



# FIVE MILLION JOBS

How to add five million new jobs to the South African economy over the next five years

WORKING PAPER NO 3

## Opening the door: practical ways to reduce youth unemployment

CDE research team

**Y**OUTH UNEMPLOYMENT is part of a larger joblessness crisis in South Africa. But unemployed, unskilled young people face some of the greatest difficulties in finding jobs. Although we should not ignore the broader crisis – which should be tackled via higher growth rates and a more flexible labour market – there is a strong case for targeting interventions at young unemployed South Africans.

This paper presents a number of ideas for tackling youth unemployment in South Africa. These ideas have been chosen for their potential to stimulate debate in a policy area that is sorely in need of new ideas and fresh approaches. South Africa's socio-economic challenges are widely known, but although we have spent the past 15 years discussing them, shared understanding of how to address them has been difficult to achieve. We now need to experiment with new approaches, and the proposals in this document are made with this in mind. They have been chosen because they can be applied in a limited way – as a controlled experiment – and adopted widely if they are successful.

What would we judge as success? We should assess the value of each policy proposal in terms of the following three questions:

- Is it affordable?
- Is it implementable?
- Will it have an impact that goes to scale?

## Practical ways to reduce youth unemployment

So far, policy debate about unemployment and what to do about it has not been very helpful. Abstract theorising, an inadequate empirical research base, and reflexive defence of entrenched positions have all combined to create what amounts to a logjam. We must find ways to break out of this deadlock if we want to put South Africa on to a growth path that will benefit the poor and the jobless.

Our proposal is simple. On the basis of considerable research and relevant international experience, we have identified new initiatives to put to the test in South African conditions. Rather than rejecting an idea out of hand, let us try it in a specific place for a set period of time. Once it has been implemented, we can then decide whether it should be extended, abandoned, or modified on the basis of actual experience. This approach also has the advantage of (at least initially) putting smaller demands on state bureaucracies, and of providing those charged with implementation with opportunities to 'learn by doing' in specific policy areas.

On this basis we would propose the following policy proposals for testing in experimental form:

1. Implement a combination of tax breaks and labour-law exemptions for employers hiring first-time employees between the ages of 18 and 24.
2. Create special economic zones (SEZs) and monitor how many young employees (especially young women) find jobs there.
3. Launch an employment-guarantee scheme in the poorest parts of South Africa.
4. Design a vocational-education programme combined with apprenticeships.

*Rather than rejecting an idea out of hand, let us try it in a specific place for a set period of time*

Before we examine these practical policy proposals, let us first examine the extent of the youth-unemployment challenge, and the way this enormous problem is currently being addressed:

- Young people, broadly defined (15–34 years old), make up 75 per cent of the 4 184 000 unemployed people in South Africa;<sup>1</sup>
- In 2007 it was revealed that 72 per cent (1 961 000) of the unemployed between the ages of 15 and 30 had never worked before; and
- In the same year, 68 per cent of the unemployed who had given up looking for a job (discouraged worker-seekers) were under 35 years of age.<sup>2</sup>

Young people who confront the frustrating reality of being unable to participate in the economy despite their commitment to do so may be a threat to political

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stability.<sup>3</sup> Two senior members of government have expressed their concerns about this possibility. In 2005 the Minister of Labour, Membathisi Mdladlana, referred to youth unemployment as a ‘powder keg waiting to explode.’<sup>4</sup> In June 2008, the Minister of Social Development, Zola Skweyiya, pointed out that youth unemployment was the root cause of President Kenneth Kaunda’s overthrow in Zambia, as well as of the land invasions in Zimbabwe.<sup>5</sup>

It is equally worrying that young people excluded from the labour force for long periods are deprived of on-the-job learning, leaving them with a skills deficit that they will never be able to catch up. Even if they get jobs in later years, they will never be as productive as those who spent even parts of their youth in employment, where they would have picked up abilities critical to making them more employable and more productive.

High rates of youth unemployment are a problem in many parts of the world, because youth unemployment has particular features distinguishing it from general unemployment.<sup>6</sup> Young people lack job experience and are (or are believed to be) less productive than more experienced workers. As a result employers are less likely to take a chance on hiring them. The person who has already proved to be reliable and trainable in specific job tasks through previous work experience is at a great advantage in the labour market. Much research on South Africa shows that this is a major issue.

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For instance, James Levinsohn recently pointed out in his contribution to Harvard’s South Africa Growth Initiative that:

[W]hile there is a lot of churning in the labour market, once workers get a job in the formal sector, they tend to stay employed, albeit not necessarily in the same job. These patterns point to the importance of somehow getting younger workers into those first jobs.<sup>7</sup>

Levinsohn found that employment retention rates are 77 per cent for those between ages 18 and 35, and almost 81 per cent for those in this age group with a matric. ‘Clearly,’ Levinsohn concludes, ‘there are barriers to obtaining a job in the formal sector but once one has the job, the likelihood of retaining employment in the formal sector is high.’<sup>8</sup>

Other research confirms this general trend.

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There are many indications that employers greatly prefer to hire workers that they trust. As we noted previously, it is easier to trust someone who has already proved him or herself in the work environment, and who may have references. Another sign of this emphasis on trust is the increasing use of networks by employers in their hiring decisions. According to University of Cape Town professor Nicoli Nattrass, 'employment, particularly in the middle to upper echelons of the labour market, is increasingly a function of networks. People who have studied, lived or worked with already-employed people are more likely to find work than those whose social circle comprises the long-term unemployed.' Nattrass continues:

[E]mployers report that it is important to ensure that new employees 'fit in' to the firm and do not 'upset' existing employees. . . . Many firms ask their employees if they know of anyone who would be suitable to apply for existing vacancies. This practice of employment through 'word of mouth' is becoming increasingly common. Employers report that this is to make sure that existing employees are happy with new appointments and to avoid being 'inundated' by applications.<sup>9</sup>

In work commissioned by the Human Sciences Research Council (HSRC), Cape Town economist Justine Burns shows that employers 'faced with high labour costs and labour market rigidities have become more selective in their hiring decisions, placing greater weight on prior experience, and it is in this regard that young work-seekers are disadvantaged'.<sup>10</sup> This finding underlines the reality that in an environment of low trust and high unemployment, labour-market regulations that, at least to some degree, make it difficult for employers to fire workers they do not like, make those employers extremely reluctant to take a chance on young people, fresh out of school, with no references or experience.

*Many proposed interventions targeted at reducing youth unemployment are directed at the symptoms rather than the cause*

Many proposed interventions targeted at reducing youth unemployment are directed at the symptoms rather than the cause. They try to help young people search more effectively, develop better CVs, or acquire additional training. These types of interventions, designed to 'aid the youth', are misguided. Firstly, as Nicoli Nattrass has pointed out:

Training cannot be seen as an answer to the unemployment problem (although it may help address some labour-market problems). Training programmes for the unemployed are often weakly connected with the skill requirements of employers and can easily lead to an over-supply of specific skills. This problem

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is exacerbated by South Africa's sluggish economic environment and weak (if not falling) demand for labour. While basic skills (like computer literacy and office management skills) no doubt increase employability, it appears that the bulk of training and skills acquisition is job-specific. Employers prefer to invest in workers they have already hired and have confidence in.<sup>11</sup>

It should also be added that most training programmes tend to be uncoordinated and uninformed by a systematic and deep engagement with potential employers.

