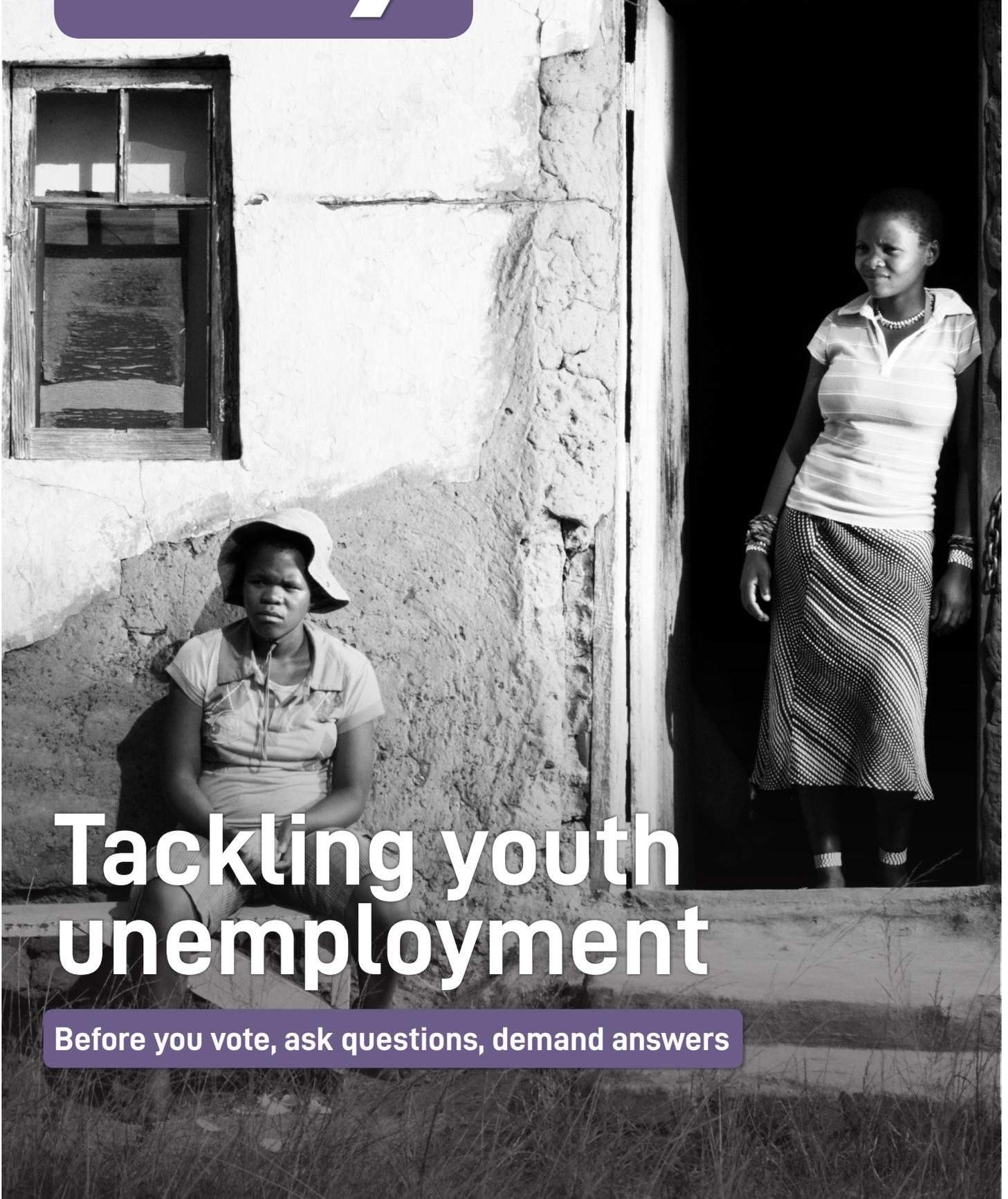


# AGENDA 2019



CENTRE FOR  
DEVELOPMENT  
AND ENTERPRISE



## Tackling youth unemployment

Before you vote, ask questions, demand answers

## **AGENDA 2019**

### **Series Introduction**

The 2019 elections provide an opportunity for South Africa to move onto a path of faster, more labour-intensive growth, a prerequisite for resolving our most pressing social and political challenges, especially mass unemployment.

