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Labour Markets and Social Policy

Youth Labour Market Challenges in South Africa

Dr M. Altman

September 2007
YOUTH LABOUR MARKET CHALLENGES
IN SOUTH AFRICA

DRAFT

Miriam ALTMAN

Executive Director
Employment, Growth & Development Initiative
Human Sciences Research Council (HSRC)
Human Sciences Research Council

September 2007

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Youth labour market challenges in South Africa

DRAFT

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Abstract

This paper identifies some labour market challenges facing South African youth. It aims to promote debate as part of the HSRC's Youth Initiative.

In South Africa, youth are twice as likely to be unemployed, with 58% of young people aged 15-19 and 50% aged 20-24 unemployed in 2008. However, the South African concept of 'youth' (15-34 years old) might not be very helpful to a discussion about labour markets, as about 30% of those aged 25-34 are unemployed, a rate that is far closer to the national average. This is also a much larger group, accounting for 35% of the labour force and 40% of the unemployed.

In a context of very high unemployment, the main argument for focusing on 'youth' relates to wanting to contain the creation of a new generation of long-term unemployed. Generally, the longer one is unemployed or underemployed, the harder it is to reverse the effects on self-esteem, etc. There is a high chance of long-term unemployment amongst youth who have weaker searching skills and resources.

The paper also looks at the sort of labour market dynamics youth in South Africa face, particularly interrogating 'rules of thumb'. It poses questions in respect of whether the South African economy is creating low-skill jobs, whether education helps labour market chances, and whether graduate unemployment is a problem because youth are studying inappropriate subject areas. What sort of skills or capabilities is required if employment is more likely to be sourced in the services economy? Should education focus on job-specific skills or on general capabilities such as logic, 'searching' and communication?

Two areas are sometimes under-played in our thinking about youth labour market participation—the fact that young African work-seekers are particularly disadvantaged—with extremely weak networks that would help them in the labour market and rarely having any previous work experience. Secondly, health status will affect youth labour market participation severely, particularly with extremely high HIV prevalence rates amongst young women under aged 30.

The paper considers the likely future of work for most young South Africans. This is likely to be in low paid, low skill and precarious service sectors such as retail, restaurants, office cleaning, and the like. However, employers are likely to want higher educational attainment in future, even if this does not mean higher earnings. Although the paper acknowledges that the informal sector will offer some employment opportunities, it also shows that it is unlikely to act as a major source of employment growth. Self-employment is an unlikely route for most young people starting out, as experience is generally needed to succeed in business. Moreover, the apartheid past dramatically reduced the culture of entrepreneurship, meaning that young Africans are unlikely to have grown up in a household with business people who would have shaped their understanding of market opportunities, and their access to networks and know how.

The paper further shows that government can play an important role in facilitating youth into the labour market. In the current policy frame, public sector employment will be beneficial mainly to graduates as there is a skills bias in hiring. However, this is
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A policy choice. Public works will become an important source of job opportunities for a large group of marginalised youth, with the vast majority of opportunities to be found in community-based social service delivery such as early childhood development or home-/community-based care, which have a strong gender and rural bias.

The paper concludes with a set of policy challenges.
1. Introduction

This paper aims to provoke policy debate on youth labour market challenges in South Africa. The paper does not seek to be comprehensive in its approach. A number of 'rules-of-thumb' or 'truisms' have emerged over time, which I believe undermine good policy making.

I also believe that youth labour market policy may be focusing on elements that are relevant for other countries, but are not necessarily central solutions in SA. Pre-labour market interventions such as network building or work experience while in school are one example. A second example relates to health interventions in a context where a very high proportion of young women are infected with HIV.
2. Why focus on ‘youth’?

Unemployment and associated poverty are amongst the greatest socio-economic challenges facing South Africa. Approximately one-quarter of the South African labour force is unemployed by the strict definition. In a context of extremely high unemployment, is there a reason to focus on ‘youth’, rather than ‘adults’?

