



CATASTROPHE

"If you can't solve the problem of getting young people into work, it may not matter what other problems you do solve."

Paul Romer, Nobel Prize winner 2018

The latest Quarterly Labour Force Survey (QLFS) statistics confirm a shocking reality: three out of every four South Africans (74.7%) between the ages of 15 and 24 who want a job cannot find one. For those between the ages of 25 and 34, things are comparatively better, yet still the worst they have ever been: more than half (51.4%) of them are unemployed.

Tackling this crisis by accelerating labour-intensive growth has to be the country's highest priority.

Unless young people become part of the employed work force in much larger numbers soon, politics will continue to fracture and become increasingly dysfunctional, human potential will be wasted, and hopes of achieving a more inclusive, stable, and prosperous country will remain merely pipedreams.

The highest unemployment rate ever – young people are the worst affected


South Africa's expanded unemployment rate is 43.2%, the highest it has been since the start of the QLFS in 2008. The data unequivocally reveal that the labour market continues to be especially hostile to young workers. The overall youth unemployment rate sits at 57.5%. The 6.8 million young people wanting work but not finding it constitute the majority (59.2%) of the unemployed.

The Covid-19 pandemic has turned what was already a crisis into a catastrophe. The severe 7% GDP contraction suffered last year prompted a huge increase in the proportion of jobless young people. The youth unemployment rate rose by more than 5 percentage points as a result of the pandemic, while nearly 1 million fewer young people are in employment now. On average, 444 young people have joined the unemployment queue every day since the start of the pandemic.

Since Covid-19 struck:
Every day an average of 444 young people have joined the unemployment queue

Nearly 1 million fewer young people have jobs



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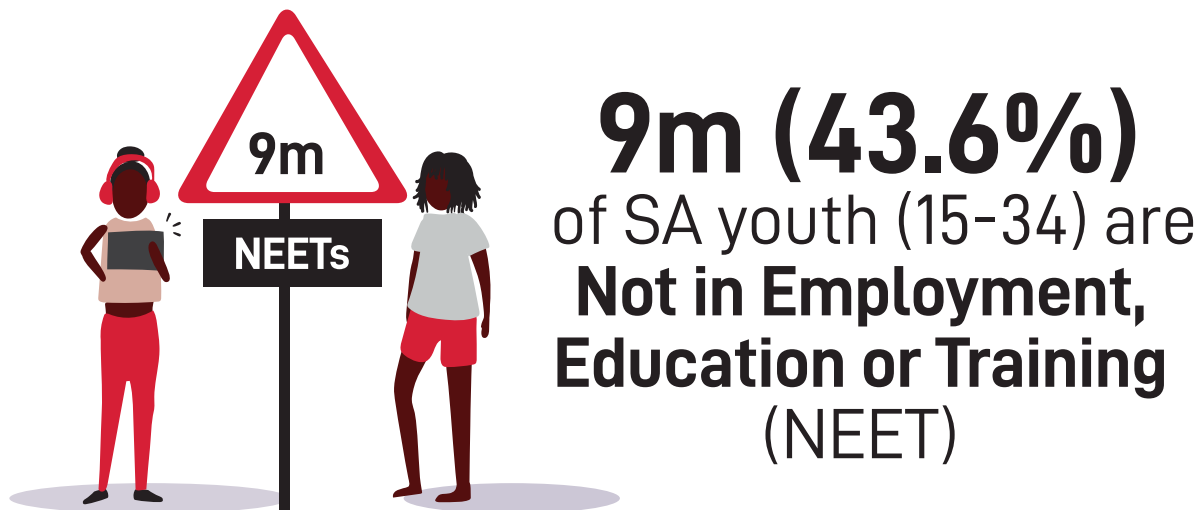
Too many young people are disconnected from economic opportunities, and they feel this exclusion in deeply personal and damaging ways. As one young person put it: "You feel like you are useless; you don't belong to Earth; you are not even a human being – that's how I feel."

Being unemployed also affects a person's future employability. Employment is a form of education and training, providing workers with knowledge, skills, discipline, networks and other capabilities that cannot be received through educational instruction. This is what Paul Romer means when he refers to 'work as school', and it can be extremely important. It is why employers often prefer people with work experience over those who have none.

The long-term unemployed, by contrast, become increasingly ill-suited to the needs of the economy: their training becomes less relevant, their skills deteriorate, and their ability to signal their workplace readiness lessens. Thus, the unemployed are doubly disadvantaged in a country where too few jobs are being created.