Political leaders can create the right conditions for growth. South Africa has a strong private sector, robust institutions, and a citizenry deeply committed to democracy, all of which can become vehicles for the expansion of opportunities for all.

This series of AGENDA 2019 briefs will highlight critical policy challenges such as growth-friendly urbanisation, youth unemployment, and skilled migration. Each brief ends with key questions that voters and reporters should ask party leaders before and after the elections.

## **Tackling youth unemployment**

### **The youth jobs crisis**

Young South Africans enter the job market with a rosy view of their employment prospects. Many of them soon experience bitter disappointment. Out of a population of 20 million young people between the ages of 15 and 34, 7,9 million are neither working nor in any form of education or training. In the fourth quarter of 2018, 3,9 million young people reported having looked for work but being unable to find it.

The dysfunctionality of the education system is clearly part of the problem. Sixty per cent of those who enter the job market without a matric certificate are jobless.

Many of the young people who fail to find work will be condemned to a lifetime of exclusion from the main currents of economic life, especially formal sector employment, for most if not all of their lives. Given the role a youth bulge can play in accelerating an economy's growth, the failures of the labour market constitute a vast waste of South Africa's resources. It is also a terrible human tragedy that crushes the hopes of millions of citizens, poisoning our communities and our politics.

The hardening of the boundaries between those who are included and those who are excluded from the economy represents the greatest threat to the viability of democracy in South Africa. Unless those who are currently excluded feel their lives getting better and develop credible hope of further improvement, there is every prospect of our politics becoming uglier, more violent and less capable of delivering reasonable solutions to our challenges.

In the 2019 election, political parties and subsequently governments – national and provincial – should explain what exactly they propose to do about the challenge of youth unemployment. In particular, what will they do to create much greater opportunities for the millions who currently have no real prospects of employment and the social inclusion and empowerment that would result from that.

## **Underlying causes**

Slow growth, a variety of malign effects of apartheid, and the structural characteristics of the South African economy have meant that the labour market has failed to create enough jobs to absorb entrants since the late 1970s. Part of the problem relates to government policy decisions, which have led to increased costs and risks for firms and investors. This in turn has led to slower economic growth, which inevitably means reduced employment creation. But there are other challenges, too:

- South Africa's economy has become increasingly capital intensive over the past decade. Part of this is inevitable – as technology advances and productivity rises, fewer workers are needed to produce the same amount of goods. But the process has been accelerated by the low skills of the workforce, the relatively high cost of unskilled labour, and the incentives offered by government to firms seeking to modernise their production processes.
- The position of young, inexperienced workers is made especially precarious by the fact that minimum wages are not much lower than the wages paid to the typical worker in an industry. This means that firms have no incentive to risk employing someone who has no experience. Why do so, when an experienced workers costs about the same amount?
- Large numbers of work-seekers come from households in which no one holds a full-time, formal sector job. As a result, they often lack some of the requisite workplace skills and aptitudes that might be acquired organically in a household in which more people work. They also often have little knowledge about what kinds of jobs are available, for which jobs their skills and aptitudes are best suited, or how to maximize their chances of finding one.
- Despite a large increase in the number of matriculants and graduates in the workforce over the past two decades, the education system – both at school and after school – is failing too many young people.
- Too many South Africans live in places where it is hard to find a job or expensive to get to and from work. This is true for the country as a whole, as well as for the cities (even though employment rates in the metropolitan areas are considerably higher than elsewhere).

## **Does our labour market regime make sense?**

South Africa's labour market policies promote collective bargaining, protect workers against unfair dismissal, and tend to strengthen workers' power in wage negotiations. The principal goal of this is to address perceived injustices and exploitation associated with the apartheid workplace. In increasing the costs of employment has South Africa made its unemployment problem worse? Are higher levels of unemployment a price worth paying in a country where the majority of young people cannot find work, at current wages.

## **Failure to think about scale**

South Africa's economy generates over R4 trillion in GDP each year, and, on any given day, 16 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 single project or initiative – even those that aim to work with tens of thousands of young people – is likely to make a measurable difference to the scale of South Africa's employment challenge.