Secondly, it is not the character of the young that primarily needs changing. Surveys in Johannesburg, Durban, and Cape Town that the Centre for Development and Enterprise (CDE) undertook reveal that young people mostly display positive social attitudes.<sup>12</sup> Young people also have a number of advantages, such as youthful vigour and, possibly, a greater willingness than older people to learn and experiment.

The primary issues, given the evidence provided above, are the shortage of job opportunities and the reluctance of employers to hire people with no previous work experience. Therefore, the only way to bring about lasting changes at a significant scale is to provide employers with incentives to hire young people, and for the economy to generate many more of the kinds of jobs for which the majority of young people are suited than is currently the case.

*'We must find jobs for the people that we have, rather than continue to create opportunities for the people that we wish we had'*

The Harvard group of experts appointed to investigate the Accelerated and Shared Growth Initiative for South Africa (ASGISA) famously said that *'we must find jobs for the people that we have, rather than continue to create opportunities for the people that we wish we had'*.<sup>13</sup> CDE strongly endorses this sentiment.

### The government's programme

That unemployment is central to many of the most urgent socio-economic problems South Africa faces is widely acknowledged. Positive change in the rate of job creation is urgently required. As yet there is little evidence of a new government programme or set of initiatives that will open the door to employment for large numbers of young people. The new government will have to address these challenges.

For instance, at the Polokwane African National Congress (ANC) National Conference in December 2007, the stated aim of policies was to 'create decent

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work opportunities.' This phrase became a prominent part of the election manifesto and other statements.<sup>14</sup> The use of this restrictive adjective immediately makes it less likely that large numbers of jobs will be created.<sup>15</sup> Surely, given the massive shortage that exists, we cannot afford to be choosy about the kinds of jobs deemed acceptable. Once we have reduced unemployment to 'normal levels' (that is, below 10 per cent), maybe then we could work on the quality of the available jobs, but the current crisis is of such a magnitude that restrictions on job creation should not be acceptable.

In addition, the Polokwane conference called for the 'massification' of youth-employment interventions, and declared: '[T]he changes we seek will not emerge spontaneously from the invisible hand of the market. People acting collectively in the spirit of human solidarity must shape the patterns of economic development. In this process the state must play a central and strategic role, by directly investing in underdeveloped areas and by directing private sector investment.'<sup>16</sup>

In the ANC's election manifesto a range of state interventions are proposed to increase employment. They include:

*The proposals in the ANC election manifesto carry an unmistakable flavour of more of the same*

- launching a state-led industrial policy that will target labour-intensive production sectors, support co-operatives, and develop small businesses;
- implementing special sector programmes embracing industrial, trade, and other measures backed by adequate resources;
- promoting beneficiation programmes;
- investing in a programme to create large numbers of green jobs;
- leading a massive public-investment programme for growth and employment creation;
- setting up a massive programme of expanded public works linked to infrastructure and meeting social needs; and
- launching a much larger national youth-service programme and a new national youth-development agency, focusing on funding and employment creation.<sup>17</sup>

The proposals carry an unmistakable flavour of more of the same, and will require an extension of the tasks and responsibilities of the state. As was recognised by contributors to a discussion on the topic in *ANC Today*, all of these interventions require a 'concerted effort to improve the capacity of government and all public institutions,' reflecting a concern that they are currently not up to the task.<sup>18</sup> Radical changes in the way government has been run are required for the necessary capacity improvements to materialise; there is no real indication that these are imminent.

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By setting itself up as the solution without having the capacity to deliver significant numbers of sustainable jobs, the ANC and the government it controls risk politicising and raising the expectations of young people. In the likely event of failure, the private sector will probably be targeted for blame, as references to ‘directing private investment’, and ‘the private land market’ indicate.<sup>19</sup>

Instead of unrealistic promises and choices restricted by ideology, we need a workable programme, rooted in the realities of South Africa. It must be a programme that is implementable, that builds on the country’s strengths, and removes barriers to employment where it can.

It must also be politically feasible, but that should not mean that we accept current political opinions and frictions as intractable barriers to change. If we are to overcome the crisis of youth unemployment we cannot carry on with ‘business as usual’.

All interest groups need to compromise for the longer-term health of our society, and a workable approach must be thrashed out through a consultative process involving government, business, unions, and relevant civil-society organisations. The focus of the approach has to be a sustainable process that leads to the wholesale absorption of millions of young people into the formal workforce.

*If we are to overcome the crisis of youth unemployment we cannot carry on with ‘business as usual’.*

## Towards a workable programme

South Africa needs a comprehensive approach to ensuring a much higher growth rate that can be sustained for decades. This needs to encompass how we can have a more job-intensive strategy than over the past 15 years.

This document’s focus on the enormous and pressing challenge of youth unemployment must not be seen as a substitute for a strategy that would place South Africa on a new job-intensive growth path. For this, it will be essential to focus on finding ways of allowing markets to function far more effectively than they do at present; especially labour markets that currently inhibit such a job-intensive strategy. This will require firm political resolution to deal with vested interests.

As a first step this document suggests practical proposals that will make inroads into youth unemployment relatively quickly and at scale. We believe that youth-focused labour-market exemptions, SEZs, low-wage public works, and vocational-education programmes can achieve these aims.

## Practical ways to reduce youth unemployment

Our purpose is to put forward policy proposals, and also to stimulate a more vigorous and informed debate. We offer these proposals in the spirit of engagement with others who are equally concerned about reducing the rate of joblessness among young South Africans.

### 1. Youth-focused exemptions

In many countries where it is politically impossible to deregulate the labour market across the board (which is always the preferable option), more targeted interventions have been undertaken. These attempts to lower the barriers to employment for a particular group – usually young people – are typically referred to as active labour-market policies (ALMPs).

ALMPs can take the following forms:

- subsidies or tax breaks for employers hiring a particular category of worker;
- exemption from labour-market regulations for employers hiring a particular category of worker; and
- subsidies or credits for particular categories of workers that may either help them fund their job search, or provide a stronger incentive to take on employment.

In most international examples, ALMPs play a dual role of making it easier to hire young people as well as making it more difficult for young people to stay unemployed while relying on welfare. In South Africa, the problem of young people being choosy about the kind of work they accept is not likely to be as extensive as it is in developed countries. For this reason, as well as other factors that make South Africa distinctive, the international experience is likely to have only limited relevance for our purposes. Nevertheless, we present a brief summary of some of the more prominent ALMP programmes below to provide a sense of their general strengths and limitations.

