YOUTH UNEMPLOYMENT AND SOCIAL PROTECTION

YOUTH UNEMPLOYMENT: THE SCALE OF THE PROBLEM

Youth unemployment is a global problem: individuals aged 12-24 constitute 25% of the world's working-age population yet account for 47% of its unemployed (World Bank, 2006). The ILO describes the situation as reaching crisis proportions. In 2011, nearly 75 million youth worldwide (12.6% of youth) were unemployed, an increase of four million since 2007. Not only are the numbers high and on the rise, but for many young people unemployment is a long-lasting condition, with 10% of unemployed youth either abandoning job search altogether or delaying transition from the education system to the labour market (ILO, 2012).

The problem is especially severe in South Africa. In 2012, the strict unemployment rate for youth aged 15-24 years was 40%, a measure requiring that individuals are actively looking for work. On a broader definition that includes the country's large numbers of 'discouraged' workers – those who are not actively seeking work but say they are willing to take a job – the rate was 66% (SALDRU, 2013). Strong racial disparities are evident: unemployment amongst white youth is 18% compared to 41% among African youth (SALDRU, 2013).

Youth unemployment also reflects the spatial inequalities that stem from apartheid-era policies of 'separate development'. Using the broad definition, youth unemployment in rural areas is 82% compared to 58% in urban formal areas. The difference when using the strict definition is less pronounced (33% versus 44%), suggesting that rural youth are more likely to become discouraged in their search for employment (SALDRU, 2013).

CAUSES OF YOUTH UNEMLPOYMENT

High levels of entrenched youth unemployment in South Africa have been attributed to a combination of challenges facing labour market participants. These include:

- the insufficiency of available jobs;
- the reluctance of employers to hire first-time job-seekers (as applicants lack a track record to attest to their ability they lack a job history to give them information and because of the perception of onerous labour regulations making it difficult to let employees go); and
- a skills mismatch between the type of worker demanded by firms and what the labour pool can supply (Perold, Cloete & Papier, 2012).

It has also been suggested that the relatively high cost of tertiary education prevents vulnerable youth from gaining the qualifications demanded in the labour market (Lam et al, 2013; Department of Higher Education and Training, 2012). Furthermore, the cost of searching and applying for employment creates a barrier to labour entry, particularly among the substantial numbers of poor rural youth living in remote and infrastructurally backlogged areas (Ardington et al, 2013a; Burns et al, 2013; Woolard, 2013; Altman et al, 2012; Rankin et al, 2007).

SOCIAL GRANTS: DO THEY HELP OR HINDER YOUTH UNEMPLOYMENT?

In recent years, increasing attention has been paid to the role that social grants could play in alleviating this problem. Social grants involve direct cash transfers from the state to eligible individuals. In post-apartheid South Africa, the system of social grants is extensive in terms of both the range of available grants and the number of people who access them. Among unemployed youth, 14% receive direct support in the form of a grant and 45% are indirectly supported by living in the same household as a grant recipient. The latter represents the second most common form of support after household work income (59%).

Social grants are a controversial subject. Proponents argue that transfers assist individuals in the (often expensive) process of searching for work and thereby increase labour force participation. Grants may be used to access the labour market by covering work-related fixed costs or facilitating labour migration. It has also been suggested that they may be used for human capital investments (such as school fees, learning materials or regular health check-ups) which place an individual in a better position to find work. In particular, grants may be used to fund higher education. The latter is linked to higher earning potential, which in turn helps to eliminate dependence on grant receipt and break the intergenerational transmission of poverty.

On the other hand, opponents hold that grants are a central contributor to the problem. While grants are primarily intended to alleviate the immediate hardships of poverty, they may be self-defeating in the long run by weakening the incentive to work, promoting idleness, and encouraging dependency on the state. From this viewpoint, grants hinder escape from long-term poverty and simultaneously impose a large burden on the state.

Ultimately, there is extremely limited knowledge of the effect of social grants on integrating individuals into the labour market. It is therefore crucial that the debate around youth unemployment policies be informed by careful analysis of the empirical evidence.

FINDINGS FROM PREVIOUS RESEARCH ON SOCIAL GRANTS AND LABOUR MARKET BEHAVIOUR

South Africa has an extensive system of social protection, the cornerstone of which is the non-contributory State Old Age Pension (SOAP) (Leibbrandt et al, 2013). Valued at R1,010 in 2013, the old-age pension paid more than twice the median per-capita African income. According to recent surveys, approximately 80% of age-eligible Africans receive it, and it is a major source of income for a third of all African households. The pension's relatively high value and extensive uptake thus make it an appropriate test-case to assess the effects of grant receipt on labour force participation.

Earlier research into the impact of the SOAP on job search and employment yielded mixed results. According to Bertrand et al. (2003), the presence of a pensioner in African households is linked to a significantly lower labour supply among prime-aged household members. Using the same data, Posel et al. (2006) find that these results no longer hold once migrant members of the household are taken into account: rural African women are found to be significantly *more* likely to be migrant workers when they are members of a household in receipt of a pension. Klasen and Woolard (2009) find that it is not that pension income reduces labour supply but rather that the unemployed tend to join households of relatives who will share pension income with them. They argue that, given that many of these households are located in rural areas, joining such households has the effect of reducing the probability of finding employment.

These studies rely on the analysis of cross-sectional data, or, in other words, information on individuals at one point of time. This makes it impossible to disentangle changes in labour market behaviour from changes in household composition that the pension may induce (Edmonds et al. 2005, Ardington et al. 2009). Using longitudinal data, where the same individuals are followed over time, Ardington et al. (2009) investigated the impact of pension income on the economic activity of prime-aged adults in rural KwaZulu-Natal. They found that the old age pension modestly increased employment overall among household members aged 18 to 50, but quite markedly increased the probability that prime aged members migrated for employment elsewhere.

