tax Incentive on youth employment probabilities using a difference-in-differences approach' (SALDRU: UCT)

"A youth wage subsidy should facilitate earlier entry into employment."

Wage subsidies have drawbacks. Subsidising some workers rather than others, for example, may generate some level of displacement, if not of existing jobs than of jobs that are yet to be created, as employers adjust their hiring practices in response to the incentives created by the subsidy. There are also always some deadweight costs, where subsidies are paid even though the jobs would have been created in the absence of the subsidy, or with a significantly smaller subsidy.

Having said that, a strong case for wage subsidies can nevertheless be made, especially in an economy such as ours, where most incentives offered to firms through the tax code or through industrial support programmes run by the Department of Trade and Industry tend to subsidise investments in capital equipment or new physical infrastructure, rather than the employment of more people.

There are other arguments for wage subsidies, too: if it is true that mass unemployment is not just bad for the individual unemployed person but bad for the society (e.g. because of increased crime or other symptoms of social dysfunction), then the benefits a society gains from increased employment are larger than the benefits obtained by those who get jobs. In those circumstances, public subsidies aimed at increasing employment make sense.

Given the compatibility between wage subsidies and the general tenor of South Africa's redistributionist politics, as well as the importance of employment costs to determining employment levels, serious consideration should be given to expanding wage subsidies should future evidence suggest their efficacy. This consideration is reinforced by the fact that, assuming their efficacy, wage subsidies have the potential to be increased quickly and reasonably efficiently. Indeed, a back-of-the-envelope calculation suggests that subsidies could be expanded dramatically for only a small percentage of GDP: South Africa could subsidise two million jobs every year for R1 500 each per month for less than one per cent of GDP. Given the high social costs of unemployment and the evident need for more rapid employment creation to stabilise South Africa's politics, this seems like a sound investment.

Entrepreneurship promotion

A final approach to reducing youth unemployment is through proposing interventions to encourage or facilitate self-employment by helping people start their own businesses, whether through training and mentorship or through addressing key challenges that would-be entrepreneurs face, such as access to finance.

The logic of these interventions is that unemployed young people face hurdles in establishing viable income-generating businesses. To the extent that people can be assisted in getting over these hurdles, they are more likely to establish businesses and those businesses are more likely to be profitable.

There is no doubt that South Africa needs to become a more entrepreneurial economy. All indicators point to this, including the low rate of new business formation, with the Global Entrepreneurship Monitor, the leading benchmark survey measuring entrepreneurship levels across the globe, showing that South Africa has persistently

¹²Rankin (forthcoming) research presented at a workshop hosted by UCT in June 2017.

“Wage subsidies have the potential to be increased quickly and reasonably efficiently.”

low levels of entrepreneurial activity relative to other countries, and that these levels are falling rather than rising.¹³

Promoting entrepreneurship in an economy in which this is scarce is a good thing; knowing how to do this effectively is much more difficult. Indeed, there is little evidence that most entrepreneurship-promotion programmes generate significantly better prospects for unemployed young people. There are many reasons for this, but the most important is that it is seldom obvious what help entrepreneurs need to succeed, while some of the help they obviously do need is almost impossible to supply effectively.

It is relatively easy, for example, to supply cheap finance to would-be entrepreneurs, but if the real problem is an absence of know-how because of lack of experience in the industry (or in a business of any kind), then providing capital won't work. And, if know-how is the binding constraint, training may still not be an appropriate substitute: some kinds of knowledge must be acquired through immersive experience (i.e. on the job), and cannot be transferred in a classroom no matter how well-intentioned the training provider. All the evidence seen in South Africa and internationally suggests that the vast majority of successful entrepreneurs have worked in an industry for some years before they can find a niche for their own firm, and have a level of education higher than matric.

Finally, entrepreneurship promotion must confront a central, all-but-insurmountable difficulty: in almost any environment, the typical business start-up is much more likely to fail than to succeed. In South Africa's circumstances – where many would-be entrepreneurs are poor, live in poor communities with little disposable income, and have little or no work experience – the odds of success are very small, especially when entrepreneurs are young and have no experience in business.

