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The financial crisis and its enduring legacy for youth unemployment

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Abstract

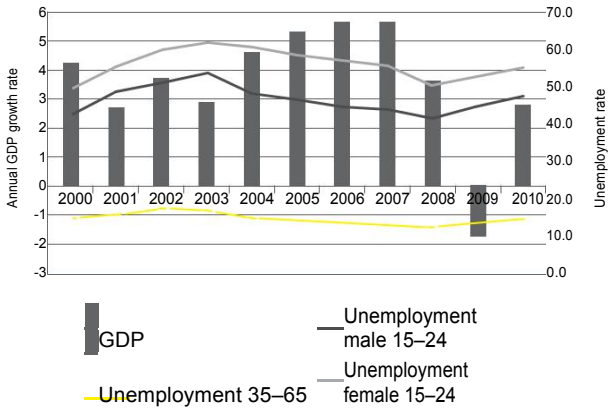
Young people are generally on the fringes of the labour market. They lack work experience and networks that can help them get jobs. If employed, their employment status is often tenuous – they are on temporary contracts, are frequently the first to be retrenched in times of economic hardship, and are in the types of firms or sectors most sensitive to fluctuations in the economy. For these and other reasons, they are dispro-portionally affected when the economy slows down.

Between 2002 and 2007, South Africa's GDP growth steadily increased and unemployment rates dropped. As Figure 2.1.1 shows, unemployment fell dramatically during this period, particularly for those aged between 15 and 24 years – from 61.5 to 50.5 per cent for young females and from 53.5 to 41.4 per cent for young males. However, this trend was interrupted by the global financial crisis that began in the second half of 2008. Since then, unemployment rates have risen, especially for young people. By 2010, the unemployment rate for young females had increased by four percentage points, and for young males by over six percentage points, compared to less than two percentage points for those aged between 35 and 65 years.

The response of the labour market to the global financial crisis illustrates the volatility of employment for young people. In order to better design policies to deal with this volatility and to reduce the high unemployment rates young people face, it is useful to know more about the dynamics of employment among this age group.

This paper considers a number of questions: What types of jobs for young people have been particularly affected? How has demand for young people changed during this period? What processes have driven the increases in unemployment observed among young people? And, are the current policy measures sufficient to deal with the challenges of youth unemployment, particularly when economic growth is sluggish.

Figure 2.1.1: GDP growth versus unemployment in South Africa by age and gender, 2000–2010



Source: GDP growth from World Bank country indicators; unemployment rates from own calculations using Statistics South Africa (Stats SA) *Labour Force Survey (LFS)* (2000–2007) and *Quarterly Labour Force Survey (QLFS)* (2008–2010)

Where are young people employed and how has this changed?

Much has been written in recent years about South Africa's youth unemployment crisis (see, for example, Banerjee et al.2008). Its broad parameters are known: Africans, women, the unskilled and those in rural areas are the most likely to be unemployed. Unemployment among young people is also particularly high and, more worryingly, labour force partici-pation is particularly low. The National Treasaury (2011) estimates that only one in eight working-age adults under 25 years of age has a job (compared with 40 per cent on average in most other emerging economies). These high unemploy-ment rates are disturbing, but we only view part of the picture if we ignore insights that are to be gained from patterns and dynamics relating to those young people who are in employment.

As Table 2.1.1 shows, in South Africa, approximately 80 per cent of employed young people work in formal sector jobs in the private sector. Throughout the crisis period, their pro-portion of the employed in the private sector also remained relatively constant at approximately 90 per cent of all formal sector jobs (see Table 2.1.2). The vast majority were employ-ees or wage earners. Few in this category pursued their livelihood through self-employment; in 2008, prior to the crisis, only 1.4 per cent of employed young people were self-employed, compared with 10.0 per cent in the 35–65-year age group. Table 2.1.2 shows that this decreased further for both categories with the onset of the crisis, falling to 1.1 per cent and 8.8 per cent respectively in 2010.