Youth unemployment is a global problem, partly because high unemployment is found in almost all regions of the world (with the exception of the US, South Asia, and East Asia (ILO, 2004; ILO 2007). Globally, youth aged 15-24 are three times more likely to be unemployed than are adults (ILO, 2006). There are a number of explanations, specific to youth, why they generally have higher unemployment rates. These include (Matshenzi, 2007):

* They have most recently acquired a job, and so when there is a downturn or company needs to lay off, youth will be the first to go.
* They lack job search capabilities and networks that are relevant to the labour market.
* They are ‘shopping around’ for a job that meets their expectations. This argument might be most relevant for young people coming from well-resourced families.
* They lack mobility and resources to look for a job. They therefore stay close to home where jobs may not be readily available.
* There is a measurement problem, since young people may be in and out of studying, or studying and working. The most marginalised might not be studying, working or looking.

In South Africa, youth are twice as likely to be unemployed. Table 1 shows that 58% of young people aged 15-19 and 50% aged 20-24 were unemployed in 2005. Those aged 15-19 are a very small proportion of the labour force (3%), since they are mostly studying. Those aged 20-24 account for 14% of the labour force, but 27% of the unemployed. Employment has been stagnant for this age group, as seen in Table 1.

The South African concept of ‘youth’ might not be very helpful to a discussion about labour markets. About 30% of those aged 25-34 are unemployed, a rate that is far closer to the national average. This is also a much larger group, accounting for 35% of the labour force and 40% of the unemployed. Table 1 shows that this group is accessing a large portion of the new jobs being created in the economy. About half a million jobs were taken by this group between 2001 and 2005.

Both youth and adults find it hard to live with unemployment, particularly where there are dependents. In a context of very high unemployment, the main argument for focusing on ‘youth’ relates to wanting to contain the creation of a new generation of long-term unemployed. Generally, the longer one is unemployed or underemployed, the harder it is to reverse the effects on self-esteem, etc. In 2005, a quarter of unemployed had been searching for a job for one to three years. 35% had been
looking for three or more years. In addition, there are those who have given up looking for a job, and are defined as 'discouraged'. There is a high chance of long-term unemployment amongst youth who have weaker searching skills and resources.

Peer groups can have an important impact on learners' sense of their prospects. A slightly older cohort that finds opportunities will send a message back to those in school. A very large proportion of African school leavers struggle to find work. Although I will show that education does improve labour market chances, it would be difficult for the individual to see this given that unemployment is so very high for young African school leavers.

There is an even more important long-term perspective. South Africa has a large young population. This should offer what is known as a 'demographic dividend', where a large proportion of the population in economically active, thereby reducing dependency ratios and poverty rates, and promoting growth. However, this dividend can only be earned if these young people are actually working. The larger the group of marginalised young people who remain un- or under-employed, the larger the threat that dependency ratios will rise as the demographic bulge passes. Over the longer term, a large group of adults who have been unable to save or accumulate through their productive years may now be dependent on a smaller group of younger people.
## Table 1 – Youth employment and unemployment by age

