



Challenges that young South Africans face in accessing jobs

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May 2011

Economic Research Southern Africa
ERSA

Outline

- The youth unemployment problem
- The youth wage subsidy
- Potential costs
- What counts as success?

The South African youth unemployment problem

- South African youth unemployment is high
 - 34.5% of young people (15-34) are (narrowly) unemployed
 - 72% of overall unemployment
 - Outlier in magnitude when compared to other emerging economies (but ratio to adults unemployment is similar)
- Dynamic aspects of employment – experience matters. Potentially different trajectory
- Social costs of unemployment – crime; drug use; promiscuity; deskilling; political uncertainty; reduction in self confidence.
Dynamic impacts of these.

The proposed youth wage subsidy

- Wage subsidies are not unusual. Many OECD countries have some form of job subsidy, recruitment incentives or measures to reduce non-wage labour costs. Often as part of a broader set of active labour market policies.
- South African proposal came out of the International Growth Advisory Panel (IGAP) and Levinsohn (2008).
- R5,000 total (50% of wage of individual earning minimum wage, lower proportion as wages increase).
- Minimum six month duration, attached to individual (transferable)

The proposed youth wage subsidy

- National Treasury discussion document released in February 2011
- Part of a broader set of youth job policies
- Number of proposed options
- Eligible if earn below tax threshold (R60,000)
- Maximum value of R12,000 (for the first year) for those earning R24,000. Lower amount for second year and existing workers.
Tapers off with increase in wages
- Two years duration
- Claimed through the tax system

The proposed youth wage subsidy

- Rationale
 - Hiring a young person is risky since productivity signals are weak.
 - Institutional factors (for example the regulatory environment, intra-household transfers or geographic distance) prevent wages from falling.
 - Firms need to be compensated for this increased risk.
 - Training or productivity increasing mechanism. Compensates firms for training in hard or soft skills.
 - Encourage more active search behaviour – better match.

Potential costs

- Deadweight loss
 - Individuals would have been hired anyway
- Substitution
 - Substitute older for younger workers
 - Replace with new subsidy holder when subsidy runs out
- Displacement
 - Firms with cheaper labour displace other firms in the (domestic) market leading to job losses
- Stigma
 - Firms think that something is wrong with these people
- Opportunity cost

Potential costs – deadweight loss

- Randomised control trial currently in the field
 - Randomly surveyed a sample of Gauteng manufacturing firms.
 - Power calculations suggest a sample of 100 for a minimum detectable effect of 0.567 of a standard deviation.
 - In round numbers need an average increase in young employees of 3.
- Comparing treatment and control will give an indication of the addition of new young workers
- Can also get an indication of substitution of young for old since we have baseline figures for the breakdown of employment by age

Potential costs – substitution

- Not necessarily an overall welfare cost if there are dynamic benefits to employment
 - Potential longer lifetime benefits
 - Household effects
- What are firms telling us?
 - Experience is very important. Will not replace older workers with younger.
 - Unethical
- Potentially new hires will be younger
- Ask about preference, know age composition of workforce

Potential costs – displacement

- General equilibrium effect
- Depends on the market firms are operating in
 - Size group (up to 200) is threshold for exporting
 - Export relatively little of output
 - Also who they are competing against (1-2% change in costs)
- Depends on who captures the rent
 - High mark-ups
 - Institutional structures to divide rents
- Not given to large firms and relative gain is smaller as firm size increases

