



Covid-19
**Are we
asking
the right
questions
about...**

**Youth
unemployment?**

Introduction

In his 2020 State of the Nation Address (SONA), just before the effects of Covid-19 began to manifest themselves, President Cyril Ramaphosa identified youth unemployment as a priority for the government. He said that "without growth, there will be no jobs, and without jobs there will be no meaningful improvement in the lives of our people", adding that the fundamental cause of unemployment is that "our economy has not grown at any meaningful rate for over a decade" and that the "government cannot solve our economic challenges alone".¹

The scale of the challenge

The President is correct in identifying youth unemployment as a crisis in South Africa, and that its chief cause is a low-growth economy. Between 2008 and 2019, the number of young people with a job fell by 500,000. The latest statistics show that there are 6.5 million people between the ages of 15 and 34 who would take a job if offered one – 52% of the workforce in that age group.² Among the very young (15 to 24 years), the rate is even higher: a staggering 70% are unemployed.³ 8.2 million people in the 15 to 34 age bracket are classified as NEETs – not in employment, education, or training.⁴

Unemployment data for the first quarter of 2020 will be released on 23 June. Whatever these figures reveal, it is certain that the Covid-19 pandemic has only made the situation worse for young employees. We need to think very hard about what to do to offset the worst of the pandemic's effects on young workers, as well as what needs to be done to secure a quick recovery that allows for greater youth involvement in the economy.

For this to happen, South Africa's economy and labour markets have to change, but, given the scale of unemployment and exclusion, there are no quick fixes. Long-term improvement depends on fundamental reforms and initiatives. Modest changes to existing programmes will do little to ameliorate the situation. It is vital to join the discussion about the reforms required to achieve a job-rich, faster-growing economy to the challenge of unemployment.



June 2020

During the Covid-19 pandemic, CDE will release a new series of publications titled: 'Are we asking the right questions about...'. These will be short reports that contribute to public discussion about the crisis and how the country is responding.

President Ramaphosa's approach

In the context of the current crisis, the President on 31 May said that there "will be a massive employment drive that will involve resetting our public employment initiatives, among other things, the expansion of current programmes like the National Youth Service, Community Works Programme (CWP), and the Presidential Youth Employment Intervention".⁵

We need to know more about what the President is thinking. Will the employment drive consist entirely of expanding various kinds of public works programmes? Or will this be part of a broader reorientation in which expanding employment throughout the economy becomes the country's foremost priority and every effort is made to tackle the barriers that have prevented employment expansion in the past?

It is not clear how the new employment thrust relates to the projects proposed by the President earlier in the year. During the 2020 SONA, he announced five areas of action devoted to addressing youth unemployment:

- The strengthening and expansion of centres that will develop pathways for young people by providing information about jobs, links to other economic opportunities, and work-readiness training;
- Providing shorter, more flexible courses in specific skills;
- New forms of support for youth entrepreneurship;
- Opening up opportunities for more learners to receive practical experience in the workplace; and
- Establishing a Presidential Youth Service Programme (YSP).⁶

Ramaphosa also said that the Minister of Finance would explain later in the year how 1% of all departmental budgets would be 'top-sliced' to assist in dealing with youth unemployment.⁷ It is unlikely that this will still happen in the context of an expected record-breaking budget deficit, and it probably should not.

On their own and in principle, interventions to support young people in their search for jobs and training, the development of new training options, and the creation of additional public and private sector work experiences sound like plausible solutions. However, many such interventions have been tried previously and none has had much impact on the scale of unemployment, while all the available evidence suggests that most Sectoral Education and Training Authorities (SETAs) and Technical and Vocational Education and Training (TVET) colleges are characterised by massive underperformance. An evaluation of TVETs by DNA Economics, published in February 2016, revealed that "approximately 2% of students who start NC(V) courses at Level 2 [vocational studies equivalent to Grade 10] are likely to complete the entire qualification up to Level 4 [equivalent to Grade 12] within the minimum time period of 3 years".⁸ This constitutes an astounding level of dysfunctionality.

Another approach that the President has stressed is to develop youth entrepreneurship. The reality, though, is that programmes that seek to solve youth unemployment by developing entrepreneurial skills fail to recognise that start-ups have very high failure rates, that the best training for entrepreneurship is a job, and that knowhow, which is best learnt through previous work, is a prerequisite for success.

In the absence of greater clarity about the substance of the President's proposals, it is hard to assess their likely impact. It would be concerning if the interventions attempted to work within the structures that initially got us into our current unsatisfactory state: poor education, labour laws that discourage the employment of unskilled and inexperienced workers, a business environment that makes it too costly to start and, even more importantly, to grow existing enterprises.

Scale of impact

Will the President's interventions move the dial on youth unemployment? In the context of an economy of South Africa's size, no single project or initiative – even those that aim to employ tens of thousands of young people – will make a measurable difference to South Africa's crisis of youth joblessness. The scale of impact should be the test for any intervention.