There are several reasons why young South Africans struggle to make it in the entrepreneurial world. Firstly, they lack the savings and start-up capital. Self-employment generally requires some start-up costs, such as buying stock or equip-ment. In the early stages of a business, income may also be variable, requiring savings to meet living and other costs. Most young people have not had the opportunity to acquire the savings to start up a business, and friends, relatives and financial institutions are unwilling to extend credit on the basis of a limited employment track record. Secondly, they lack the experience and skills that are gained through work experience. Thirdly, they may prefer the guarantee of a regular, often higher, income over the uncertainty related to a new business venture that may, at least initially, require sacrifice in terms of income.

Although self-employment in the formal sector is limited for the reasons just mentioned, employment in the informal sector is not uncommon among the young and, as Table 2.1.1 shows, approximately one-fifth of employed young people work here. Yet, informal sector employment, particularly for the youth, is also more vulnerable to shocks than formal sector work. As a result, the proportion of young people employed in the informal sector fell by almost two percentage points with the onset of the crisis (see Table 2.1.1). However, due to the return to growth in 2010 and 2011, this figure expanded again by three percentage points.

When we look at employment patterns in the formal sector, there appears to have been a decisive shift in the size of companies that employ young South Africans. In 2008, 46 per cent of young people worked in companies that employed

Table 2.1.1: Formal and informal sector employment, 20–24 year olds (35–65 year olds in parentheses), weighted, 2008–2011 (Q1)

	Proportion of jobs			
	2008	**2009**	**2010**	**2011**
Formal sector	78.9 (80.2)	80.7 (81.2)	80.6 (82.0)	77.4 (82.0)
Informal sector	21.1 (19.8)	19.3 (18.8)	19.4 (18.0)	22.6 (18.0)
	Growth in jobs (percentage)			
	2008–2009	2009–2010	2010–2011	2008–2011 (ave.)
Formal sector	1.2	-5.0	2.7	-0.4
Informal sector	-7.7	-6.3	7.5	-2.4
Total	**-0.6**	**-5.3**	**3.6**	**-0.8**

Source: Own calculations from Stats SA *QLFS* (2008–2011)

Table 2.1.2: Formal sector employment, 20–24 year olds (35–65 year olds in parentheses), weighted, 2008–2011 (Q2)

	Proportion of formal sector jobs			
	2008	**2009**	**2010**	**2011**
Private sector	90.8 (66.3)	91.3 (65.8)	90.4 (66.7)	90.5 (65.5)
Public sector	7.7 (23.7)	7.6 (24.6)	8.6 (24.5)	8.3 (25.0)
Self-employed	1.4 (10.0)	1.1 (9.6)	1.1 (8.8)	1.2 (9.6)
	Growth in jobs (percentage)			
	2008–2009	**2009–2010**	**2010–2011**	**2008–2011 (ave.)**
Private sector	-0.4	-5.0	2.0	-1.2
Public sector	6.2	-1.0	2.8	2.6
Self-employed	5.2	-15.6	11.6	-0.3
Total	**1.2**	**-5.0**	**2.7**	**-0.4**

Source: Own calculations from Stats SA *QLFS* (2008–2011

between 10 and 49 people (see Table 2.1.3). Older people were also most likely to be employed in firms of this size. Over the past four years, however, the proportion of young workers in this category has fallen dramatically to 38 per cent. Now firms with a workforce that exceeds 50 are more likely to employ people in the 20–24-year age group, with 40 per cent of young workers in businesses of this size. Only this category of business increased its employment intake between 2008 and 2011, suggesting that smaller businesses were far less resilient in weathering the impact of the economic contraction during the period.

Another key insight that has been reinforced by the financial crisis is the growing skills bias in our labour market. Evidence of this is presented in Table 2.1.4, which shows an increasing skills intensity across industries that has also been exacerbated by the financial crisis. This has been particularly apparent in industries that traditionally have absorbed most unskilled entrants to the labour market. Between 2000 and 2010, the ratio of semi- and low-skilled jobs to skilled jobs fell from 9.6 to 7.1 in mining and quarrying, 5.2 to 2.0 in manufacturing, 17.4 to 4.7 in construction and 7.3 to 3.7 in the wholesale and retail sector. The only recorded exception is in the community/ personal services category. The impact of the growing priori-tisation of skills affects young people most adversely, because semi- and low-skilled jobs are natural entry points into work in a country with a public education system that renders a varied, but overwhelmingly poor, education to its learners.