Potential costs – stigma

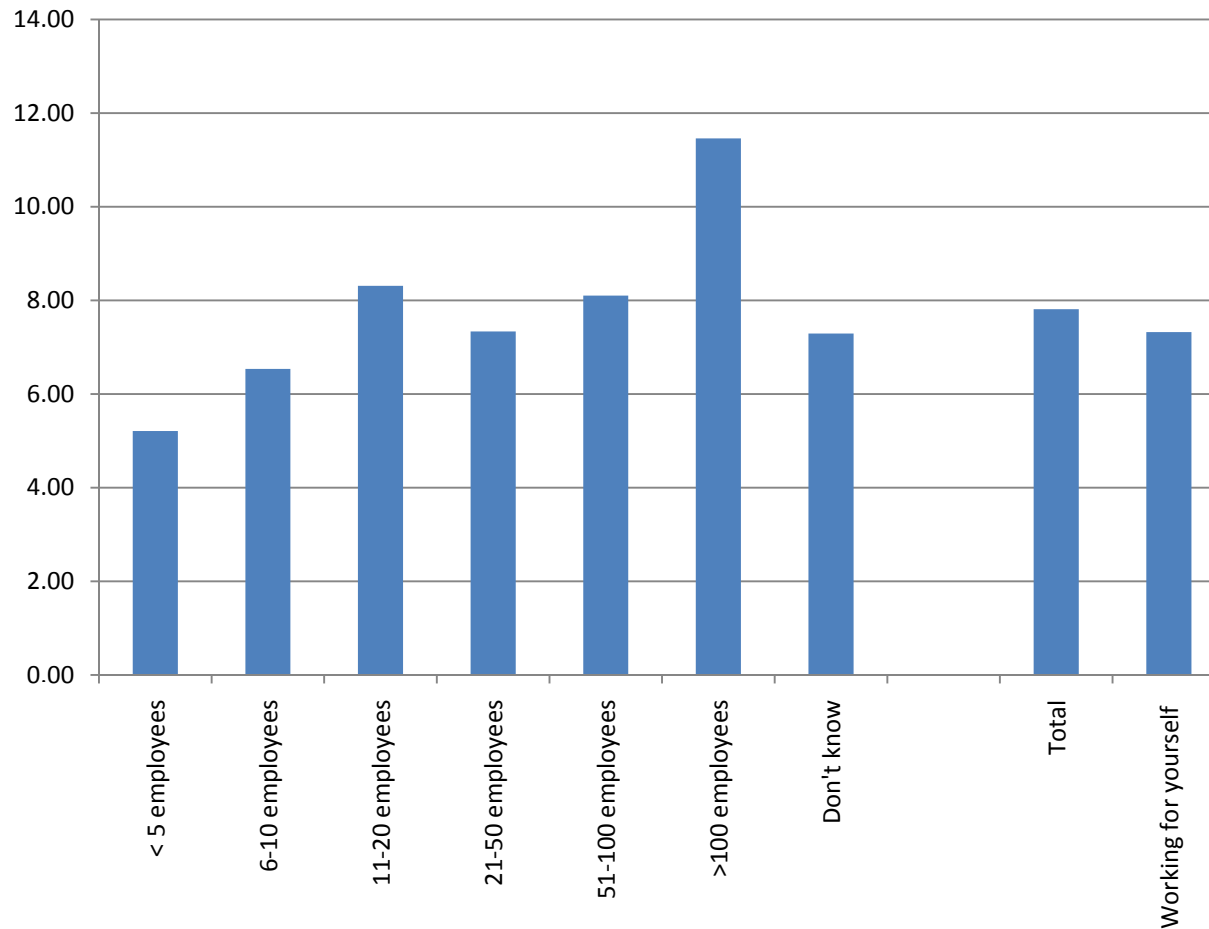
- Depends on how intervention is structured
 - If given to all young people it does not mark some out
- Cannot investigate from firm side in our study
- Potentially from individual side
 - Have a sample of 3,000 individuals some with and some without vouchers
 - High arrival rates may mean that voucher holders do not get a chance
- Does not seem to be a stigma

Potential costs – opportunity cost

- Firms
 - Bureaucracy but firm's choice
- Individuals
 - Rational behaviour may be to give up other, potentially productive, activities (including self-employment) to search

Potential costs – opportunity cost

- Self-employment and earnings – median hourly wages



Potential costs – opportunity cost

- Self-employment and search

Spending on looking for work in the last month

	n	Mean	Median
Unemployed (searching)	1733	202.8557	150
Wage-employed	612	136.7206	45.5
Self-employed	106	235.434	100

Number of firms visited

	n	Mean	Median
Unemployed (searching)	1733	4.257934	3
Wage-employed	612	3.54902	2
Self-employed	106	3.518868	3