SALDRU RESEARCH: THE EFFECT OF PENSION RECEIPT AND LOSS ON YOUTH UNEMPLOYMENT

Recent research by SALDRU engages with a number of issues related to social protection and labour market outcomes of unemployed youth in South Africa. Two key studies, Ardington et al. (2013a) and Ardington et al. (2013b), examine rural Africans in KwaZulu-Natal and urban coloureds and Africans in Cape Town, respectively. Both studies are concerned with how social grants in particular, and household resources and intergenerational support in general, influence youth transitions into employment. The papers focus specifically on the labour market outcomes of *youth* as the pension may have different effects on younger and older household members, for a number of reasons. The youngest adult members may respond to the arrival of a pension by investing more in their education, a response not available to older household members. Pensioners may prefer supporting their children – who would generally be older prime aged workers – than other household members, including grandchildren. Alternatively, a change in the household's pension status might be expected to have a smaller effect on the labour market behaviour of older prime-aged adults, who may be more established and less likely to be moved by the arrival (or departure) of a pension. Younger adults, on average, also have more education than older prime-aged members, which might increase the odds that they migrate to find better work upon arrival of a pension in the household.

FINDINGS: THE RURAL KWAZULU-NATAL STUDY

Focusing on a demographic surveillance site located 2.5 hours north of Durban in KwaZulu-Natal, Ardington et al. (2013a) identify an apartheid-driven spatial mismatch between workers and jobs as an underlying reason for the high costs that the rural unemployed face in their search for work. The study examines whether the arrival of the SOAP gives young rural men the means to migrate in search of better work opportunities elsewhere. The data come from 8 waves of longitudinal data on household living arrangements and members' characteristics and employment status collected between 2000 and 2011.

In their examination of the labour market behaviour of 19,000 young male adults (aged 18 to 35) in response to the arrival (and loss) of a household pension, Ardington et al. present the following key findings:

1) *The pension enables households to overcome credit constraints to migration:*
   a. upon the household gaining a pension, younger men are more likely to become labour migrants, particularly if they are from poorer households; and
   b. upon the household losing a pension, the youngest and poorest labour migrants are the most likely to return to their sending households (possibly because they are not yet financially self-sustainable and still rely on the pension for financial support after migrating)
2) *The impact of pension gain or loss depends on the individual's educational level:*
   a. young men with matric are significantly more likely to be able to maintain their migrant status upon the loss of the pension; and
   b. the pension encourages migration only for those who have completed high school: young men with a matric are eight percentage points more likely to migrate for work after the arrival of a pension
3) *There is no evidence that the pension has perverse effects, i.e. induces young adults to choose to be 'idle' (neither studying nor working).*

FINDINGS: THE URBAN CAPE TOWN STUDY

Using the same theoretical framework as the previous study but applying it to an urban setting, Ardington et al. (2013b) examine the relationship between receipt or loss of the old-age pension and the labour market behaviour of coloured and African youth in metropolitan Cape Town.

The study uses data from four of the five waves (2002-2009) of the Cape Area Panel Study (CAPS), a longitudinal survey of youth and their households with a sample of more than 5,000 people aged 14-22 in the first wave. The final sample consists of 3,943 young adults, of whom approximately 45% are African and half are female.

Unlike the KwaZulu-Natal study, the results in this study are unclear:

1) *Disincentives – as well as incentives – to participate in the labour market are either small or non-existent.*
2) *In general, it seems that pension receipt within a household may increase the probability of inactivity among females, particularly young African females, while there is no impact on the behaviour of males.*

Overall, the results of the Cape Town study are not necessarily inconsistent with those of the KwaZulu-Natal study. Given that the lens is on urban households, the important dimension of support from rural households could be missing from view. In the sample, only 12% of respondents have a co-resident grandparent who is receiving the pension; in contrast, 51% have a non-co-resident grandparent who receives it. The mechanisms of intra-household support at work in rural areas could be present here, too, but imperceptible due to shortcomings in the data.

POLICY LESSONS

- Contrary to claims that social grants weaken incentives to work and thus aid and abet youth unemployment in South Africa, research by SALDRU finds no evidence that the introduction of state cash transfers into households leads youth in rural or urban areas to choose to be 'idle'.
- In rural areas, the arrival of a social grant in the form of the old-age pension has a positive effect on job search and migration for employment.
- However, this positive effect holds true only for young people with a matric qualification. Having a matric is therefore strongly related to improved labour market outcomes.
- The challenges to youth employment in rural and urban areas are different, and solutions may thus have to be different or differently targeted.
- In the absence of alternative sources of income for unemployed youth, the old-age pension is often used to cross-subsidise job search. This results in losses to pensioners. In addition, the old-age pension does not reach all unemployed youth, given that many live in households without a SOAP recipient. This suggests that while the old-age pension is a valuable mechanism for addressing credit constraints, it is not an appropriate mechanism for funding youth job search, given the limitations in its reach (based on its old-age targeting) and the inevitable diversion of income away from meeting the needs of the targeted elderly beneficiaries.
- The recourse to the old-age pension as a means of acquiring cash income to alleviate credit constraints facing youth would appear to suggest the need for a more directly youth-targeted cash transfer.
- However, the indirect connection between grants, education and employment seems important, as it signals the need for a multi-pronged solution that goes beyond the introduction of a youth-targeted cash transfer. For example, social security should be accompanied by support for matric completion and lower tertiary education costs (or increased access to credit), given that the impact of each intervention in isolation would be limited.

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