<table>
<thead>
<tr>
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<td>4,319,593</td>
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<td>20-24</td>
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<td>25-34</td>
<td>6,762,243</td>
<td>6,981,839</td>
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<td>7,752,787</td>
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<td>15-19</td>
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<td>516,900</td>
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<td>2,387,724</td>
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<td>34.6%</td>
<td>43.4%</td>
<td>51.3%</td>
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<td>74.4%</td>
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<tr>
<td>15-19</td>
<td>121,851</td>
<td>174,744</td>
<td>284,664</td>
<td>259,548</td>
<td>320,376</td>
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<td>20-24</td>
<td>554,444</td>
<td>821,416</td>
<td>1,229,713</td>
<td>1,224,348</td>
<td>1,201,080</td>
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<td>25-34</td>
<td>977,946</td>
<td>1,314,209</td>
<td>1,913,461</td>
<td>1,709,201</td>
<td>1,778,330</td>
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<td><strong>Strict unemployment rates</strong></td>
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<tr>
<td>15-19</td>
<td>46.5%</td>
<td>44.0%</td>
<td>55.1%</td>
<td>58.8%</td>
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</tr>
<tr>
<td>20-24</td>
<td>39.3%</td>
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<td>25-34</td>
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<td>34.5%</td>
<td>30.4%</td>
<td>30.0%</td>
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<td><strong>Strict unemployment as % of total strict UE</strong></td>
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<tr>
<td>15-19</td>
<td>5.1%</td>
<td>5.5%</td>
<td>6.1%</td>
<td>6.0%</td>
<td>7.2%</td>
</tr>
<tr>
<td>20-24</td>
<td>23.3%</td>
<td>25.6%</td>
<td>26.3%</td>
<td>28.4%</td>
<td>27.0%</td>
</tr>
<tr>
<td>25-34</td>
<td>41.2%</td>
<td>41.0%</td>
<td>41.0%</td>
<td>39.6%</td>
<td>40.0%</td>
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<tr>
<td><strong>Discouraged UE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td>205,841</td>
<td>418,698</td>
<td>349,474</td>
<td>414,880</td>
<td>393,184</td>
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<td>20-24</td>
<td>661,369</td>
<td>957,449</td>
<td>844,244</td>
<td>1,040,682</td>
<td>915,269</td>
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<td>25-34</td>
<td>1,251,303</td>
<td>1,221,167</td>
<td>1,078,948</td>
<td>1,278,920</td>
<td>1,225,917</td>
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<tr>
<td><strong>Discouraged UE as % of total discouraged UE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td>6.3%</td>
<td>11.5%</td>
<td>10.9%</td>
<td>11.2%</td>
<td>11.2%</td>
</tr>
<tr>
<td>20-24</td>
<td>24.0%</td>
<td>26.3%</td>
<td>26.3%</td>
<td>28.0%</td>
<td>26.1%</td>
</tr>
<tr>
<td>25-34</td>
<td>39.7%</td>
<td>33.5%</td>
<td>33.7%</td>
<td>34.5%</td>
<td>35.0%</td>
</tr>
<tr>
<td><strong>Employment</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>15-19</td>
<td>140,664</td>
<td>222,212</td>
<td>232,236</td>
<td>181,586</td>
<td>229,778</td>
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<tr>
<td>20-24</td>
<td>850,594</td>
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<td>1,077,950</td>
<td>1,044,057</td>
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<td>25-34</td>
<td>3,059,584</td>
<td>3,517,460</td>
<td>3,639,372</td>
<td>3,912,432</td>
<td>4,153,269</td>
</tr>
</tbody>
</table>

*Source: Statistics South Africa, October Household Surveys and September Labour Force Surveys*
3. Labour market dynamics

What sort of labour market dynamics do youth face? There are many rules of thumb that do not necessarily reflect the reality, or at least that reflected in the statistics.

"The economy is not creating low-skill jobs"

Figure 1 shows that the ratio of high-skill to low- and semi-skilled employment has remained constant over the past decade, at about 30% : 70%. Skills intensification can be found within certain sectors, such as manufacturing, mining or agriculture. However, the rapid expansion of low- and semi-skilled jobs is a function of a growing services economy in areas like retail, restaurants, finance and business services.

Figure 1 – Ratio of high to low skill employment

Source: Statistics S.A., October Household Surveys and Sept Labour Force Surveys

"Education no longer helps labour market chances"

Education definitely helps! The unemployment rate falls dramatically with rising educational attainment, especially if a post-matric qualification, as seen in Figure 2. For example, about 30% of those aged 25-34 with matric or less were unemployed, compared to only 13% with a diploma or 8% with a university degree. Unemployment

1 It should be remembered that 'matric' refers to those who sat in matric, not necessarily those who actually obtained a matric certificate.
tends to fall with age, so a higher level of education at an earlier stage in one’s career is definitely helpful to young people.