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**Table 1: A selection of ALMPs from the developed world**

| Country | Date        | Motivation and policy instruments   | Outcome   |
|---------|-------------|---|---|
| Spain   | Early 1990s | Implemented exemptions to lower the firing costs of entry-level jobs without changing the costs for regular jobs. <sup>20</sup>   | Increased the willingness of firms to hire young workers. Also made firms less likely to retain workers. Resulted in a systematic rise in the use of temporary contracts for young workers, without an increase in permanent and stable employment. Over 30 per cent of employment became temporary, while unemployment remained high. <sup>21</sup>                                      |
| Germany | 2008        | Plan to implement reforms that will extend the probation period during which new employees are not covered by protective legislation from six months to two years. The reform will also enable employers to fire young workers and then re-hire them six months later. <sup>22</sup>  | Unknown at this date.   |
| France  | 2006        | Proposal to exempt young people from aspects of labour-market legislation   | Thwarted by widespread youth and union opposition. <sup>23</sup>  |
| Britain | 1998        | The New Deal for Youth Employment. A programme containing elements of job-search assistance, retraining, subsidised employment, and public employment. The emphasis is on immediate labour-market integration. <sup>24</sup> The wage subsidy reduces the cost to the employer of taking on an unemployed young person by 40–50 per cent. <sup>25</sup>   | Young unemployed people have been found to be 20 per cent more likely to get jobs as a result of the policy. <sup>26</sup>  |
| Canada  | 1978–1981   | The Employment Tax Credit Programme (ETCP) was targeted at people that had been unemployed for eight weeks or more. It provided a subsidy of \$1,50 to \$2 per hour for employees that were hired in response to the subsidy. In addition, the new hire had to work at least 35 hours a week and be retained for at least three months. The subsidy was initially granted for a period up to nine months. <sup>27</sup> | Take-up was low in the first year as the benefits of the subsidy to employers did not outweigh the risks of employing potentially unproductive workers. The terms of the subsidy were then revised to cover individuals unemployed for two weeks or more, and the duration was extended to a year. More than 65 000 jobs were subsidised while the programme was in effect. <sup>28</sup> |

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**Table 1: A selection of ALMPs from the developed world (cont.)**

| Country         | Date  | Motivation and policy instruments  | Outcome  |
|-----------------|-------|--|--|
| Poland          | 2003  | In response to an increase in the unemployment rate among those aged between 15 and 24, which went from 25,6 per cent in 1998 to 45,5 per cent in 2002, Poland launched the 'First Job' programme to help young people acquire work experience. The programme consists of employment subsidies aimed at small, medium and micro enterprises (SMMEs). They receive various forms of government assistance, including access to loans, and a partial refund of both the employees' pay and their social-insurance contributions. The period of financial support varies from six to 12 months. <sup>29</sup> | Critics of the SMME subsidies argue that after this period ends, the employer can dismiss a person employed on the basis of the programme, and in their place employ another school-leaver, thus continuing to receive the government refund. <sup>30</sup>  |
| Japan and Korea | 1990s | Both countries have used once-off cash bonuses to encourage people who have lost their jobs to regain employment quickly. <sup>31</sup> Those who become gainfully employed in a given period receive the bonus as soon as they start working again. Alternatively, if an individual on unemployment insurance finds work before his/her benefits are depleted, then a fraction of the unpaid insurance is paid to them. This policy can be costly, although this could be offset if unemployment-insurance payments are lessened as individuals are induced to find work more quickly. <sup>32</sup>      | Such incentives have a proven effect on shortening periods of unemployment. But paying out bonuses in this way can have negative effects as well. The bonuses can induce workers with a high probability of finding a new job to be laid off so as to collect the bonus. In order to minimise such abuse, Japan has several safeguards in place, monitoring the behaviour of both the bonus claimant and his or her former employer. This, of course, means that the programme imposes further costs on government expenditure and capacity. <sup>33</sup> |

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Although it has to be recognised that most of these measures were introduced in rich countries, with greater resources and lower levels of youth unemployment than South Africa, the examples listed above nevertheless provide us with the following insights:

The best option is to reduce the general levels of regulation, making it easier for all employers to hire the people they want to hire. This is the bold option and the one most likely to deliver the boost to employment that South Africa desperately needs.

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A number of difficult bureaucratic challenges have emerged within programmes that seek to provide specific incentives for a targeted group.

The red tape that employers have to engage with, as well as the stigma associated with workers who become part of these special programmes to access employment, causes many employers to avoid participating in the programmes even though they would receive a subsidy.

Opportunities for abuse have emerged within many of the programmes, allowing workers and/or employers to access benefits without really promoting the goal of reduced unemployment.

Subsidies and tax breaks work best when combined with additional interventions that improve the regulatory framework and provide concrete links to employment. In many cases the success of ALMPs can be attributed to the fact that they combined job-search assistance, training, and strict job-search monitoring.

The effectiveness of programmes was enhanced when employers' and workers' organisations were involved in the design and implementation of youth-employment programmes.<sup>34</sup>

ALMPs are therefore difficult to implement effectively, and will have a smaller and more ambiguous impact than general labour-market reform. However, it is important that we at least experiment with this kind of programme, targeted at young people, as a cost-effective and relatively painless way of establishing the potential of lowering the barriers to employment posed by labour-market regulations.

*To be successful at all, we have to ensure that the programme will be relatively easy to implement*

To be successful at all, we have to ensure that the programme will be relatively easy to implement, and that the incentive to employers will be large enough to overcome their reluctance to hire untested and inexperienced young workers. We therefore recommend a youth-subsidy/exemption policy, tailored to South African conditions, that is both more extensive and more restricted than the one recommended by the Harvard team who advised the Treasury on ASGISA in 2008.

A key reason for the Harvard policy recommendation is the argument that wage subsidies work with, rather than against the grain of the market.<sup>35</sup> In addition, although international experience reveals that the job opportunities created are often of short duration, it may still be worth pursuing the approach in South Africa, given the finding that gaining any kind of formal, private job experience leads to a substantial improvement in that person's

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chance of obtaining further employment. A 2007 Organisation for Economic Co-operation and Development (OECD) report on youth unemployment in the Netherlands found that most forms of temporary employment (in the formal economy) act as a stepping stone to permanent employment, rather than as a trap.<sup>36</sup> We have already established that this is certainly the case, to a much greater extent, in South Africa.<sup>37</sup>

The idea of providing wage subsidies as an incentive to hire young people is not new; in 2002, an academic paper evaluated the likely effects of wage subsidies on the South African economy with positive conclusions.<sup>38</sup> In November 2007, the South African Treasury released a discussion document that recommended a broadly targeted wage subsidy which, the report claimed, could raise employment by between 200 000 and 300 000 jobs at a cost of R17 billion.<sup>39</sup> The report makes the following claims for wage subsidies:

- although the results are by no means consistent across countries, a consensus appears to be emerging that direct subsidies to job creation in the private sector have been most effective in raising employment rates;
- labour-market interventions are more likely to succeed when the employment opportunity created approximates as closely as possible to private-sector employment; and
- unlike direct-employment programmes, they serve to foster productive employment in the private sector.<sup>40</sup>

*Gaining any kind of formal, private job experience leads to a substantial improvement in that person's chance of obtaining further employment*

The member of the Harvard team who proposed the wage subsidy, James Levinsohn, argues for an integrated, active labour-market policy to mitigate the ongoing negative impact of labour-market regulation on youth-unemployment rates. This should include a subsidy available to all 18-year-olds when they obtain a job. The subsidy would work in the following way:

Every South African becomes eligible for the wage subsidy when he or she turns 18 years of age. Upon turning 18, each South African receives an account ('Subsidy Account') into which Government has placed a sum of money. Every 18 year old receives the same amount. This money can only be used to subsidize the wage that the individual receives while working for a registered firm. Also, upon turning 18, each citizen is given a wage subsidy card that might look much like a credit card. It could well have a magnetic strip that would contain information on the recipient (e.g. name, birth date, and other government identification data) as well as the 'balance' in the individual's account. When the individual took a job in the formal sector (e.g. for a registered firm),

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a fraction of the individual's wage (up to a given limit) would be drawn from the individual's Subsidy Account. For an individual earning approximately an average minimum wage, the subsidy might comprise up to half of the wage. For an individual earning a much higher wage, the subsidy would be a much smaller fraction of the wage.<sup>41</sup>

Levinsohn estimates that the cost of this policy would, if it consisted of a R5 000 subsidy a year to all 18-year-olds, be 'on the order of R3.75 billion.'<sup>42</sup> However, this does not include the administrative costs of setting up and running the programme. While these are likely to be significant, Levinsohn's policy design makes it relatively easy, once the system is set up, for both employers and employees to participate. It also avoids creating many opportunities for corruption.