Table 2.1.5 also highlights the fact that the distribution of jobs has changed over the past four years in favour of those

Table 2.1.3: Formal sector employment by firm size, 20–24 year olds (35–65 year olds in parentheses), weighted, 2008–2011 (Q2)

	Proportion of formal sector jobs			
	2008	**2009**	**2010**	**2011**
Less than 5 employees	6.8 (12.4)	6.4 (10.9)	6.7 (11.0)	7.9 (11.8)
5–9 employees	16.4 (12.3)	15.6 (11.9)	15.1 (11.8)	14.5 (11.2)
10–19 employees	21.0 (17.8)	19.4 (17.3)	20.0 (16.8)	17.7 (16.9)
20–49 employees	24.5 (20.9)	21.8 (20.6)	20.3 (19.6)	20.0 (18.9)
50+ employees	31.3 (36.6)	36.8 (39.3)	37.9 (40.8)	39.9 (41.2)
	Growth in jobs (percentage)			
	2008–2009	**2009–2010**	**2010–2011**	**2008–2011 (ave.)**
Less than 5 employees	-8.4	-15.0	11.4	-4.6
5–9 employees	1.8	-5.8	-5.9	-3.4
10–19 employees	-4.1	-6.1	-1.6	-4.0
20–49 employees	-2.1	-12.9	-0.5	-5.4
50+ employees	10.1	-0.5	6.4	5.2
Total	**1.2**	**-5.0**	**2.7**	**-0.4**

Source: Own calculations from Stats SA *QLFS* (2008–2011)

Table 2.1.4: Skills intensity of employment (ratio of semi-/low-skilled to skilled jobs) by industry, 2000–2010

Year	Mining/ Quarrying	Manufacturing	Utilities	Construction	Wholesale/Retail	Transport/ Storage/ Communication	Financial/ Insurance/ Business Services	Community/ Social/ Personal Services
2000	9.6	5.2	2.7	17.4	7.3	3.9	1.6	0.9
2001	14.6	5.1	3.6	16.4	8.0	2.9	1.4	0.9
2002	14.2	4.3	3.3	13.9	6.9	2.4	1.3	0.9
2003	15.0	4.4	3.4	11.8	6.7	3.0	1.3	1.0
2004	14.0	4.5	1.9	11.3	5.8	3.0	1.5	1.0
2005	13.8	5.3	3.6	11.2	6.6	3.5	1.4	1.0
2006	14.8	5.1	2.2	12.6	5.7	3.9	1.4	1.0
2007	12.7	4.6	2.5	9.5	5.2	2.8	1.4	0.9
2008	7.7	4.1	2.3	5.7	3.7	2.5	1.4	0.9
2009	7.7	3.9	2.8	5.0	3.8	2.4	1.4	0.9
2010	7.1	3.3	2.0	4.7	3.7	2.3	1.5	1.0

Source: Own calculations from Stats SA *LFS* (2000–2007), *QLFS* (2008–2010)

with more education. Those in employment with a completed secondary or tertiary education have increased relative to those with an incomplete secondary or lower level of edu-cation. At the same time, the proportion of those in the 15–34-year age group with a matric or higher level of education has increased. This suggests that a completed secondary school education is now extremely important and a minimum quali-fication for young people to have a chance of finding a job. The primacy of skills in the current economic environment is further underscored by the fact that workers with a tertiary qualification were the only ones who benefitted from a signifi-cant expansion in job opportunities between 2008 and 2011, growing by 4.9 per cent over this period. Job opportunities on the other side of the spectrum for those with no education shrank by over 15 per cent.

In addition to the increase in unemployment rates during the crisis, labour market participation rates (those working or searching for a job) dropped among young people (see Tables 2.1.6 and 2.1.7). The largest decline in labour market participation has been among 15–19 year olds. In this age group, the proportions of economically inactive young people in education, as homemakers and as discouraged work seekers have remained constant over the past four years, although each has increased significantly in real numbers. In other words, the growth in economic inactivity within this age group has been absorbed proportionally across categories.