**Figure 2 – Unemployment by age and educational attainment**

![Graph showing unemployment by age and educational attainment](image)


"Graduate unemployment is a big problem, and this is partly because they are studying the wrong subjects"

In 2005, approximately 6.9% of higher education and training (HET) graduates were unemployed, or about 130,000 people. About 12% of diploma graduates and 5% of university graduates were unemployed. We estimated that the vacancy rate in 2002 was about 4% for high-skill and skilled levels, translating into 90,700 vacancies (Woolard et al., 2003). By virtue of this information, we can see that had all vacancies been filled, graduate unemployment might have been halved. However, information is not perfect and people are not perfectly matched to opportunities, so some mismatch is always likely. Graduate unemployment is frustrating to those experiencing it, and a great loss to the economy. It should be addressed easily through matching and re-skilling programmes. However, it can be compared to more than four million people who are unemployed overall.

It is possible that people are not studying appropriate subject areas, attending institutions that are recognised by employers, or obtaining sufficient prior work experience that might help them to get a foot in the door. Although there is a strong view that too many African graduates are studying humanities and education, and not enough commerce or hard sciences, the evidence shows the opposite. A study by Bhunat (2003) shows that the unemployment rates for African humanities graduates is about 8.6%, opposed to 21.5% for commerce graduates. As the public sector expands, there is active encouragement to study education. We may find that as the services economy expands, employers will search for basic capabilities in logic, communication, writing and comprehension.
...And some other factors that are underplayed...

Networks and previous experience

Success in the labour market can be linked to previous experience, both in actually working but also in searching. There is less to differentiate youth, since they are most likely to have very similar CVs and background experience. The way they present themselves, their involvement in social, sport or community activities, and their "work-readiness" can make a big difference to their ability to acquire their first job.

One of the most important ways of finding a job is through networks. However, few African work-seekers use this approach. Mlatheni (2007) shows that the Mitchell's Plain/Khayelitsha and the Cape Area Panel Study (CAPS) surveys indicated that 55% of respondents found their current job through friends and relatives. However, the Labour Force Survey (2005) shows that only 10% of those aged 15-30 use networks to find a job. This has a specific race dynamic, since African youth are less likely to have networks that will help them to find a job. Figure 3 shows how urban African youth have become disassociated from social organisation. In 1992, 78% said they were affiliated to some organisation, especially church or sports. By 2000, only 43% were affiliated to an organisation. As many African youth grow up in households without a wage earner, there is a question as to how young people obtain information about possible futures and labour market paths.

Figure 3 – Social networks of urban African youth, 1992 and 2000

Source: Emmott and Jenning, 2001

Getting a "first" job can be a challenge for young people as it can rely on experience. This is a dilemma since, by definition, youth cannot really be expected to have directly relevant experience. Lam et al (2007) offer results from the Cape Area Panel Study (CAP) which show that the attainment of some work experience varies considerably by race. For example, they found that:
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"At age 17, over half of white males and females report having worked in the last year, compared to only 1% of African females and 7% of African males. Coloured youth are in between, with 26% of both males and females having worked in the last year at age 17. At age 22 only 24% of African female and 33% of African males report having worked in the last year, compared to over 75% of the other four gender/race groups. By age 20, only 20% of African females and 31% of African males have ever done any paid work, using a very broad definition. In contrast, 86% of white females and 90% of white males have done paid work." (Lam et al. 2007, pg 23).

They go on to reflect on the labour market experience of school leavers, by race:

"About 30% of coloured males are already working in the first month after they leave school (typically the January after the end of their last year in school). About 20% of the coloured males were already working during the last four months before leaving school. The percentage of coloured males with jobs rises fairly rapidly during the first six months out of school, reaching about 50% after six months. African males start at a much lower base, with only about 10% working in the first month after leaving school, and make relatively little progress in finding work during the entire first year. This suggests that dropping out of school in order to work is a relatively unimportant cause of leaving school for Africans. The rate of job-finding increases during the second year for Africans, rising from 10% to 40% between month 12 and month 20 (note that the sample remains constant across months)" (Lam et al. 2007, pg 24).