The subsidy could act as an incentive for employers to hire young, first-time job-seekers, thereby getting them into a job and substantially reducing their chances of getting stuck in long-term unemployment. There is no guarantee, however, that the subsidy will be sufficient to overcome employers' reluctance to hire young people. It is also not clear how smoothly the implementation would proceed, given South Africa's bureaucratic limitations.

We therefore advocate a gradual, trial implementation of this programme and a simultaneous experiment with an alternative approach.

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This alternative would provide employers with a tax rebate, rather than a subsidy. This would make the programme a part of the existing tax-reporting system and would put the additional bureaucratic burden on a section of the state that has proven itself more effective than many other sections. However, the additional paperwork that would then be required from businesses may act as a disincentive, leading them to hire fewer young workers than under the Levinsohn scheme. It is hard to say which effect would predominate. For this reason, we recommend that we experiment with both approaches in two pilot regions. An informed assessment of the differences between the two regions, which took into account the losses incurred from subsidising the employment of those who would have got a job without the subsidies, would then tell us which approach generates the most new job opportunities for young people.

Levinsohn feels that subsidies are not sufficient incentive for employers to hire more young people. He therefore wants the subsidy to be accompanied by an exemption period for first-time employees of three to four months, during which they would not be covered by employment-protection laws. This would

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substantially reduce the risk to the employer of hiring an unknown, untested employee. We would recommend a longer exemption period, of one year to 18 months. Three to four months may not be long enough for an employer to discover whether an employee is worth retaining or not. Thus this ‘carrot’ may not be large enough to reduce employers’ reluctance to take on untested young people. They may be fearful that employees could survive the first three months, and only reveal their weaknesses later, once they are more effectively locked into the job via the labour laws. They may also feel that it will take longer than three to four months to determine whether workers are trainable and adept at the various tasks a job may require.

*Three to four months may not be long enough for an employer to discover whether an employee is worth retaining or not*

Our recommendation is therefore that we undertake experiments with different ways of subsidising employers to hire young people, and remove the fears they may have about hiring inexperienced, untested workers by producing a substantial exemption period during which the labour laws will not apply.

### Evidence that labour regulations discourage hiring

The Labour Relations Act (LRA) is often viewed as negatively impacting employment because of its implications for firing. The employment contract cannot be terminated by an employer simply by giving notice, and an employee has a right not to be unfairly dismissed. A fair dismissal is one where the employer acts for a fair reason (substantive fairness), and in accordance with a fair procedure (procedural fairness). The LRA protects employees from unfair conduct relating to demotion, suspension, and provision of benefits. Disgruntled employees have the option of taking their grievances to the Commission for Conciliation, Mediation, and Arbitration (CCMA), which has the power to order reinstatement and/or compensation if it finds dismissal to have been prejudicial.

Numerous surveys have found that these provisions discourage employment. In the World Bank Investment Climate Survey of 2005, firms were asked to identify up to three major obstacles to doing business. Labour regulations were cited most. When firms were asked to rank the different kinds of regulation in terms of severity as obstacles, labour regulations were the most frequently cited, regardless of firm size. These results were echoed in the earlier World Bank / Greater Johannesburg Metropolitan Council (WB/GJMC) survey. Labour regulations were among the five most mentioned obstacles to business. Other government regulations were not seen to be a serious obstacle.

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The Small Business Project (SBP) survey revealed that labour concerns (encompassing labour-market regulation and labour productivity) generally ranked as the third most serious issue. The SBP survey also showed that labour regulations were cited more often than lack of skills as a constraint to hiring new employees. A third of the firms in the 51–100 employees category reported labour laws as a major constraint to hiring. The National Enterprise Survey (NES) revealed that changes in regulations were the most common reason for a decline in employment of unskilled workers among smaller firms.

Among small firms, changes in labour regulations were the most common cause of a decline in employment of unskilled labour, and most firms in all size categories found firing and dismissal procedures as being serious obstacles to hiring new staff.<sup>43</sup>

## 2. Creating special economic zones

SEZs commonly provide special incentives to attract investment – mostly foreign, and often for export production. These incentives range from tax holidays, duty-free export and import, and free repatriation of profits, to the provision of infrastructure and exemptions from labour laws.

By 2002 there were as many as 850 SEZs across the world, employing about 27 million workers.<sup>44</sup> Evaluations of these zones have found that the expansion of SEZs in developing countries, especially in the sectors of clothing, textiles, and light manufacturing, has led to rapid increases in job opportunities for unskilled, often young, and mostly female workers. As one evaluation points out, SEZs ‘have created an important avenue for young women to enter the formal economy at better wages than in agriculture and domestic service.’<sup>45</sup> Female workers make up 74 per cent of the employed youth in export-oriented sectors in both Indonesia and Vietnam.<sup>46</sup> It has also emerged that, as the nature of employment in zones evolves into higher technology inputs with greater skill requirements, the gender profile of the workforce changes. Labour turnover in these zones is also high, ‘with the average career of a worker seldom longer than five years.’<sup>47</sup>

*SEZs ‘have created an important avenue for young women to enter the formal economy at better wages than in agriculture and domestic service’*

These features make launching SEZs in South Africa an ideal strategy. Initially they provide jobs for the type of person experiencing the highest levels of unemployment in South Africa: young females in neglected areas. Even if labour turnover is high, SEZs will nevertheless provide young women with critical amounts of job experience, which, as we have seen, will make it much

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easier for them to find their next job. In addition, once women are in these kinds of jobs they can more easily gain access to training programmes that will further enhance their employability.<sup>48</sup>

Further, as these zones attract more technologically sophisticated manufacturers, they may lose some of their gender benefits, but could nevertheless become increasingly 'youth intensive.' This has been suggested by the World Bank, based on evidence from Indonesia, Vietnam, and Slovenia.<sup>49</sup> In the World Development Report for 2007 the World Bank argued that SEZs can provide strong benefits for young people. For example, in Indonesia, industries with youth-employment shares that are more than twice the national average are heavily engaged in exporting, and concentrated in electronics and textile manufacturing. It is also the case that young workers in exporting firms are better paid than their counterparts elsewhere.

In Slovenia, industrial growth led by foreign direct investment had profoundly positive consequences for the relative position of young people in the workforce. In the early 1990s, younger workers were the least productive age group in the labour market. The productivity of those between 18 and 29 years old was about 70 per cent of the productivity of those 50 years and older. Around 1996, the productivity of young workers caught up with that of 40 to 49-year-olds, and by 2001 young people had surpassed their older counterparts. At the same time, earnings rose at a faster pace for the young than for older workers, closing significantly the gap in earnings with older workers.<sup>50</sup>

*Promoting new, dynamic, and technologically advanced sectors, such as electronics, has specific benefits for young unemployed people*

This international experience reveals that promoting new, dynamic, and technologically advanced sectors, such as electronics, has specific benefits for young unemployed people that will help to restore the balance between the generations in areas where unemployment is particularly skewed towards young people, and young people have acquired particular skills.