Entrepreneurship is a social good. Entrepreneurship promotion is important. It is, however, unlikely to help a significant number of young people make very much progress.

Thinking about interventions

The kinds of interventions reviewed in the preceding pages all aim to address some or other aspect of the challenge created by mass youth unemployment. Some try to protect the unemployed from competition by foreigners, others propose training programmes, job search and matching interventions, public employment and wage subsidies, or the promotion of entrepreneurship.

While almost all have their merits, the capacity of each to expand its current impact on youth employment is limited. Indeed, to the extent that some do have the potential to make a big impact, they already consume significant resources and are unlikely to be able to expand dramatically without serious consequences for the quality of the work they do. This is true, for example, of post-school education and training, in which South Africa already invests heavily. Other kinds of large-scale intervention,

“South Africa needs to create jobs for the workforce it has, not for the workforce it might wish it had.”

¹³ Herrington, Kew and Mwanga, Can small businesses survive in South Africa, South Africa Report 2016/2017 (London: Global Entrepreneurship Monitor-GEM, 2016) available at <http://gemconsortium.org/report>

such as public employment, also consume considerable public resources, and in circumstances in which the economy is not growing and public debt is, it is doubtful that the resources can be found to expand these programmes without consequences for macroeconomic stability.

These realities necessitate a rethinking of South Africa's approach to its crisis of youth unemployment, one based on a more realistic appreciation, both of the scale of the challenge and of the (limited) potential of these kinds of interventions.

What should we be doing about youth unemployment?

The scale of South Africa's crisis of youth unemployment means that any set of interventions such as those discussed has the potential to seem insignificant. When there are 7.5 million young people who are neither employed nor receiving education or training, projects and programmes that create jobs numbered in the tens of thousands will be too small to change the country's trajectory on this vital issue.

This is a critical point of departure. If the number of new jobs created in any given period is the difference between the creation of new jobs and the destruction of old ones, then rapid employment growth requires that more new jobs will have to be created and fewer existing jobs destroyed. Two implications flow from this:

1. Economic growth, especially in labour-intensive activities, is the key to more employment growth.
2. South Africa should not implement policies that aim to slow job destruction if they have the effect of slowing job creation even more.

In thinking about what these two imperatives mean, we focus here only on those actions that we think have the potential to make substantial contributions to reducing youth unemployment. Many, many interventions can help on the margin; only a few have the potential to substantially move the dial in changing young people's employment prospects.

The critical importance of economic growth

Economic growth is the most critical determinant of the rate of employment creation. This is because a growing economy makes all firms more viable, allowing more successful firms to expand faster and saving some firms that might otherwise have gone under. Economic growth also facilitates the entry, survival and growth of new firms, which, for obvious reasons, are more likely to prosper in a growing economy than in one that is stagnant or shrinking. If you think about firms as job-creation projects, then it's immediately obvious that having lots of new firms entering the economy is a good for employment growth.

Job creation is driven by the same things that drive economic growth: improving the business climate to increase investment, lowering the costs of doing business and building the kinds of social and legal institutions that allow firms that produce goods and services at competitive prices to prosper.

“Economic growth, especially in labour-intensive activities, is the key to more employment growth.”

There are far too many ways in which South African reality violates these requirements. The policy environment has become increasingly unpredictable, with more and more obvious downside risks. Regulatory requirements have become more numerous, more intrusive, and, in some cases, (such as the recent proposals for a new mining charter) increasingly perverse. Sovereign downgrades have increased the cost of credit. The costs of using economic infrastructure, and of critical inputs like logistics and electricity, have risen quickly. Labour relations, never smooth, are becoming more fraught, and upward pressure on wages has increased.