Improved learning outcomes are often seen as the best way to improve young people's prospects. It is true that upward social mobility is strongly correlated with education levels in South Africa. Yet the country's educational attainments remain extremely low: only 37% of learners who start Grade 1 together pass matric, 14% get bachelor's passes, and only 4% of the original cohort will receive a tertiary qualification within six years of matriculating. This is a devastating underperformance for an education system.

The situation is worst for those who are not in employment, education, or training (NEET). Altogether, 9 million (43.6%) young South African are classified as NEETs. These are people who are excluded from the economy and struggle to find their way in.



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Even among the working youth, more than a quarter (27.6% or 1.4 million) are informally employed. This points to further disadvantages experienced by the youngest segments of the workforce. A formal job is much more likely to be a sustained route out of poverty than an informal job, given the importance of on-the-job training for future employability.

Taken together, these numbers reflect an ugly truth: This is no country for young people.

As the politicians celebrate Youth Day in 2021 it is important to appreciate the policy choices they have made which have resulted in a catastrophic situation facing the vast majority of young South Africans. Our current approach to economic growth and jobs as well as education is failing young people. As a matter of urgency, we need to rethink our approach to the labour market, especially to absorb unskilled young jobseekers into formal jobs.

Towards a bigger and bolder reform approach

Policy reform is urgently required. If we are to make a significant dent in these catastrophic youth unemployment levels, we have to change the rules and regulations that shape how our economy functions so that it grows much faster and creates jobs at a much faster rate than was the case long before Covid-19 struck.

Given the depth of the youth unemployment catastrophe, there is no plausible strategy for rapidly reducing unemployment in the short term. A job creation drive launched by the President is underway but is still in its infancy. The biggest component of this state driven approach consists of placing young people in schools for a few months. Despite the President's seal of approval, the jury is still out on this expensive initiative. But what must be grasped is that the scale of any public employment drive will be too small to make anything more than a dent in the massive challenge we confront, and unless these opportunities provide useful work experiences and on the job training, they will fail to make much difference to the long-term prospects of the young people who participate in them.

Government programmes can help, but they are not the answer to creating jobs at scale. They are too small, last for a short amount of time, and are too expensive to expand sufficiently. Firms are the best, most sustainable and expandable employment-creating 'projects'. Too many firms are currently unwilling to employ more unskilled and inexperienced young people, because they believe that the cost of doing so are too high to make it worthwhile. They also believe that employment costs for the unskilled are likely to continue rising faster than productivity will.

The bottom line is that firms need to be incentivised to hire young, unskilled workers instead of being encouraged to switch to mechanisation and automation. We need more bold signals that will encourage investment and expansion of existing firms if we are to create enough jobs in the future. There is, therefore, considerable scope for reforms that would improve the performance of the economy and deepen the inclusiveness of growth by increasing employment.

We need reforms that would create space for new, more labour-intensive activities to emerge and grow, including legal exemptions for small and new firms from collective bargaining agreements they are not party to, as well as rebalanced collective bargaining structures to provide greater representation of smaller firms' concerns.

We should expand and extend the employment tax incentive to a wider range of workers and for a longer period and introduce modest reforms to hiring and firing. Making it easier and less risky for firms to terminate new employees during their probationary periods, for example, would help de risk the employment decision, especially with regard to new, inexperienced young workers.

Given that these changes represent a significant policy shift and are likely to face considerable antagonism in the ruling party alliance, CDE has proposed a carefully designed experimental SEZ in which labour market rules would be somewhat liberalised to test the proposition that jobs would be created under those conditions.

We also need to start tackling youth unemployment on as many fronts as possible, by reforming the education system, improving the way young people are trained for potential jobs, bringing in skills from all over the world and removing all the structural constraints on growth. We need to do whatever is possible to get as many young people as we can into formal jobs.

South Africa has a growing youth population. This should be a resource we can tap into that generates growth and contributes to development – what economists call a 'demographic dividend'. If we do not alter the course of our economy, however, we will reap a demographic disaster instead.



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R Jardine (chairman), A Bernstein (executive director), A Ball, C Coovadia, B Figaji, S Maseko, I Mkhabela, S Nkosi, S Ridley, M Teke, S Zibi

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5 Eton Road, Parktown, Johannesburg 2193, South Africa | PO Box 72445, Parkview, 2122
Tel +27 11 482 5140 | info@cde.org.za | www.cde.org.za