This is so because the young are most able to respond to the growing demand for labour, and because young people may be particularly attractive to firms in new and growing sectors of the economy. Older workers tend to be set in their ways, while young people tend to be more adaptable and open to new production methods. Promoting such sectors therefore shifts the balance away from older, towards younger, workers. In established sectors of the economy, young people are at a disadvantage due to their lack of experience, but in dynamic new sectors these disadvantages are turned into advantages. Such areas can, therefore, be called 'youth-intensive sectors.'

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Such schemes might not immediately yield benefits in South Africa on the same scale as they did in Slovenia. The burden of educational deficits still carried by a large number of young unemployed South Africans may prevent that. Nevertheless, it is clear that, whether in unskilled or semi-skilled work, SEZs tend to create jobs for young people, especially young women. Given the extremely high rates of unemployment among young women, it must surely be worthwhile to experiment with SEZs in South Africa to assess their efficacy and monitor their impact.

We should demarcate two or more areas, possibly in two coastal provinces, such as KwaZulu-Natal and the Eastern Cape, as SEZs, and then activate some of the exemptions within them. These exemptions would include any or all of the following:

- tax holidays;
- duty-free export and import ;
- free repatriation of profits;
- the provision of infrastructure; and
- exemption from labour laws.

If any of these zones create significant numbers of jobs for unemployed people in the surrounding area, then we should look to extend the idea to other areas. If not, then we should try something else. We could also try different exemptions in different zones, and see which (labour laws versus tax holidays for example) worked best in stimulating job creation.

*In unskilled or semi-skilled work, SEZs tend to create jobs for young people, especially young women*

If we initiate such a policy we may just follow in the footsteps of such success stories as Malaysia. The state of Penang in Malaysia has been one of the many regions across the world that have used SEZs effectively to attract quality investment in hi-tech manufacturing. The number of plants in the state's zones increased from 31 in 1970 to 743 in 1997. During that period, the number of employees in the zones rose from around 3 000 to nearly 200 000.<sup>51</sup>

### 3. A low-wage public-works programme

There is another alternative for providing some work experience and on-the-job training to young people: creating jobs in the public sector. This approach to combating unemployment is central to the employment scenarios developed by the HSRC.<sup>52</sup> The HSRC's report, based on current government policy assumptions, concludes that no matter what scenario of private-sector job creation emerges in the future, reducing unemployment to acceptable levels – certainly to the government's self-set target of halving unemployment

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by 2014 – will still require an expansion of public-sector employment, and, in particular, that the Expanded Public Works Programme (EPWP) needs to double in size at least.

### **The future without policy changes (HSRC employment scenarios)**

The HSRC has undertaken much research on unemployment, in the form of ‘employment scenarios’, which are the basis for policy recommendations. This research helps to raise the concern about current unemployment problems, and provides some insights into future trends. The scenarios are based on the conjecture that markets are essentially operating effectively in South Africa, and it would therefore be unreasonable to expect major reductions in unemployment to flow out of market-based solutions. This assumption glosses over the actual conditions in which markets operate. The HSRC’s scenario report is a conservative document, which may be necessary to minimise the number of variables and thus allow for cleaner and stripped down projections. However, by ‘just sticking to the facts’, the scenarios, whether deliberately or not, lend support to present policy directions, making them appear inevitable rather than, as in all policy matters, the subject of alternatives, options, and choices. Specifically, the scenarios:

- do not examine the impact of minimum wages (and labour legislation generally) on developing-country labour markets; and
- assume that it is possible for the state to expand job creation massively without significant managerial problems, including corruption and cronyism in tendering, although concerns are expressed at possible effects on public finance.<sup>53</sup>

Rather than this type of long-term reliance on the public sector, CDE supports an expansion of public-works job opportunities for young South Africans as a bridging measure, to help the unemployed as we fix education and the economy to meet national needs more appropriately and effectively. A public-works programme should:

- offer everyone a job who is willing to work at a given wage;
- provide dignity and subsistence for people cut out of the labour market; and
- serve social cohesion by offering unemployed workers a sense of purpose.

The current public-works programme has had some success. Between 2005 and 2007 the programme created 661 000 short-term (up to three-month) jobs at a cost of R12,5 billion.<sup>54</sup> During 2007/2008 the programme created 439 099 temporary job opportunities. Forty per cent of these were taken up by people younger

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than 35. However, despite meeting its targets, the programme has not made a significant dent in unemployment. The problem is that the 'job opportunities' are of short duration. According to the departmental report for the period 1 April to 30 June 2008, 180 739 net work opportunities were created, which constitute only 33 083 person-years of work. These numbers imply that the average duration of a work opportunity is about nine weeks. In addition, the programme is not sufficiently dynamic or targeted to make a real difference for the majority of poor South Africans who really need a job.<sup>55</sup> Impact studies conducted by the Department of Public Works indicate that only 14 per cent of EPWP beneficiaries enter formal employment.<sup>56</sup> There are also reports that some of the funds for the programme have not been filtering through to projects, and that money has been mismanaged.<sup>57</sup> Current plans to expand the programme by R4 billion will likely make further dents in unemployment, but will not address the underlying problems of the programme.

*A more effective way to use public works is to focus its operation in areas of high poverty and unemployment*

The problems of the current programme are that:

- it is not sufficiently targeted at the poorest of the poor;
- it places large demands on bureaucratic structures (local governments) that are already stretched; and
- it has too many goals (training, gender equity, youth empowerment) that are often difficult to achieve.

In our view a more effective way to use public works is to focus its operation in areas of high poverty and unemployment, providing work opportunities to everyone who wants to work for as long as they want at a given wage. It is important also to provide these opportunities without creating new bureaucratic snarl-ups, and without creating new opportunities for corruption.

Such a programme can be created if we learn the lessons of India's National Rural Employment Guarantee Scheme (NREGA), which was successful while it used a flexible and relatively low wage rate to guarantee employment in very poor parts of the country, without overburdening the fiscus or state structures.

## **Targeting the poor with low wages: India's National Rural Employment Guarantee Scheme**

The NREGA is one of the largest single rights-based social-protection initiatives in the world. The national budget for the financial year 2006–2007 was approximately US\$2,5bn, which is almost 0,3 per cent of India's gross domestic product. In five years, it is estimated that the scheme will cost about four times this amount. Critics have argued that the NREGA is not sustainable and that it will contribute to a fiscal crisis.

The NREGA is a self-targeting programme, open to all rural people who are willing and able to undertake manual labour in their village. This is based on the principle that only the poorest will be interested in manual work for low wages, thus minimising errors of inclusion and exclusion, and preventing the leakage of funds to people who do not qualify for them. Rather than acting as an alternative to private-sector employment, this programme is an attempt to fill the gaps in areas where private employment does not yet reach as India fixes the rules of market-based enterprise.

The NREGA evolved out of the Maharashtra Employment Guarantee Scheme (EGS). In 1997, the EGS generated a total of 90 million person-days of employment, while expenditure amounted to Rs247 million (approximately US\$7 million). The scheme was launched in the late 1970s, and originally enjoyed a positive reputation as a way to provide guaranteed employment to the poorest of the poor at a relatively low cost. The central feature of the scheme was using low wages as a non-bureaucratic targeting mechanism, that is, you either worked for that wage or not. It was the only selection measure, and not subject to bribery, corruption, or state-incapacity issues. However, political pressures led to an increase in wages after 1980. There was, as a consequence, a sharp decline in the number of jobs taken up over the period 1980–1997. Restrictions started to emerge on the number of jobs available, and there was no longer a mechanism in place to ensure that the jobs were only taken up by the poorest. Subsequently, there has been increased bureaucratisation of the scheme, a trend that has been transferred to the recently launched national scheme.