Health status

Health is the second area that will affect youth labour market participation. Prevalence in a highly unequal society is particularly a problem in the context of the spread of HIV and AIDS and tuberculosis (TB), and is especially felt in Sub-Saharan Africa. In South Africa, the average HIV infection rate is 13%, but prevalence amongst young labour market entrants is quite extraordinary, particularly amongst women. Approximately 32% of all women between the ages 25-29 have contracted HIV. One-quarter of those aged 30-34 are HIV positive (Shisana et al, 2005). This will clearly impact on the precariousness of livelihoods. Government has adopted a policy to distribute antiretrovirals (ARVs). However, only 200,000 of the eligible one million receive ARVs, partly due to slow delivery in the public sector. The private health sector is primarily accessed through medical insurance schemes, but only 15% of all South Africans and 17% of Africans are members of such schemes. Health care accounts for approximately 9% of gross domestic product (GDP) – but about 60% of this expenditure goes to the 15% on medical insurance (Marais, 2006). Health-care reform is a complex question, not being broached here. But it is clear that access to ARVs and HIV-related services will be essential in managing the impact of the disease on individuals, household poverty and the labour market. Funeral and life insurance for low-income families can be an important contribution where funerals are common and costly, especially if it involves the loss of a breadwinner. There is a longer-term issue as well: in a decade or two, the children of these young women will enter the labour market.
4. Where might jobs come from?

4.1. Market-based employment

The vast majority of new employment is likely to arise in private formal services. This has been true for the past 30 years, and will probably continue into the future. It is a trend that is not unique to South Africa.

The big outstanding question is to what extent employment will be created in sectors that tend to pay higher wages. These particularly include manufacturing, mining and skill-intensive sectors. This is an extremely important link between employment and poverty reduction. The majority of working people (64%) earned less than R2,500 per month in 2004, and almost 40% earned less than R1,000 per month. A wage earner in poorer households (in deciles 1-4) supports six to seven people on average. This explains why about half the population currently falls below National Treasury’s proposed poverty line of R430 per person per month, which is slightly higher than the Millennium Development Goals (MDG) target of US$2/day. Real wages have not been growing across the economy for low- and semi-skilled workers over the past decade (although it is possible to find increases in some well-organised sectors like mining or metal manufacturing) (Woolard & Woolard, 2006). This partly due to the expansion of the services economy, with large numbers of low-paid, precarious jobs. Valodia (2006) shows that there is a high degree of churning in the labour market, with constant job changes over short periods of time. In the context of high unemployment, weak contracts translate into weak bargaining power and therefore limited wage growth.

The implication is that the majority of young people will find low-skill, low-paid, insecure service sector employment. Even if working full-time, they will find themselves living in deep poverty unless other measures are taken to either reduce the cost of living or raise the ‘social wage’. Although apparently low-skill work, it is probable that employers will increasingly require at least a matric; if not a diploma, for work that previously required less than a matric. Such employees might feel angry as they see a minority earning vast multiples and living a high life made possible by rising wage inequality and earnings.

The informal sector will offer opportunities, but it is unlikely to act as a major source of employment growth. In South Africa, the formal sector is growing faster than the informal relative to GDP. Entrepreneurship is an attractive policy option, particularly where formal employment growth is slow. This would have been the case had there been a strong entrepreneurial culture and artisan community; however, apartheid dramatically diminished these skills and capabilities. Young people are generally not raised in families where they learn the ropes as they grow up. Entrepreneurship usually comes with experience. Only a very small proportion of young people (5% of youth aged 15-30) is self-employed. Perhaps this could be expanded. However, in the South African context, more might be gained from generating first work and mentoring experiences.
Table 2 – Source of employment growth