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What matters, then, is not how big employment-generating projects are, but how many of them there are. The best method of getting more employment is to foster an economic environment in which employment-generating projects are growing quickly. The historical evidence from around the globe is clear: firms seeking to make a profit by supplying goods and services to paying customers are the most efficient vehicle for delivering millions of jobs.

Government policy choices over the last four decades, along with slow economic growth, the malign effects of Apartheid, and adverse structural characteristics have produced an economy that has failed to create enough jobs. South Africa's economy needs less and less unskilled labour. The costs of employing young people are high relative to what they can produce, and terminating a contract is a potentially costly exercise if the dismissal is contested. Too many young people have received a poor education, and many lack 'soft skills' that contribute to workplace readiness. Given all these factors, why would firms, especially small and/or new ones, seek to hire young people?

Towards a bolder reform approach

Policy reform in the post-Covid-19 world will be vital. Although there is a need to focus on immediate remedies, we also need to be simultaneously thinking about strategies to promote an economic recovery. In so doing, we will have to find ways to ensure that the economy is much more capable of generating growth than the economy was capable of in the decade prior to the outbreak of the pandemic. We also need to shift the economy in a much more labour-intensive direction. The Covid-19 crisis is devastating an economy that was already in big trouble. The challenges of turning this situation around will be great and there will be no easy solutions. CDE believes, however, that, were South Africa to adopt a package of realistic policies, backed by political will and astute political management, then significant progress could be made in building a faster-growing, more labour-intensive post-pandemic economy.

The following guidelines should inform policy thinking to seriously impact youth unemployment as we emerge from a world in the thrall of the coronavirus:

- We need to *fundamentally reform the skills system* so that it starts producing, at scale, the kind of training that will raise the potential productivity of hundreds of thousands of young jobseekers, and thereby play a serious role in reducing youth unemployment. 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. We must keep in mind, however, that training interventions, no matter how effective, will have a limited impact in the absence of reforms to make the economy more dynamic and flexible.
- The Expanded Public Works Programme (EPWP) and the CWP, as well as the proposed YSP, must ensure that at least *some public services are provided in ways that absorb significant amounts of unskilled labour*. However, the EPWP and the CWP have underperformed and malfunctioned in the past. Serious, targeted initiatives will be required to reduce corruption and ensure improved value for money in these programmes in the future.
- Importantly, to the extent that these programmes are viable, it is because *the costs of employment are kept down* by offering wages that are lower than those that prevail elsewhere. Policymakers need to think about the lessons that can be learnt from this and whether this principle can be extended to the private sector and other parts of the economy.
- 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 cost 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. If it is fiscally and practically possible, we should seek to extend these effects to as many employers with the potential to hire young people as possible.
- We have to *get serious about unshackling 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 deregulation must be identified by firms, not bureaucrats. It is also essential to exempt small and newly formed firms from agreements reached at collective bargaining councils, when those firms were not party to the agreement.

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- When such a thing becomes possible again, we need to think hard about immigration policies that would *encourage skilled immigrants to relocate to South Africa*. 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.

Conclusion

South Africa's youth unemployment crisis is a terrible waste for the people concerned and an ongoing national disaster. The President's decision to make this a priority is welcome, and must not be derailed by the current crisis. Covid-19 has only heightened the desperate situation of the country's many millions of unemployed young people who will have little to celebrate on June 16. To give them some hope, the government must start focusing on the catalytic changes required to produce a faster growing, more labour-intensive economy in the very near future.

As we move forward, we have to acknowledge the weaknesses and realities of South Africa's pre-Covid-19 economy. Youth unemployment is embedded within the larger challenges that have been holding the country back for a long time. Targeted interventions and the expansion of public works opportunities have to be part of the solution, but this is nowhere near enough. South Africa's economy and our education and training systems have to change if we are to achieve faster and more labour intensive growth. Turning the dial on the scale of youth unemployment requires structural change in our society – the crisis cannot be tackled in isolation. Bold reforms will be required if we are to deal with a much-weakened economy and if we are to have any chance of making this a country where millions of young people can be hopeful about the future.

Notes

1 Cyril Ramaphosa, 'State of the Nation Address by President Cyril Ramaphosa, Parliament, Cape Town', The Presidency, 13 February 2020.

2 Statistics South Africa, Quarterly Labour Force Survey Quarter 4: 2019, 11 February 2020, p. 41.

3 Ibid.

4 Ibid., p. 78.

5 Cyril Ramaphosa, 'Speaking notes by President Cyril Ramaphosa during engagement with South African National Editors Forum', The Presidency, 31 May 2020.

6 Cyril Ramaphosa, 'State of the Nation Address by President Cyril Ramaphosa, Parliament, Cape Town', The Presidency, 13 February 2020.

7 Ibid.

8 DNA Economics, Performance and Expenditure Review Technical and Vocational Education and Training Final Report, February 2016.



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