The result has been an increasing inability of the scheme to provide jobs for all, as well as an increase in corruption. In Gujarat, Madhya Pradesh and Jharkhand it has been found that the bribe demanded by local officials for an application form for a job card may range from Rs5 to Rs50, where a day labourer might earn only Rs60 (US\$1,50) or so. Instances of discrimination with regard to caste, age, and gender have also been observed, with evidence that households headed by single women are being denied registration.<sup>58</sup>

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Some of the principles of the Indian employment schemes provide a workable way to extend employment opportunities to the truly poor in South Africa. We should think of these programmes as ways to create employment in areas where unemployment is highest, and the incentives for private-sector expansion are too low.

For example, in some parts of Limpopo province, where 88 per cent of women are reportedly unemployed, a major expansion of job opportunities is required now.<sup>59</sup> Public-works programmes should be launched in these areas at low wage rates. The idea would be to pilot a range of wage rates. If the wages that are set attract very few applicants, then they should be raised after a while. If the wage rates draw an overwhelming number of applicants, then they should be lowered to ensure that jobs are available to all those who want to work at that low wage. This mechanism also works to ensure that a higher than expected demand for job opportunities does not lead to large, and therefore unsustainable, increases in the public-works budget. The guiding principles of the programme should be to:

- offer employment to the poorest of the poor in some of South Africa's most neglected areas, who are looking for work, and very unlikely to find a job in the near future;
- avoid any other targeting mechanism other than the wage rate, as other targeting mechanisms will inevitably lead to the exclusion of people, bureaucratic failures, and corruption;
- use the wage to strike a balance between providing significant numbers of jobs and fiscal sustainability; and
- focus on providing jobs to all willing people, rather than develop complicated mechanisms to ensure that the work produces valuable outputs or transferable skills. These are important considerations, but they must not be allowed to detract from the job-creating potential of these programmes.

*Some of the principles of the Indian employment schemes provide a workable way to extend employment opportunities to the truly poor in South Africa*

Given the relatively high levels of youth unemployment in South Africa's poorest areas, we are assuming that many of the people who select themselves for public employment will be young people desperate to get some work experience. However, if this is not the case, then we would have learnt that young people are not desperate for work, and we should continue to offer the jobs to those who really want them. We are opposed to youth quotas as this would undermine the important principle of making the programme open to everybody, and allowing the unemployed themselves to choose whether they want to work on this scheme or not.

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Like the Indian programmes, this proposed public-works scheme should be regarded as a temporary initiative, to compensate for the lack of jobs while we remove the regulatory and other barriers that make it difficult for private companies to create sufficient jobs for all those who want to work. Nor should there be a notion that such programmes will bring significant amounts of development to rural areas such as those located in Limpopo. Development will continue mostly to be an urban phenomenon. This public-works programme would be seen as bringing some jobs and some hope to people who may temporarily be stuck in certain rural environments, while attempting to provide worthwhile infrastructure and services to these areas. But these are short-term solutions. They should not interfere with existing labour markets, or long-term developmental trends.

### 4. A vocational education programme combined with apprenticeships

South Africa is confronted with the unusual problem of simultaneously having mass unemployment and a shortage of skilled workers. This points to a mismatch between what the education system is producing and what employers are demanding. There is clearly little demand for the unskilled people that the education system is producing in such large numbers.

*South Africa is confronted with the unusual problem of simultaneously having mass unemployment and a shortage of skilled workers*

Reforming the education system is a critical task for reasons of both social equity and economic efficiency. The better the access to quality education for all, the fairer our society will become, the faster we will grow, and the lower the unemployment rate will fall. System-wide recommendations for educational reform are not the province of this paper, though it has to be stressed that long-term sustainable solutions to youth unemployment cannot be achieved without root-and-branch reform.<sup>60</sup>

One way to tackle the problem, which should relatively quickly produce results for young people who are otherwise on an educational path to unemployment, is to involve the private sector in the education and training system in a much more fundamental way than is currently the case. Our proposal runs counter to the current method of relying on the private sector for funding, and then conducting the training through government-dominated Sector Education and Training Authorities (SETAs). We propose that companies become more directly involved in curriculum formation within schools, while also linking on-the-job training opportunities to particular school programmes. To bring this about will require the launch of a vocational schooling stream, as well as

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the formation of a much more systematic apprenticeship system than is currently the case.

### Vocational education

Vocational education prepares learners for careers that are based in manual or practical activities, traditionally non-academic and related to a specific trade or vocation which provides a specific career path. It is sometimes referred to as technical education, as the learner directly develops expertise in a particular group of techniques or technology. Vocational education might be contrasted with mainstream education, which usually covers a broader range of fields, and might concentrate on theory and abstract conceptual knowledge.<sup>61</sup>

Research done for CDE by Professor Charles Simkins on vocational education reveals that the South African education system makes much less use of vocational education than most other countries.<sup>62</sup> South African student participation in technical and vocational education and training is at half of the level attained by countries with a similar per capita income. For example, in China there were 17 770 vocational schools in 2001, in which more than 11 million students (11 643 300) were enrolled. This represented 45 per cent of secondary students, up from 19 per cent in 1980.

In South Africa 361 186 students were enrolled in further education and training (FET) colleges in 2006. They constituted 12 per cent of the total grade 10–12 enrolments for that year.<sup>63</sup>

*The South African education system makes much less use of vocational education than most other countries*

The key to entrenching vocational education as a broadly accessible preparation for the labour market in South Africa is to locate four-year vocational-training opportunities within existing schools, which learners can enter once they have passed grade nine. Schools should then develop vocational programmes in close consultation with interested businesses and local employers.

A school in a rural area may choose to develop programmes in the fields of forestry and wood technology, horticulture, primary agriculture, or rural and agrarian studies. A school in a small town serving a commercial farming area might select consumer services, transport, operation and logistics, or wholesale and retail trade. A school in a city might choose information technology and computer sciences, manufacturing and assembly, or office administration.

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What a school chooses should be the outcome of professional consultations with district offices and provincial departments, as well as consultation with local businesses and established big companies that may want to get involved in particular areas and among particular communities. These involvements should be motivated primarily by self-interest. Companies should see this as an opportunity to influence the training of more employable workers, and schools and communities should see opportunities to bring in expertise and create local job opportunities.

Implementing a vocational education programme can produce *relatively* quick results, but these will not be automatically or easily achieved. Vocational training in industrial-training institutes could start quite quickly. Provision by private providers would take longer, as these providers would have to acquire institutional and trainer accreditation. FET colleges would also take some time to develop vocational learning programmes. Schools would probably take longest of all, and would require careful steering towards an appropriate mix of senior certificate and vocational training, based on the aptitudes and interests of individuals and catchment areas.