On a normal day the number of hours spent looking for work

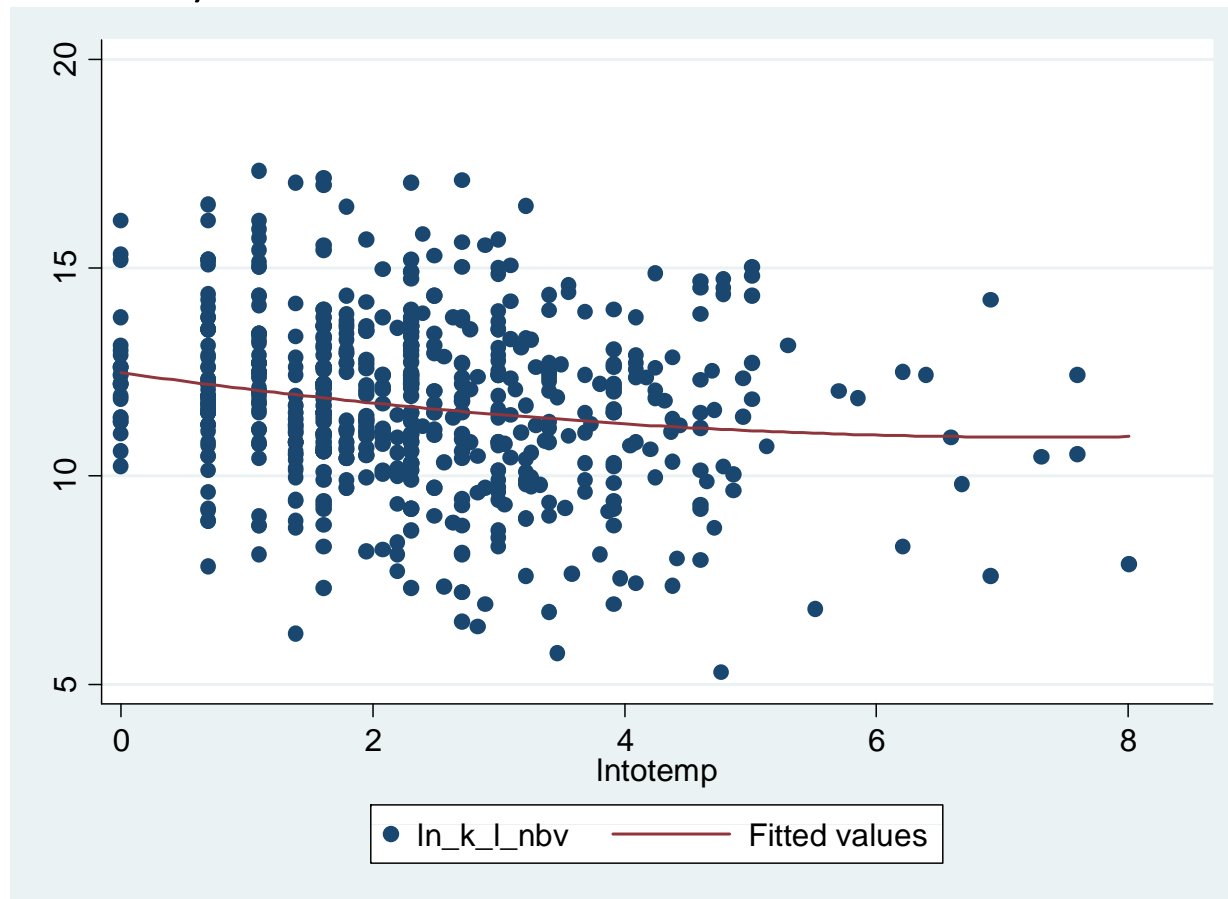
	n	Mean	Median
Unemployed (searching)	1732	4.015012	4
Wage-employed	612	2.612745	2
Self-employed	106	3.40566	3

What counts as a success?

- Dynamic impact on the employment probability of the young
 - Short-term
 - Long-term
 - Nature of employment
- Firms – creation of new jobs
 - Change in technology to become more ‘labour-absorbing’
 - Increase in output
 - Entry of new firms

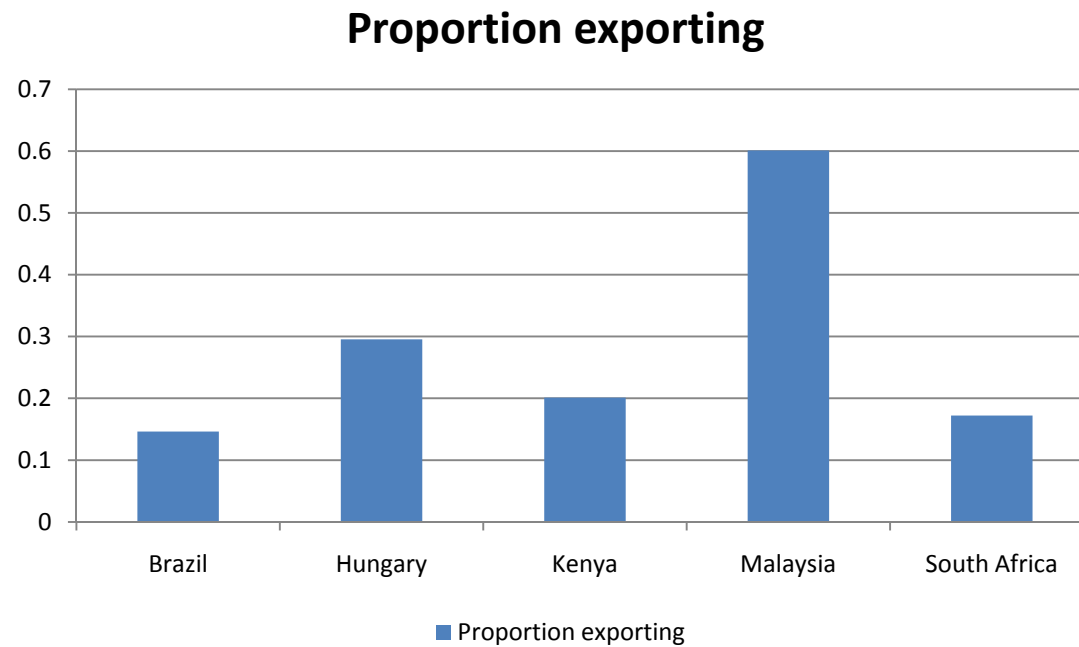
What counts as a success?