In contrast, labour market participation in the two older categories of youth (20–24 and 25–34 years of age) has fallen and the distribution of the categories within which these eco-nomically inactive young people have been absorbed have changed. The category of those officially out of the labour force, and who have given up searching for a job (discouraged work seekers), increased substantially over the period 2008– 2011. This indicates that in addition to the strict unemployment rate increasing among the youth, there has been a substantial increase in the group of young people who would like to work but see no prospect of being able to do so and, thus, have given up looking for a job.

Labour market transitions among young people

From the above it is apparent that not only unemployment, but also discouragement increased among young people during the financial crisis. It is particularly the latter that is of concern, given that those who find themselves in a survivalist mode, without hope, might resort to illegal means to sustain them-selves – a concern expressed about this demographic in the final version of the recently submitted National Development Plan.

But what is driving this pattern? Is it because young people are losing jobs, exiting unemployment and the labour force to become non-economically active, not able to attain employ-ment in the first place, or a combination of the above? To answer this question, we draw on some recent work by Rankin

Table 2.1.5: Formal sector employment by level of education, 2008–2011

	Proportion of formal sector jobs			
	2008	**2009**	**2010**	**2011**
No school	1.9	1.6	1.3	1.1
Less than primary	6.0	5.3	4.6	4.6
Primary complete	3.5	3.4	2.9	2.9
Secondary incomplete	29.7	28.8	28.6	27.9
Secondary complete	34.4	34.6	35.7	35.6
Tertiary	23.4	25.2	25.7	26.8
Total	**100.0**	**100.0**	**100.0**	**100.0**
	Growth in jobs (percentage)			
	2008–2009	**2009–2010**	**2010–2011**	**2008–2011 (ave.)**
No school	-8.5	-23.1	-14.0	-15.4
Less than primary	-6.7	-23.1	-0.9	-10.7
Primary complete	2.4	-24.7	2.2	-7.6
Secondary incomplete	-1.3	-5.9	2.1	-1.8
Secondary complete	-1.0	1.2	0.3	0.1
Tertiary	11.7	-4.9	8.6	4.9

Source: Own calculations from Stats SA *QLFS* (2008–2011)

Table 2.1.6: Labour market participation rate by age group, 2008–2011

Age group	2008	2009	2010	2011	Percentage change 2008–2011
15–19	0.096	0.082	0.068	0.059	-14.98
20–24	0.540	0.514	0.474	0.455	-5.55
25–34	0.765	0.750	0.723	0.719	-2.05
35+	0.668	0.663	0.641	0.643	-1.26

Source: Own calculations from Stats SA *QLFS* (2008–2011)

et al. (2012), which uses a panel dataset constructed from Stats SA's *QLFS* to examine transitions between different labour market states.

Individuals in the *QLFS* have been grouped into six labour market states: *non-economically active (NEA), discouraged unemployed, searching unemployed, self-employed, public sector employed* and *private sector employed*. Transitions between these states over two rounds of the survey (Quarter 1 and Quarter 2) are presented in Table 2.1.8. The on-diagonal elements in these tables (the shaded cells) show the pro-portion of people staying in the same state. For example, the first cell shows that 81 per cent of young people who were in formal private employment in Quarter 1 of 2008 remained in formal private employment in Quarter 2. The off-diagonal elements show transitions between states. The state in Quarter 1 is given in the first column and the state in Quarter 2 in the

Table 2.1.7: Reasons for inactivity in labour market by age, 2009–2011

	2009			2010			2011		
	15–19	**20–24**	**25–34**	**15–19**	**20–24**	**25–34**	**15–19**	**20–24**	**25–34**
Scholar/student	89.83	50.20	9.07	89.55	49.85	10.17	90.31	51.67	9.29
Homemaker	2.68	18.43	37.92	2.70	17.41	35.70	2.42	14.86	36.29
Discouraged	2.40	15.43	23.85	3.05	18.43	29.76	3.31	21.12	33.22
Other	5.09	15.94	29.16	4.70	14.31	24.37	3.96	12.35	21.20
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Own calculations from Stats SA *QLFS* (2008–2011)

Table 2.1.8: Transition matrices for individuals aged 20–24 years, 2008 Q1–Q2 and 2011 Q1–Q2