Each one of these trends might by itself have led to falling levels of investment and slower growth; collectively, they have become mutually reinforcing, creating a downward spiral from which it will not be easy to emerge. The result is predictable: economic growth lags behind the average for the global economy as a whole: real output in South Africa at the end of 2016 was 92 per cent higher than it was at the beginning of 1994, compared with 132 per cent for the global economy.¹⁴

A return to economic growth will not be easy, but getting there is a prerequisite for much faster employment growth. First and foremost, it will require a commitment by policy-makers to prioritising growth, a commitment that has all too often been subjugated to commitments to other goals. In some cases, these goals have been justifiable and desirable: apart from the clear moral imperatives, a politically stable, fast-growing South Africa is impossible to envisage in the absence of some form of black economic empowerment and employment equity, for example. It was not inevitable, however, that the particular configuration of these policies would come to act as a severe drag on firms' growth prospects. We need to strike a better balance between these two goals.

Make it easier to employ people

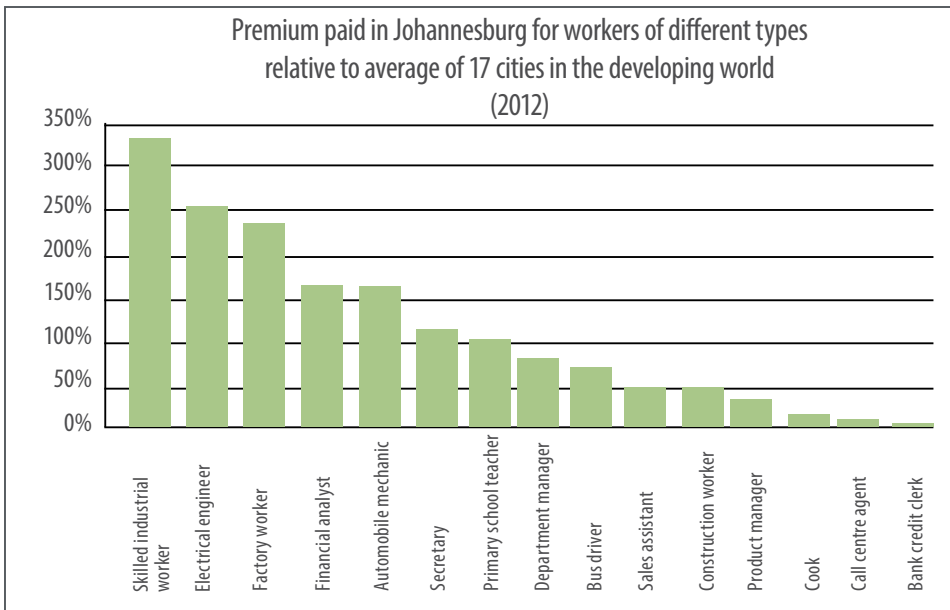
While growth is critical to achieving faster job creation and less job destruction, South Africa also needs to ensure that economic growth is much more intensive in its use of labour – especially unskilled labour – than has been the case historically. This may sound strange to those who believe that South Africa's economy was built on the low-wage, labour-intensive system of apartheid. In fact, average South African wages, largely as a result of very high wages in the formal sector (especially at the top of the distribution), are higher than is the norm for developing countries. Thus, a survey of wages of people in various occupations across a large number of the world's cities by Swiss Bank, UBS, suggests that firms in Johannesburg pay a premium (often a substantial one) for a wide range of different kinds of workers when compared to the average wages paid in 17 cities in the developing world.

There are many reasons for the high cost of labour in South Africa, reasons that include the skills shortage, the structure of collective bargaining and wage determination, and a range of conventions about pay levels and living standards that have their roots in the privileges white South Africans enjoyed under apartheid. It is also the case that South Africans face very high costs of living. Andrew Kerr, a UCT-based economist, found that the implicit tax on hourly earnings that low-income workers pay for their long (and expensive) commutes are between 20 and 40 per cent.¹⁵

“South African wages are higher than is the norm for developing countries.”