- Change in technology (complementarities between inputs – Behar)



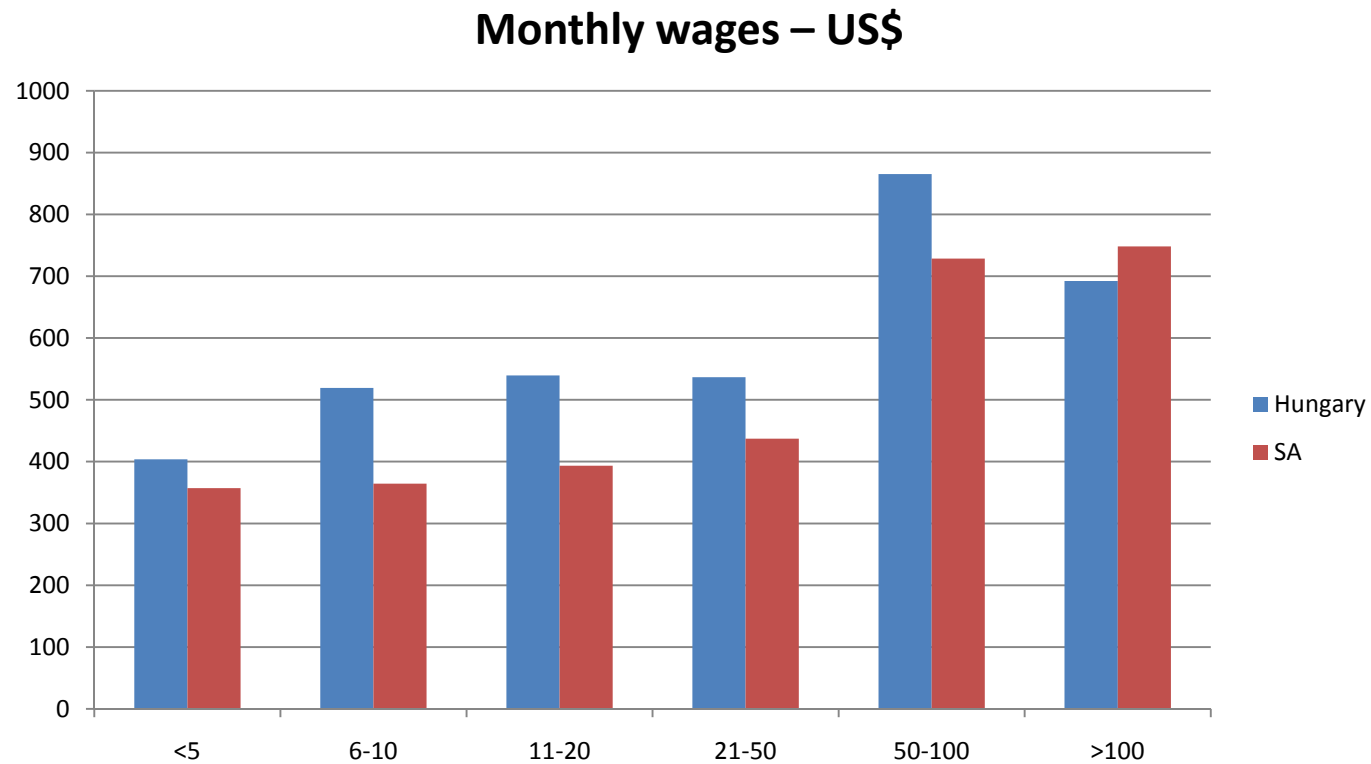
What counts as a success?

- Increase in output
 - Market concentration
 - Demand constrained
 - Exporting



What counts as a success?

- Increase in output
 - Wages (20-25% of sales)



What counts as a success?

- Increase in number of firms