	P matrix: P_{ij} – 'transition probabilities'						
	Formal private	**Formal public**	**Informal**	**NEA**	**Discouraged**	**Searching**	$P_{i.}$
Formal private	0.812, 0.834	0.007, 0.006	0.069, 0.073	0.031, 0.028	0.003, 0.014	0.077, 0.044	0.145, 0.114
Formal public	0.094, 0.083	0.753, 0.800	0.024, 0.017	0.047, 0.000	0.024, 0.033	0.059, 0.067	0.018, 0.014
Informal	0.144, 0.091	0.004, 0.013	0.619, 0.703	0.078, 0.044	0.038, 0.047	0.118, 0.102	0.097, 0.089
NEA	0.009, 0.011	0.002, 0.001	0.021, 0.014	0.807, 0.787	0.060, 0.081	0.102, 0.106	0.430, 0.446
Discouraged	0.019, 0.010	0.003, 0.004	0.052, 0.055	0.231, 0.197	0.505, 0.555	0.191, 0.179	0.070, 0.121
Searching	0.052, 0.046	0.005, 0.005	0.051, 0.030	0.200, 0.177	0.078, 0.082	0.614, 0.670	0.241, 0.216
$P_{.j}$	0.151, 0.121	0.017, 0.015	0.095, 0.090	0.424, 0.418	0.084, 0.127	0.229, 0.229	

Table 2.1.9: Transition matrices for individuals aged 25–34 years, 2008 Q1–Q2 and 2011 Q1–Q2

	P matrix: P_{ij} – 'transition probabilities'						
	Formal private	**Formal public**	**Informal**	**NEA**	**Discouraged**	**Searching**	$P_{i.}$
Formal private	0.868, 0.875	0.022, 0.014	0.054, 0.051	0.015, 0.015	0.004, 0.006	0.037, 0.039	0.295, 0.253
Formal public	0.107, 0.069	0.833, 0.872	0.023, 0.020	0.005, 0.007	0.007, 0.010	0.025, 0.022	0.060, 0.060
Informal	0.118, 0.102	0.012, 0.006	0.717, 0.737	0.045, 0.048	0.026, 0.025	0.082, 0.082	0.166, 0.161
NEA	0.023, 0.016	0.003, 0.003	0.036, 0.031	0.717, 0.723	0.078, 0.096	0.142, 0.131	0.209, 0.197
Discouraged	0.030, 0.030	0.000, 0.004	0.063, 0.063	0.240, 0.158	0.495, 0.530	0.172, 0.215	0.059, 0.108
Searching	0.051, 0.041	0.006, 0.005	0.078, 0.067	0.145, 0.113	0.081, 0.084	0.640, 0.690	0.213, 0.222
$P_{.j}$	0.299, 0.257	0.060, 0.059	0.164, 0.160	0.207, 0.196	0.069, 0.101	0.202, 0.227	

second row. Thus, for example, 5.2 per cent of young people moved from searching unemployment in Quarter 1 of 2008 to formal private employment in Quarter 2 (4.6 per cent did likewise in 2011). The proportion of people in each state in Quarter 1 is given in the last column and the proportion in each state in Quarter 2 is given in the last row.

Comparisons have been made between the pre- and post-crisis states of each category in 2008 and 2011 respectively. The resultant data show that for both younger and older people, movement often referred to as 'churn' between states decreased between 2008 and 2011. This decrease in mobility between states is expected – finding employment has become more difficult and, for this reason, employed individuals are also disinclined to leave their current jobs. Not unexpectedly, therefore, younger people were less likely to leave the *formal private sector employed* category for the *searching unem-ployed category*.

For young people, the paths into formal, particularly private, employment have become especially troublesome to navigate. Movement from the three states of *informal sector, searching* and *discouraged unemployment* has fallen, even when compared to the transitions of older people.

These transition matrices indicate that the observed increases in unemployment and discouragement are driven more by falls in the rate of transition into employment and less by the shedding of existing jobs. In other words, the inability to access employment, more than lay-offs by employers, is determining the current unemployment levels of young people. As such, these findings strengthen the case for prioritising interventions that ease access into employment.