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total, 1997-2005 (%)</th>
<th>Average annual growth (%)</th>
<th>Sector employment in 2005 (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>6.2</td>
<td>0.8</td>
<td>1,467</td>
</tr>
<tr>
<td>Construction</td>
<td>75.1</td>
<td>9.4</td>
<td>618</td>
</tr>
<tr>
<td>Finance</td>
<td>86.4</td>
<td>10.8</td>
<td>1,238</td>
</tr>
<tr>
<td>Trade</td>
<td>58.1</td>
<td>7.3</td>
<td>1,848</td>
</tr>
<tr>
<td>Community services</td>
<td>21.0</td>
<td>2.6</td>
<td>2,033</td>
</tr>
<tr>
<td>Total formal sector</td>
<td>26.2</td>
<td>3.3</td>
<td>8,812</td>
</tr>
<tr>
<td>employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFS</td>
<td>107.0</td>
<td>13.4</td>
<td>1,954</td>
</tr>
<tr>
<td>Domestic workers</td>
<td>9.6</td>
<td>1.2</td>
<td>1,088</td>
</tr>
</tbody>
</table>

Source: Statistics S.A, October Household Survey and Sept Labour Survey

4.2. Role of the public sector

Government can play an important role in facilitating youth into the labour market. For example, Moleke (2006) found that 70% of black graduates found their first employment experience in the public sector. In the South African context, the public sector has accelerated employment equity, can help young people to overcome their lack of experience and has a wide regional distributional net which can be important where youth have difficulty searching. Although the public sector stagnated for some years, it is growing again. It will likely generate between one and two million new jobs over the next 20 years. In the current policy frame, this will be beneficial to graduates as there is a skills bias in hiring. The pay scales, with minimum rates just below R40,000 per annum, will discourage direct hiring of lower skill employees such as porters or cleaners. In the market, these workers might earn R10,000 or R15,000 per annum. These services are more likely to be outsourced and fewer low-skill workers will benefit from public employment. An alternative might involve the introduction of an intermediate youth job entry scheme.

Public works will become an important source of job opportunities for a large group of marginalised youth. The HSRC employment scenarios show that, if the economy grows by 6% or 3% per annum, between 600,000 and 2.8-million Expanded Public Works Programme (EPWP) type jobs will be needed by 2014 to meet Government’s commitment to halve unemployment. This compares to about 300,000 EPWP jobs created in 2006. Pay in these jobs is about the same as that for a domestic or an agricultural worker. The vast majority of opportunities would be found in community-based social service delivery such as early childhood development (ECD) or home-/community-based care. As such, there will be a strong gender and rural bias.
5. Some policy trade-offs/choices

- Is there something special about youth, in the context of extremely high unemployment? Is there a need for special youth policies, or simply economic policy that generates faster employment growth?

- Youth defined as 15-34 years old is not very helpful in policy-making or targeting. The groups 15-19, 20-24 and 25-34 are quite distinct and have different needs.

- Where such a large proportion of youth is unemployed, should policy focus on those who are relatively less or relatively more marginalised? Success in generating some employment for youth that are not so marginalised may breed success for their more marginalised peers. On the other hand, less marginalised youth may be able to take care of themselves, and the more marginalised may need more forceful action. It is worth remembering that youth aged 15-34 contribute about 11-million people to the labour force, taking into account those who are employed, unemployed and discouraged.

- Entrepreneurship is such an attractive idea when job creation is slow. However, in a context of a weak culture of entrepreneurship and artisans, would an emphasis on job creation be more appropriate, especially for the younger groupings?

- If employment is more likely to be sourced in the services economy, what sort of skills or capabilities is required? Should education focus on job-specific skills or on general capabilities such as logic, 'searching' and communication?

- Can the absence of job-search supporting networks be emulated through state or civil society organisations? If they are not, who might organise the youth?

- What role might be identified for the public sector in generating first-work opportunities for youth?
References