¹⁴IMF World Economic Outlook Data Base, April 2017.

¹⁵Kerr (forthcoming) 'Tax(i)ing the Poor? Commuting costs in South Africa'.



CDE 2017, based on data from UBS¹⁶

In circumstances such as these, upward pressure on wages is understandable. Nevertheless, the relatively high cost of South African labour is also why growth in the South African economy has been increasingly dominated by industries that do not face significant international competition – financial services, retailing and wholesaling, construction, the public service. It is also why there is evidence that within industries, production is increasingly dominated by larger, more capital-intensive firms which generate more output per worker and can afford higher wages.

While this has profoundly negative consequences for all workers and work-seekers, its impact on the young is particularly severe. Young workers, whose inexperience means that employers regard them as likely to be less reliable and productive than older workers, cannot offer their labour to employers at a discount because of the labour laws and the lack of upward mobility in large parts of the labour force. The effect is that employers have no reason to prefer young work-seekers to older ones, locking the youth out of employment. Addressing this requires reform of the legislation governing the labour market.

Focus on labour-intensive industries

There are two mutually reinforcing ways to increase the labour-intensity of the economy: industries that use more labour per unit of output produced can grow faster than less labour-intensive industries and, within each industry, more labour-intensive firms can grow faster than less labour-intensive ones.

Some of the interventions needed to achieve faster growth of labour-intensive industries are identical with those needed to achieve faster growth among labour-intensive firms. In particular, any intervention that lowers the cost of labour in comparison with the cost of capital will lead to a shift of resources towards activities that are more labour-intensive. The critical reforms that achieve this goal include those that:

¹⁶ UBS (2015) Prices and Earnings 2015 (UBS: Switzerland).

“Employers have no reason to prefer young work-seekers to older ones, locking the youth out of employment.”

- directly reduce the cost of employing people;
- help lower the rate of growth of employment costs; and
- reduce any subsidies paid to capital intensive firms, industries or activities.

Existing labour law tends to raise the cost of employment by creating wage-setting mechanisms that are biased to raising wages faster than productivity growth. Reforming these mechanisms remains a key goal, but, at the minimum, we should avoid imposing new costs on employers in the form of dramatically higher minimum wages, restrictions on the use of 'labour brokers' and the like. Reforms of this kind do the opposite of what is needed: they encourage firms to make do with fewer workers and in particular fewer unskilled workers.

We should also be looking to expand those industries that are particularly labour-intensive, especially those that use unskilled labour. We should also focus on those industries that produce goods and services for the global market, if only because the rate of growth of these industries is not constrained by the size and growth of the domestic economy. There is much more headroom into which a company that sells socks into Europe's vast economy can grow than there is for a company seeking to sell hamburgers into the small (and stagnating) local economy.

The most important labour-intensive, export industries are light manufacturing (clothing, electronics and toy assembly, agro-processing, etc.) and tourism. Both have enormous capacity for growth. It is estimated, for example, that 85 million jobs in

Will technology spell the end for job-rich growth?

The next waves of technological disruption – artificial intelligence, advanced robotics, autonomous and near autonomous vehicles and 3-D printing – may threaten some of the jobs that have enabled poorer people in the developing world to get themselves out of poverty. Fears of this kind have been around since the industrial revolution. What has happened in each previous instance has been rising productivity and better paid jobs in more capital-intensive factories. Some economists argue that this time it is different, and that new technologies will displace both manual and non-manual labour on a massive scale.

These are real threats, but to the extent that this will occur, the effects will not be felt in the immediate future. Rather than give up on private-sector growth, middle-income countries should focus on getting as much growth and private investment as they can in spite of difficult global conditions. It will continue to be the case for at least another two decades that poor countries can take advantage of labour surpluses to create export-based manufacturing jobs.