What about transitions over a longer period? (Rankin et al. 2012) consider these too. Despite the small numbers of people in the dataset for three concurrent observations rendering comparison across years impossible, sequences of nine months can be constructed. These indicate that, over the whole period, most sequences have no transitions. Among the 20–24-year age group, the most common sequence is continual employment (16 per cent of sequences), followed by continual searching unemployment (11 per cent) and then schooling (9.0 per cent). Continual employment jumps substantially for people older than 25 years. Almost 40 per cent of sequences in the 25–34-year and 35-plus age groups are three periods of employment. Searching is the second most common sequence for those

Table 2.1.10: Three-quarter (nine-month) sequences in labour market states by age group

State wave 1	State wave 2	State wave 3	15–19	20–24	25–34	35+
D	D	D	0.45%	2.51%	2.47%	1.31%
E	E	E	1.14%	16.22% (1)	38.08% (1)	39.56% (1)
E	E	U	0.11%	0.84%	1.30%	0.64%
E	U	U	0.09%	0.88%	1.13%	0.50%
H	H	H	0.68%	3.25%	4.47% (3)	5.29%
N	H	H	0.23%	0.77%	0.79%	1.15%
N	N	H	0.36%	0.87%	0.92%	1.67%
N	N	N	1.50%	2.76%	3.54%	15.81% (2)
N	N	T_1	10.48% (2)	2.02%	0.06%	0.03%
N	T1	T_1	6.76% (3)	1.37%	0.04%	0.00%
N	U	U	0.25%	1.32%	0.83%	0.44%
S	S	S	0.05%	0.86%	3.80%	7.09% (3)
T_1	T_1	T_1	56.15% (1)	9.41% (3)	0.23%	0.01%
T_3	T_3	T_3	2.03%	4.78%	0.55%	0.02%
U	E	E	0.14%	1.41%	1.70%	0.77%
U	U	E	0.10%	1.17%	1.30%	0.49%
U	U	U	1.38%	10.83% (2)	10.47% (2)	3.64%
			81.93%	61.26%	71.67%	78.40%

Note: D = discouraged unemployment; E = employment; S = self-employment; U = searching unemployed; T_1 = non-active, in school with incomplete secondary education; T_3 = non-active, in school with complete matric education; H = non-active, homemaker; N = non-active, not studying; (1), (2) and (3) indicate the first, second and third ranked sequences

Source: Stats SA *QLFS* (2008–2011)

Table 2.1.11: School-to-work transitions

			Frequency	Percentage	Cumulative percentage	Sequence type
T1	N	T1	147	8.7	8.7	return
T1	U	U	143	8.5	17.2	rupture
T3	U	U	104	6.2	23.3	rupture
T1	N	N	103	6.1	29.4	rupture
T1	D	D	96	5.7	35.1	rupture
T1	U	T1	93	5.5	40.6	return
T1	D	T1	89	5.3	45.9	return
T1	H	H	81	4.8	50.7	rupture
T1	H	T1	73	4.3	55.0	return
T3	U	T3	67	4.0	59.0	return
T1	E	E	43	2.6	61.5	rupture
T3	E	E	36	2.1	63.7	rupture
T1	U	D	33	2.0	65.6	change
T1	E	T1	28	1.7	67.3	interruption
T1	U	N	26	1.5	68.8	change
T1	D	N	25	1.5	70.3	change
T1	D	U	21	1.2	71.5	change
T3	D	U	21	1.2	72.8	change
T1	N	U	20	1.2	74.0	change
T1	N	D	19	1.1	75.1	change
T3	D	D	18	1.1	76.1	rupture
T3	N	N	18	1.1	77.2	rupture
T1	H	D	16	1.0	78.2	change
T1	N	H	16	1.0	79.1	change

Note: D = discouraged unemployment; E = employment; U = searching unemployed; T_1 = non-active, in school with incomplete secondary education; T_2 = non-active, in school with incomplete secondary and NTCI/NTCII/diploma; T_3 = non-active, in educational institution with complete matric education; T_4 = non-active, in educational institution with post-matric diploma; T_5 = non-active, in educational institution with complete university degree; H = non-active, homemaker; N = non-active, not studying

Source: Stats SA *QLFS* (2008–2011)

just older than 25 years (11 per cent), followed by continual homemaking (4.0 per cent). Among those above 35 years, the second most common category is non-economically active (and not a homemaker) and the third most common is self-employment.