In addition, high unemployment will make the connection between vocational education and the world of work hard to establish, especially when employers are using the senior certificate as a general-ability screening mechanism. Central to the success of such an initiative will be acceptance of a vocational education system by employer associations as a credible pathway to the world of work, and vocational education should be linked to apprenticeship programmes. Such programmes should provide vocational learners with an opportunity to obtain some work experience while still at school (as a practical component of their education), and then to enter into an apprenticeship period once they graduate. This would have the dual benefit of strengthening the link between what is taught and what is required in the work place. It would also allow young people to obtain work experience while still at school. It has been noted that, partly because of the high levels of unemployment, most young South Africans remain cut off from work experience, which, as suggested by international research, almost certainly inhibits the way they interact with the labour market.<sup>64</sup> A lack of experience has two negative effects. We have already seen that it makes employers wary as they cannot assess an applicant's employability via their previous performance. But it also means that applicants have a limited sense of what the world of work is really like, and therefore find it difficult to sell themselves to sceptical employers.

*Vocational education should be linked to apprenticeship programmes*

## Practical ways to reduce youth unemployment

Labour-force surveys have shown that young whites, who experience very low rates of unemployment, enjoy the greatest amount of early labour-market experience of all South Africa's racial groups, followed by Indians, coloureds, and then Africans. The challenge is to extend the patterns of early labour-market experience observed mainly among whites to young Africans.

This challenge could be met by encouraging early labour-market experience integrated with school education. This experience has been documented as being beneficial to youth in that it eases the transition from school to work, it helps in choosing a career path or in ruling one out, and it instils a number of desirable qualities that have a positive bearing on youth employment later.<sup>65</sup> In addition, by drawing employers into interactions with potential employees at an early stage of their development, this process will at least dilute the mistrust that currently appears to mark relations between many employers and young job seekers. This would be a way to build on a suggestion made by Nicoli Nattrass in relation to youth unemployment. She stressed the importance of 'local level initiatives involving employers and communities. This will maximise the flow of information (about which jobs are available, and which skills are in short supply) and help build the trust necessary to encourage firms to employ more workers.'<sup>66</sup>

*The challenge is to extend the patterns of early labour-market experience observed mainly among whites to young Africans*

Promoting a link between employers and the education system will not be easy to achieve, given the very limited number of job opportunities available to unskilled or semi-skilled employees. It will therefore be necessary to launch an incentive programme similar to the Joven (youth) programmes that have been very successful in a number of Latin American countries. The following list provides details on some of the international experiences with these types of programmes:

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**Table 2: A selection of apprenticeship programmes from the developing world**

| Country   | Date | Motivation and policy instruments  | Outcome   |
|-----------|------|--|---|
| Chile     | 1991 | Chile Joven introduced below-minimum-wage apprenticeships to increase significantly the job opportunities for young graduates. The lower wages subsidised on-the-job training, which allowed increasing numbers of youths to develop their skills and to increase their productivity. An additional subsidy covers direct and indirect costs of training, and participants received subsidies to cover transportation costs during a period of classroom training and during on-the-job training. <sup>67</sup>  | At least 50 per cent of participants were still employed 90 days after training, 55 per cent had a job related to their training, and between one-third to one-half were still employed by the firm that gave them on-the-job training. <sup>68</sup> |
| Argentina | 1997 | The programme is called Proyecto Joven. More than 10 000 companies have participated, either through apprenticeships or direct hiring of youths upon graduation. According to the executive director it is not a jobs programme, it is a training programme. The objective isn't that participants should get a job immediately, but to increase their possibilities of getting a job. The project targets poor youngsters who have little work experience and low educational levels. Those youths who qualify receive a scholarship of \$4 a day to attend class, an amount that doubles to \$8 a day once the apprenticeship period begins. <sup>69</sup> | An average of 30 per cent of participating youths get jobs in the same company where they did their apprenticeships. In some cases, it is as high as 90 per cent. <sup>70</sup>   |

## Practical ways to reduce youth unemployment

**Table 2: A selection of apprenticeship programmes from the developing world (cont.)**

| Country | Date | Motivation and policy instruments  | Outcome   |
|---------|------|--|---|
| Brazil  | 1989 | The Primer Oficio ('first job') programme has the aim of providing unemployed adolescents with opportunities to join the labour force and earn an income. This is accomplished through a job-placement programme in partnership with various firms located in the city of Curitiba. The programme requires the young people selected to stay in school, and monitors their school performance. The beneficiaries take an introductory course to enable them to fill available vacancies in the firms in the city that support the programme. <sup>71</sup> | Some 115 firms in Curitiba have participated in the programme, which represents a high rate of participation by businesses located in the city. <sup>72</sup>   |
| Algeria | 2002 | A subsidy programme to provide incentives for employers to hire unemployed youths who had undergone a government-sponsored training course. <sup>73</sup>  | The programme created 68 300 jobs, but the majority were not retained once the subsidy period ended. The programme made a contribution to reducing the youth-unemployment rate from 48 per cent in 2000 to 31 per cent in 2005. <sup>74</sup> |

CDE 2009

Thus, if a vocational education programme could be linked to training and apprenticeship programmes in ways suggested by the international examples, it would have a major impact on youth unemployment. The introduction of vocational education and apprenticeships will provide many learners with a better chance of succeeding at school, give them access to practical knowledge required in the market place, and, most importantly, give them some work experience and thereby make them much more employable.

It would also allow employers and the private sector to contribute to parts of the education curriculum. It would use their expertise in strengthening the education system, and would strengthen the levels of trust between employers and young job-market entrants.

## The importance of experimentation

All the programmes proposed above should be rolled out in stages and be piloted and adjusted as lessons from the experience of actually running them emerge. The rationale behind this strategy is twofold, and builds on the experience of companies that gradually ‘roll out’ new branches or activities. First, gradual implementation will place less stress on the bureaucracy, and will facilitate a process of learning by doing. As they implement programmes, state structures and officials will become more adept at undertaking the associated tasks and will start to anticipate problems. They will also learn from their mistakes, and be able to adjust programmes so that they work better in the context of specific South African situations.

The other reason for recommending experimentation is in order to strengthen the political viability of the approach. Opposition to the kinds of proposals we have put forward here is usually mounted by left-wing critics and interests, especially the Congress of South African Trade Unions (COSATU), as not being in the interest of the poor. Creating low-wage jobs, they argue, will serve to undermine the wage levels of current jobs without making the recipients of the low wage significantly better off. They also frequently maintain that there is no evidence to prove the assertions of those who believe faster job creation at lower wages will benefit poor South Africans as a whole.

The problem with these debates is that they cannot be resolved in theory. There are few instances in which the intended outcomes of policies (never mind the unintended ones) can be confidently predicted in advance. It is difficult to mount meaningful empirical research on outcomes until the innovations are actually introduced, at least in pilot form. As a result, the debate becomes sterile, predetermined by ideological starting points, and unable to produce any significant compromises.

*The programmes proposed above should be rolled out in stages and be piloted and adjusted as lessons from the experience of actually running them emerge*

This lack of willingness to compromise has in large measure defined the way in which organised business and labour have interacted. An instructive example can be found in the much-vaunted Growth and Development Summit of 2003. The summit was described at the time as ‘a historic agreement for all parties to work together to revitalise South Africa’s economy and create jobs.’<sup>75</sup> However, numerous commentators pointed to the lack of agreement on crucial issues. COSATU had ‘swept from the table’ any mention of loosening up South Africa’s labour laws, and had then threatened to pull out of the summit agreement because it wanted government to force businesses to make concrete commitments to

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investment. Bantu Holomisa of the United Democratic Movement said it best when he labelled the summit as ‘just another talk shop.’ ‘Nothing new came out of this summit that would benefit millions of poor South Africans, except old empty promises about breaking the back of unemployment,’ he said.<sup>76</sup>

In 2008, organised-business representative Michael Spicer summed up the failure of business and the labour movement to work together in the following terms: ‘[F]or the past 10 years, there were divergent approaches between business and labour on these issues. . . . We pretended to agree but did not agree at all, so the [agreements reached were] dead in the water.’<sup>77</sup>

Further insights into how intractable ideological positions have undermined most attempts to assist the unemployed can be found in the attempts by the then Deputy Minister of Finance, Jabu Moleketi, to open public debate on the possibility of more flexible labour-market regulations.