CDE 2017

light manufacturing activities in China may move to other countries in the next few decades if China's economy continues to move up the value chain. Indeed, as China gets richer and its market grows, the number of these jobs available worldwide may continue to rise. Many of these jobs are already starting to move with Chinese and other manufacturers setting up factories in other Asian countries as well as in

"It is estimated that 85 million jobs in light manufacturing activities in China may move to other countries in the next few decades."

some African countries. Most of these jobs will likely move to places like Vietnam, Bangladesh and India, but there is no reason why some of them could not move to South Africa.

Tourism is also a highly labour-intensive 'export' industry, though this time the export is of services rather than goods. South Africa prides itself in the fact that it has increased the number of tourists arriving here over the past two decades, but we are still a long way short of where we could be. South Africa attracted about 9 million foreign visitors in 2016, about 7 million of whom came from Africa, generating (so the industry claims) about 700 000 jobs.

Compare this with Thailand, however, which last year attracted 32 million visitors, three times the number it attracted in 2000. Of these 32 million visitors, about a quarter came from China, demonstrating that, as is the case with South African tourism, proximity matters. Nevertheless, there are clearly many more tourists who could come here. The key reforms needed to achieve this are that we need to make it far easier for foreigners to get visas to come to South Africa, including being prepared to issue far more visas

“The two most important goals must be to ensure much faster economic growth and to implement labour market reforms.”

An export processing zone in Nelson Mandela Bay Metro

As part of CDE's Growth Agenda, we recommended the establishment of an export processing zone (EPZ) at Port Elizabeth.¹⁷ This would be aimed at attracting new labour-intensive firms manufacturing goods for export only.

Firms located in the EPZ would have access to duty-free imports and should be exempt from South African labour legislation, thus allowing them to determine their own wages and working conditions with their own employees. Wage levels would probably be significantly lower than those in South African manufacturing, and closer to those paid by the EPWP. Since their products would be exported, firms in the EPZ would not compete with domestic firms producing goods for the South African market and the lower wages paid in the EPZ would not impact adversely on higher wages elsewhere in the country.

As evidenced by the EPWP, there are large numbers of unemployed people in the region who would be amenable to working for lower wages. There are also many workers who have worked in manufacturing before and who would be relatively productive, allowing firms in the EPZ to compete in international markets.

Besides duty-free imports and exemptions from some labour laws, the EPZ would need no special concessions. Moreover, since it would be aimed at enhancing employment intensity, firms in the EPZ would not need to access the existing investment incentives available to manufacturers, which lower the costs of capital and therefore tend to reduce labour intensity. Should this work, similar zones could be established elsewhere in the country.

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¹⁷ CDE (2016) “An EPZ for Nelson Mandela Metropolitan Bay” a report prepared as part of The Growth Agenda: Priorities for Mass Employment and Inclusion (CDE: Johannesburg)

at the point of entry. To the extent undue regulation of the airline industry inhibits flights or makes them more expensive, these should also be reformed.

Reducing the barriers to far faster growth in tourism and light manufacturing (which is actually shrinking) have the potential to dramatically increase the attractiveness of these sectors, encouraging far faster employment growth than would be achieved in industries that are less labour-intensive. They, rather than interventions the impact of which is bound to be marginal, should be at the heart of our employment strategy.

Getting more young people into work

In seeking to reduce youth unemployment, the two most important goals must be to ensure much faster economic growth (to increase total demand for labour) and to implement labour market reforms (in order to increase the labour intensity of growth). Without substantial improvements along these dimensions, there is little chance of significant employment growth in the short and medium term. Most of the other initiatives, such as those described earlier, have a contribution to make, but none is going to be able to drive much more rapid employment growth. There are three possible exceptions to this:

- improving and widening access to post-school education and training;
- wage subsidies; and
- public employment schemes.

All three already consume considerable resources, so it is important to avoid overstating how much more each could contribute to further employment growth within current resource constraints. Nevertheless, each has a role to play, one that could expand if the economy were growing more quickly.