These sequences indicate that the period of early engage-ment with the labour market (at 20–24 years of age) is an important atage in an individual's labour market trajectory, since it is between this time and the age of 25–34 years that the opportunities for continuous employment increase. For the 25–34-year age group, searching is still a common activity, but many of these people presumably leave the labour market or become self-employed as they give up on the possibility of wage employment when they reach the age of 35 years.

The period immediately after leaving education is a key transitional point for young people to get into employment.

The *QLFS* panel also allows for analysis of this school-to-work transition. Rankin et al. (2012) focus on young people in the 15–24-year age range, who are observed to be in school during the first period of the sequence, followed immediately by a non-schooling state.

Table 2.1.11 summarises the 24 most frequent sequence types amongst 15–24 year olds. These account for just less than 80 per cent of all sequences. The most frequent sequences start with non-activity or unemployment (searching and dis-couraged) directly after leaving school, which either leads back to education or continues in non-activity or unemploy-ment. The most common sequence type is 'rupture', which ends in a state of searching/discouraged unemployment (343 cases), followed by 'return' to education from inactivity (220 cases) and 'return' to education from unemployment (182 cases). Only 8.0 per cent of all sequences result in a state

of employment,[2] with approximately 3.0 per cent of these through 'detour'. These sequences illustrate that a transition into employment from education, even over a nine-month period, is a relatively uncommon occurrence for young people, suggesting that there could be a role for programmes which assist in this transition.

What lessons for policy?

The sharp rise in unemployment and discouragement among young people that resulted from the global financial crisis underscores the precarious position of the youth in the labour market. Many young people work in the types of jobs that are acutely sensitive to shocks – in the informal sector, in smaller firms and in low-skilled employment. Because they have little work experience and short histories with the companies that employ them, they are also the first to be made redundant.

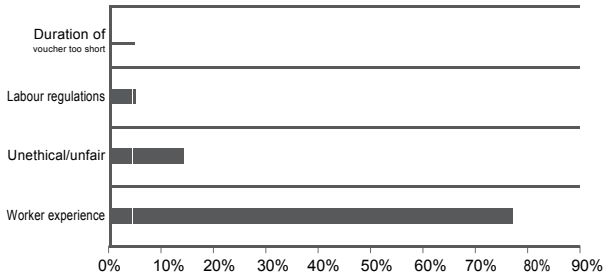
In addition to this vulnerability during times of economic uncertainty, young people face multiple challenges in access-ing jobs anyway. They lack work experience, do not have good signals of their own productivity and are relatively less able to tap into networks of employed people who could provide them with information on vacancies (this is the most common method that firms use to advertise the type of jobs that would suit the majority of the unemployed).

There are several policy proposals in discussion that specifically target young people. We consider two specific ones here. The first is the youth wage subsidy, which has been proposed by the National Treasury and is supported by various constituencies, including organised business and the Democratic Alliance, but is opposed by the Congress of South African Trade Unions (COSATU). The second is the job-seekers' grant, which was mooted at the ANC's national policy conference in Mangaung earlier this year. Given young people's vulnerability to economic instability, it is important that we continue thinking about new ways to respond to youth unemployment, especially during periods of economic uncertainty.

The youth wage subsidy

In early 2010, President Jacob Zuma proposed a youth wage subsidy in his State of the Nation Address. This was followed by a mention in the Budget Speech of Finance Minister Pravin Gordhan, and the release in February 2011 of a discussion document on the policy by the National Treasury. A key motivation for this intervention is that firms are unwilling to risk hiring young people with limited work experience and, hence, little to offer in terms of signalling potential ability and productivity at current wage levels. A variety of institutional and historical factors prevent wages from falling to levels at which firms might hire more young people. These include institutional factors in the labour market, such as collective bargaining and bargaining councils, as well as historical factors, such as the apartheid legacy of vast geographical

Figure 2.1.2: Reasons for not replacing older workers with younger, wage-subsidised workers



Source: Rankin & Schoer (2011)

distances between where people live and work, and the high transport costs that deter people from accepting lower wages. A subsidy paid directly to firms would reduce their expen-diture on young workers, without changing the wage earned by such workers. The National Treasury proposal would apply to: young people earning less than the tax threshold; jobs lasting up to two years; and new entrants into jobs aged 18–29 years, and young people aged 18–24 years in existing jobs. Businesses would claim the subsidy through the tax system.

