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Rising unemployment in post-apartheid South Africa: temporary or persistent?

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The fact that South Africa's high unemployment rate continued to rise during the first decade after the political transition - and this despite the same period coinciding with the economy's longest business cycle upswing - suggests that the labour market was undergoing a shift of its own to a new high unemployment equilibrium, that was not driven by short-run cycles. Which factors facilitated this long-run change, and how should we view this episode in light of future labour market prospects?

Using a long series of labour market surveys, it is possible to separate economic movements into parts that are attributable to long-run generational changes, short-run business cycle variation and components relating to individuals' typical behaviour over the course of their lives. In South Africa, the post-apartheid increase in unemployment has been dominated by the first component, underlining its long-run nature: older generations that were typically less likely to be unemployed have exited the labour market, while younger generations have entered with a greater proclivity to remain unemployed. This is not because the growing economy was unable to generate jobs (in fact, cyclical employment closely tracks the business cycle). Why is this important, and what are the implications? "Youth" unemployment of the current generation (which is among the highest internationally) may not only be a problem of the young being unable to find suitable jobs at the *start* of their careers, but may transpire into a "middle aged" unemployment problem as this same generation ages, with the same problems persisting. As a result, current policy remedies (such as the youth wage subsidy) may only have a marked impact on the overall unemployment rate if it can reverse the long-lasting change that has occurred. What *has* driven this generational increase, and are there prospects to reverse this long-run shift with existing policies?

In disentangling the puzzle of rising unemployment among younger generations, we interchangeably refer to and compare the economy's capacity to create jobs for various groups and generations, these same groups' appetite for *wanting* to work, and importantly the expected wages associated with those jobs. Central to this analysis is that labour force participation (in other words the proportion of a demographic group looking for work) has risen much faster than employment has grown. The first feature can be explained largely by changing cultural norms (which has seen new generation females among all race groups enter the labour market in similar numbers to their male counterparts), higher educational attainment and wages for those born more recently (both of which motivates individuals to look more intently for labour market opportunities). Yet, a specific group, born after 1975, has experienced a surge in participation over and above these existing trends. In particular, they were subject to changes in education policies that intended to reduce the burden of over-age learners on the struggling education system: the implication is that these particular groups exited the education system (without being integrated into FET colleges, as intended), added to the pool of job seekers, but lacked the skills to actually be employable.

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The second feature is the racial divergence in long-run employment rates for younger generations, with black males having borne the brunt of a large relative decrease. This too has a number of explanations. While these generations are equipped with *more* education, the well-documented low *quality* of this training (especially in former DET schools) has not facilitated absorption into jobs. Additionally, the skills component required of workers has grown faster than they have been acquired – economists refer to this as skill-biased technological change, which is a long-run shift to the types of employment and production that favour the best skilled in society. Hence, the rise in *years* of education that attracted younger generations *into* the labour market, has not been sufficient to secure suitable rewards. Instead, the higher paying jobs that are often occupied by younger generations, have been concentrated among fewer, highly skilled individuals. Another reason for the generational wage premium is the unbanning of unions in the 1970s, which has benefitted recent labour market entrants more than others. The concurrent rise in wages and decline in unemployment for black males can potentially be attributed to rigidity: high wage demands in turn disincentivise employment creation by firms.

Can current policies address these long-run shifts? In particular, the youth wage subsidy is an intervention targeting today's unemployed youth. If labour costs are the dominant feature that deter employment creation, this measure can (at least temporarily) assist firms in hiring young workers. Yet, this will remain ineffective if the generational effect persists into middle age. This consideration is salient, should the generational disadvantage primarily be the product of a low quality school system through which this generation passed: in that case, wage subsidies can do little to correct a deeper skills deficit that is increasingly important to solve in the context of a skills hungry economy. Wage subsidies are, furthermore, impotent in reversing the many demographic changes that have facilitated large-scale entry into the labour market; instead, they may marginally *raise* participation among youths, not stemming the tide of rising unemployment of this generation. Solving the lost generation's unemployment problem therefore requires a shift in attention towards deep factors: improving the quality of education to justify high wage demands will assist future generations; current youths that have exited schools with low quality education will require a mix of assistance – even later in life - to successfully bridge the gap that keeps them marginalized from the work place.