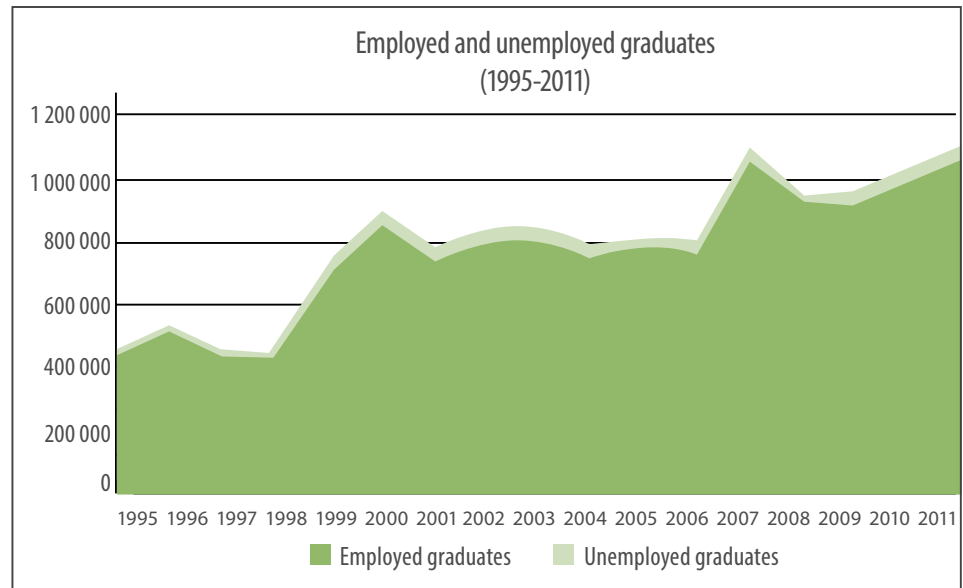
Education and training

As noted earlier, South Africa has already made considerable progress in improving the educational profile of the workforce and, at least for those who have obtained degrees and diplomas, doing so has greatly improved the likelihood of their finding work compared to those with less education. Thus, even as the population of people with university degrees more than doubled between 1995 and 2011, the proportion of graduates who were unemployed (broadly defined) remained between 3 per cent and 8 per cent of the total.

Data on the employment for other forms of post-school education show similar trends: in the context of a working-age population that grew at about 1.7 per cent a year between 1995 and 2011, the number of employed university graduates grew by 5.7 per cent a year and the number of employed 'diplomates' (i.e. people with diplomas) grew at about 4.7 per cent a year.

These statistics show that obtaining a higher education qualification is among the most reliable paths to employment in South Africa. This is likely to remain true, even if the efficacy of this path may decline if the civil service ceases to grow. South Africa, then, should be looking to expand the number of people graduating from its higher education system. In the first instance, this means focusing more on improving quality and throughput rates rather than on increasing enrolment, as well as ensuring

“The number of people with degrees doubled between 1995 and 2011, but graduate unemployment remained under 10%.”



Employed and Unemployed graduates CDE 2017, based on data from van den Berg and van Broekhuizen¹⁸

that TVET courses are much more closely aligned with the needs of industry both in design and in execution. Done well, this is clearly a viable route to expanded youth employment.¹⁹

In addition, South Africa must also widen and deepen its artisan programmes, which are in-work training programmes in which apprentices are paid while they learn their trades. In the mid-1980s, South Africa had around 45 000 apprentices in training at any given time, though only about a quarter of that figure would complete their trade tests. This figure dropped precipitously between 1990 and 2003, but has since rebounded: in 2014/15 there were about 28 000 people in apprenticeships, of whom 14 000 completed their trade tests. With the appropriate policy changes, including much more vigorous encouragement of business and more generous provision of incentives to firms that provide artisan training, significant progress could be made.