What matters, therefore, is not the size of the employment-generating projects, but their quantity. And the best way to get more employment is to foster an economic environment in which employment generating projects are growing quickly. The evidence around the world is clear: firms run by entrepreneurs seeking to make a profit by supplying goods and services to paying customers are the most efficient vehicle for delivering millions of jobs.

Better training can increase the potential productivity of young work seekers and play a positive role in reducing youth unemployment. Training interventions, however, will have a limited impact in the absence of reforms to make the economy more dynamic and flexible. They will also do little for the employability of the millions of young people who have already left the education system.

Another approach has been to develop 'youth entrepreneurship'. The hard reality though is that young unemployed people are least able to establish successful firms. Such programmes fail to recognise that start-ups have very high failure rates, that the best training for entrepreneurship is a job, and that 'know-how' (learned through previous work) is a prerequisite for success.

The key challenge for policy-makers is whether these kinds of interventions can ever hope to reach the scale needed to make a meaningful impact on youth unemployment, and, if not, what alternatives can be found for addressing the underlying constraints on employment creation.

**“The key question for South African voters and their political parties is this: what reforms and interventions do they propose that have the potential to reach the scale needed to make a meaningful impact on youth unemployment?”**

### **Interventions with potential for scale**

The infrastructure-focused Expanded Public Works Programme (EPWP) and the Community Works Programme (CWP) ensure at least some public services are provided in ways that absorb significant amounts of unskilled labour. Importantly, to the extent that these are viable, it is because the costs of employment are kept down by offering wages that are lower than those that prevail elsewhere. Policy-makers need to think about the lessons that can be learnt from this, and whether this principle might be extended to other parts of the economy.

Similarly, the Employment Tax Incentive (ETI) or 'Youth Wage Subsidy' recognises that young people are generally not as productive as more experienced, older workers and that firms will not hire them unless the costs of doing so is lower. It recognises that less-skilled young people should find jobs by offering their services for less, at least while they are establishing themselves in the world of work.

### **Strategically tackling youth unemployment**

Based on all CDE's research, we would propose the following key elements in how to reduce youth unemployment:

- **Prioritise growth.** A growing economy allows firms to expand, and new firms to start up and both these activities result in more employment. South Africa has to put the requirements for faster growth at the top of its priorities, taking precedence over all else. This means well-established obstacles to growth, such as policy uncertainty and intrusive regulation should urgently be addressed.
- **Think again about a one size fits all approach.** It would help if unskilled young workers could take a low paid job today. This will provide work experience and access to networks that could, in a growing, dynamic economy, enable young people to find rewarding work in future.
- **Encourage labour intensive growth.** Government should focus support on labour- rather than capital-intensive sectors, and help lower the cost of labour relative to capital.
- **Support light manufacturing and tourism.** These labour-intensive sectors link South Africa with the seven billion consumers of the global economy and so offer vastly more growth potential than firms serving the domestic market alone.
- **Align available skills with business needs.** All training institutions need to work as closely as possible with potential employers, business organisations and others who understand the needs of the evolving labour market
- **Unshackle small enterprises.** A sustained drive to remove the red tape that entangles many small businesses could allow them to employ many more young people. Priorities for de-regulation must be identified by firms not bureaucrats.
- **Encourage skilled immigration.** Far from taking jobs that would otherwise be available to young South Africans, evidence shows that skilled immigrants boost economic growth and the demand for low-skilled workers. South Africa should open its doors to skilled immigrants and actively recruit them.

**“South Africa needs accelerated inclusive growth that is urban-led, private sector driven, enabled by a smart state that understands markets, and targeted at mass employment.”**

# Before you vote, ask political parties these questions about tackling youth unemployment

1

What is your **plan to transform the economy** so that it generates many more job creating firms?

2

How do you propose to **incentivise employers to take a chance** on inexperienced workers?

3

Is it **better to have a low wage job** or to remain unemployed?

4

How do you understand the **role of government and private sector** in creating jobs?

5

Which **labour-intensive sectors** would you grow and how?

6

Do you support the **current focus on high standards and wages** at the expense of the unemployed?

7

How would you expand the number of **small, job-creating firms**?

8

What is your view on how **local and metro government** could promote more jobs for young people?

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