Getting young people into jobs earlier can also have a dynamic effect on unemployment, given that one of the strongest correlates with current employment is previous work experience. It can also set young people on a different work trajectory. Importantly, the policy aims to create new jobs, since the cost of hiring young people would fall.

This policy has not been implemented yet, due to strong opposition from COSATU. Their main concerns are that older workers will be replaced by younger, subsidised workers and that the subsidy will create a class of cheap temporary workers. Of these two concerns, substitution of existing workers by younger, inexperienced workers seems less likely. In a survey of firms, which investigated this issue, over three quarters of the respondents stated that they would not replace existing workers with subsidy holders (see Figure 2.1.2). Of all the reasons given, business owners mentioned the premium that they put on the experience of older workers as the most common motivation.

Companies are also very hesitant about compromising existing labour relations through retrenchment, and list productivity and trust concerns as further barriers to hiring young workers.

A job-seekers' grant

Although the details of the second proposed policy response, a grant for young job seekers, are not as clearly distilled, it seems likely that the grant would function either as a cash

transfer to young people who are looking for work, or as a subsidy for expenses, such as transport, that are incurred in the job-search process. This would make it cheaper to search for jobs, and could serve as an incentive for those who have become discouraged to resume their search. The sentiment behind the policy is sound. Young people face large costs in looking for employment, because often they are located far away from potential jobs and lack the savings that could be used to pay for search costs. In addition, they generally lack networks of people in jobs who could be relied on for information about potential openings. As such, they often have to go from workplace to workplace looking for opportunities. Despite the good intentions of the policy, it is, however, unlikely to create new jobs.

If successful in encouraging job search, which is not certain since a direct cash transfer to the unemployed might actually discourage them from accepting a job, the job-seekers' grant would increase the number of people searching. Although this might improve the match between employers and employ-ees, it would not create many new jobs because it would have little or no effect on the cost of employment that businesses face. In addition, it may also cause firms to change the way they recruit, since it could increase the costs associated with recruitment. Currently, most companies use word of mouth to advertise low-skilled jobs, because sorting through a large pool of applicants is expensive. By confining the flow of information to their own employees and networks, businesses limit the number of people that hear about and apply for employment. This strategy also provides a filtering mecha-nism, because existing employees are likely to tell only those who they deem to have the correct profile for the job. Although companies do hire direct applicants, this channel is used far less than recruitment through networks.

Aiding youth employment when times are tough

The transition matrices shown above indicate that unemploy-ment rates among young people have increased over the past four years because 'churn' in the youth labour market has fallen. Higher unemployment rates are not a result of wide-spread retrenchments, but rather because previously success-ful pathways into employment are no longer as successful. Although policies that encourage firms to retain workers are likely to have some effect in helping those already in jobs, they are unlikely to have a large impact in terms of reducing youth unemployment. Instead, different policies that encourage the hiring of young people are required. These policies would need to stimulate the demand for young people with little work experience and a low level of skills. This could be done in two broad ways.

The first would be to increase the demand for young people at existing wage rates. Policies of this nature would increase the output of firms and, thus, labour demand (given that this is a derived demand). Large increases in domestic consumption would be one way to do this, and could be achieved through cuts in personal income tax, increasing government social transfers or raising wage rates. However, these methods are unlikely to be sustainable in the long run.

The second approach would encourage the employment of young people by reducing the cost of hiring them. The youth wage subsidy is one such potential intervention. Others would include changing minimum or mandated wages for young people through the bargaining councils, or reducing the costs associated with the hiring and firing of young people. Such policies are not unusual. Various countries (such as France and Singapore) have separate minimum wages or employment legislation for young people. However, given the opposition to a fairly mild policy intervention to assist young people – the youth wage subsidy – it seems very unlikely that these more ambitious policies would be implemented.

What is clear is that young people have been dispropor-tionately affected by the financial crisis. An already vulnerable group is now worse off and will bear the scars of the crisis for the rest of their working lives. Prompt, sensible policy interventions may mitigate the negative impact, but these seem unlikely given the competing constituencies within the government.

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