In response to a 2005 request from the ANC’s national executive committee, Moleketi produced a ‘discussion paper’ on labour-market reform in which he argued that, although the regulations had led to ‘labour peace, the unintended consequences’ were that there were also rigidities that ‘may not allow us [the government/ANC] to expand employment as rapidly as we would like’. To solve the problem, Moleketi proposed that a range of labour-market reforms should be investigated, including:

*Intractable ideological positions have undermined most attempts to assist the unemployed*

- the exclusion of small firms from wage deals made in bargaining chambers struck between large employers and big trade unions;
- reducing the cost of compliance;
- excluding more firms from regulatory requirements by raising the limit on the size of the company obliged to conform from 50 employees to 200;
- making space for a dual labour market by exempting either companies or workers from labour regulations. These exemptions could be defined either by the age of the employee, or the geographical location of the enterprise, or the type of industry, or the size of the enterprise.

However, before the paper could be tabled, the ANC’s committee for economic transformation, chaired by Max Sisulu, released a statement that argued, firstly, that ‘there is no empirical evidence to suggest that labour market regulation poses *the most severe impediment* to job creation’ (emphasis added), and secondly, that the potential ‘political, economic and social costs’ of pursuing deregulation in a post-apartheid context were so high that deregulation

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could not be contemplated.<sup>78</sup> COSATU strongly agreed. The labour organisation's economist, Neva Makgetla, maintained that Moleketi's paper was marred by a 'lack of any empirical data'.<sup>79</sup> As a result of these objections, the 2005 meeting resolved to maintain the status quo. Over the next three years the issue of reform was raised numerous times, without leading to any concrete action, while unemployment levels remained extraordinarily high.<sup>80</sup>

The arguments that high wages are not an important impediment to job growth, and that there is no evidence of this problem in South Africa, can, of course, be challenged. Numerous surveys have revealed that employers regard labour-market regulations as a major concern, and even if it is not the only factor preventing them from expanding employment, that is not a justification for doing nothing to address the costs that regulations impose on employers.<sup>81</sup> In addition, the idea that de-regulation would undermine the rights of people who were previously victimised by apartheid ignores the fact that the unemployed are concentrated in groups (the rural poor, the badly educated, young black women) who probably suffered the most during apartheid. Bringing these people into jobs by reducing the costs of employment would surely advance the cause of transformation.

The time has come for more action and less talk. The only way to discover exactly how the kinds of policies we have advocated here would work in specific South African situations is by trying them out. Surely we could all commit to trying at least some new ideas. Given the current conflation of short- and long-term employment crises in South Africa, complacency and sticking with business as usual should no longer be an option for anyone concerned with South Africa's welfare. All parties should commit themselves at least to experimenting, and the ideas we have set out in this paper can supply, we believe, the essence of a workable programme.

However, if other policy advocates or makers have different experiments in mind that they believe would work better, then they should set those out, and provide their reasons for why they believe these to have a better chance of success, and can build up to the kind of scale that is required. If they provide compelling reasons and evidence, then let us try those ideas in some parts of South Africa. If they work, then roll them out further. If they do not, let us move on to another idea. Of course we cannot afford to try anything and everything. We have to bear in mind limited capacity and fiscal sustainability. But we must move beyond talking that never leads anywhere if we are to avoid the negative consequences that threaten from entrenched mass unemployment.

*Complacency and sticking with business as usual should no longer be an option for anyone concerned with South Africa's welfare*

## Concluding remarks

Youth unemployment is an enormous challenge that needs to be tackled in a concerted and realistic way. We need initiatives that have the potential to go to scale.

The climate of investment, enterprise, and employment needs to be changed in South Africa. Private employers need to be given incentives and assurances so that they create more jobs and take on more untested, poorly skilled young people in pursuit of viable profit opportunities. Government must play a major role in this, but only in ways that are feasible. This means that government programmes must work with and rely on, as far as possible, the expertise and capacity of the private sector. The design of the policies must take into account the already overtaxed capacity of government, and new opportunities for corruption must be kept to a minimum. It is also vital that businesses are drawn into the design of the policies so that they buy into and take ownership of the programmes that are launched.

The best way to tackle unemployment at scale would be an across-the-board removal of the barriers preventing labour markets from functioning efficiently.

However, given the entrenched opposition to this approach, we advocate, as a second-best approach, focused exemptions and targeted interventions that, apart from reducing youth unemployment, will also have a demonstration effect. It will become easier to make a case for broader institutional changes once it becomes obvious that deregulation and business-friendly policies, within the special zones and among exempted young people, do lead to real improvements in the lives of poor South Africans. It is essential that we adopt an experimental approach, in which projects are piloted and rolled out in stages. This will ensure that we limit the demands on government capacity, and that we quickly learn important lessons both about the effectiveness of the programmes, and how to implement them in the most workable ways.

*Youth unemployment is an enormous challenge that needs to be tackled in a concerted and realistic way*

Based on these principles, we recommend the following interventions targeted at reducing youth unemployment in specific parts of South Africa:

1. A combination of tax breaks and year-long exemptions from the labour law for employers hiring first-time employees between the ages of 18 and 24, piloted in core business districts such as those in Gauteng.
2. SEZs that effectively monitor how many young and female employees find a job in the zone. Businesses that locate in these zones should be exempt

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from company taxes, tariffs, and labour laws. Government must also undertake to provide effective services and infrastructure to the zone. Different SEZs could be tried that provide different exemptions. For example, one in KwaZulu-Natal could focus on exemptions from employment laws, and another in the Eastern Cape could focus on tax reductions and the provision of infrastructure.

3. Employment-guarantee schemes in poor provinces like Limpopo. The scheme must offer a wage level that will ensure:
  - a. that only the poorest and most in need of a job will apply; and
  - b. that the fiscal demands of the scheme are maintained at acceptable levels.
4. A vocational education programme combined with apprenticeships, piloted in some of the rapidly growing medium-sized towns of South Africa, such as Nelspruit and Witbank in Mpumalanga. The idea would be to draw in schools from the surrounding rural areas, and involve local employers based in the towns.

These suggestions will have the best chance of making a significant dent in the youth-unemployment crisis, in our opinion. If readers of this document feel otherwise, however, then let us enter into a constructive debate.

We cannot afford to do nothing, or to simply extend the half-hearted efforts that so far have failed to make a significant impact on the problem. If informed readers of this document are opposed to our practical suggestions, and have valid reasons for not even trying them out to see what happens, then the onus is on them to present alternative proposals that are economically feasible, practical, and have the potential to go to scale.

The young people who have been knocking on the door of employment for years without finding an opening must not be made to wait any longer. We have to find practical ways of opening the door, and we have to do it with all deliberate speed.

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*We cannot afford to do nothing, or to simply extend the half-hearted efforts that so far have failed to have a significant impact on the problem*

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