Public employment schemes

As already noted, the EPWP and Community Work Programme already contribute around 400 000 full-time equivalent jobs a year to total employment in South Africa. Most of these jobs are in infrastructure development where, ironically, labour intensity is actually quite low: only about 10 per cent of the value of these projects is paid out in wages to EPWP staff. This is an area where policy innovation is still possible and it is clearly desirable that government projects find ways to be more labour-intensive. Still, even as efforts to increase the labour intensity of infrastructure projects are underway, the EPWP would deliver better employment outcomes if any increase in allocations to the EPWP is concentrated in social-sector projects (community-based care, early childhood development etc.), where labour intensity (as measured by the proportion of total costs spent on EPWP wages) is over 30 per cent. Having said that, it is not clear how expenditure on the EPWP can be expanded in an era of economic stagnation and reduced tax revenues. Faster economic growth, which would translate into faster growth in tax revenues, would make possible larger allocations to labour-intensive activities of this kind.

¹⁸ op cit.

¹⁹For more on this issue, see CDE, op cit.

“South Africa must widen and deepen its artisan programmes.”

Wage subsidies

Although some unanswered questions remain about the extent to which the Employment Tax Incentive has stimulated growth in employment among young people, it seems plausible to think that even the more pessimistic assessments of this, which detect no increase in the likelihood of a young person being in employment after the ETI's passage, can be understood to suggest that the programme is probably quite effective. This is because the economic environment in which the ETI was launched was exceptionally poor for employment growth, so, even if it is true that employment growth among young people has not improved significantly, the absence of deterioration probably implies that in an upturn, the ETI might have quite positive effects on employment growth for young people. We would advocate persistence with this experiment and, if evidence accumulates as to its efficacy, recommend its potential expansion to other classes of worker and for workers' eligibility to extend beyond two years. As noted earlier: a wage subsidy of R1 500 per month offered to two million workers would cost R36 billion. This is a large sum, but amounts to less than one per cent of GDP.

Concluding remarks

Finding employment for the millions of young people who are currently not employed or receiving any skills training is South Africa's most important challenge.

The simple fact is that the number of young people in work has not only failed to keep pace with population growth, since 2008 it has actually fallen in absolute terms. There can be no more damning critique of existing policy, with its emphasis on high-wage, well-protected jobs than this. We have argued that there is simply no way that most of the wide range of projects, programmes and interventions currently being implemented could close the gap significantly. Indeed, it is possible that, in some cases, their impact is perverse, because they give policy-makers a false sense of achievement.

In our view, South Africa needs to seriously rethink its approach to the challenge of youth unemployment.

We need to put economic growth led by the most labour-intensive sectors of the economy at the centre of our development strategy. This means focusing on the reforms needed to spur more rapid growth in business investment, and, in particular, to emphasise those reforms that have the potential to facilitate the rapid expansion of labour-intensive and export-focused activities. Key reforms would be those that support faster growth in light manufacturing and tourism, sectors in which growth is not constrained by the size and slow growth of the domestic economy.

Achieving faster, more labour-intensive growth would transform South African society and its prospects: it would increase employment (the key to social and economic inclusion), reduce poverty, expand tax revenue and make possible the fulfilment of the promises to which we have committed ourselves in the Constitution. If radical socioeconomic transformation and inclusive growth is to mean anything beyond a slogan, it has to have significant employment growth at its heart.

“South Africa needs to rethink its approach to the challenge of youth unemployment.”

Background Research Papers

These reports are available at www.cde.org.za/unemployment/

CDE Commissioned research

Active Labour Market Interventions for Youths across the World: Evidence on Overall Effectiveness, Decentralization, and Implementation

Jochen Kluge, Humboldt-Universität zu Berlin and RWI

A Review of Entrepreneurship and Entrepreneurship Policy: Lessons for Emerging Economies

Ross Brown, University of St Andrews

Public Funding to Address Youth Unemployment

Jonathan Carter, Cornerstone Economic Research

Review of Government Labour Centres

Angela Biden and Conrad Barberton, Cornerstone Economic Research

Rustenburg Municipality Case Study: Examining the Pathways to Employment

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