

# Reflections on job creation proposals made by the Centre for Development and Enterprise (CDE)

by *Machilu Zimba*

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

In their working paper, *Opening the door: practical ways to reduce youth unemployment*, the authors propose four concerted and realistic methods of reducing youth unemployment in South Africa. These methods are presented in an attempt to not only revive policy debate around this important issue, but to stimulate if anything, experimental action towards much needed interventions. The article does not deny the need to tackle the broader unemployment crisis via higher growth rates and a more flexible labour market over the long run. It makes a pointed effort to bring young unemployed South Africans to the fore. The main reasons for targeting the youth include that they comprise about 75% of the 4.184.000 unemployed in the country, evidence from 2007 statistics show that 72% of the unemployed between 15 and 30 years old had never worked before, and 68% of those who had given up looking for employment where youth (the broad definition of youth in South Africa

includes those who are between the ages of 15 and 34). Addressing the challenges of this large unemployed cohort, the authors suggest amongst other things, can prevent possible threats to political stability within the country. What follows is a comment on the working paper presented by CDE examining their argument for a focus on youth unemployment, their criticism of the focus of current policy proposals, and finally their suggested policy proposals.

## **A focus on youth and employment**

Across the globe, youth unemployment is posing as a serious challenge for both developing and developed nations. One marked feature that distinguishes it from general unemployment is that, young people tend to lack job experience and so are more likely to be less productive than experienced workers, leading to a reluctance from employers to employ them. A real danger that was pointed out in this article is that of young people being excluded from the labour force for long

periods of time which leads them to being deprived of on-the-job learning and experience and these essential skills not easily obtained. The authors take a slightly pessimistic stance on this, stating that this can lead to a skills deficit that young people will never be able to catch up, having lost the opportunity to obtain skills that would make them more employable and more productive once they obtain employment in the future.

Research in South Africa reveals that employers are hindered from employing young people primarily because they do not have work experience. However, once young South Africans find themselves in formal employment, the likelihood of them remaining in employment is high. Thus, any policy taking into consideration assistance into formal employment would be useful in the South African context. However, with a number of workers finding themselves in informal employment, it may be useful to develop initiatives that will assist youth entering informal employment as well. The authors refer to economist Nicoli Nattrass who states that entrance to employment in the middle and upper echelons of the labour market is governed by an individual's association to particular networks. Noting that those who have studied, lived or worked with already-employed people are more likely to find employment via these social circles. South African employers have been found to place trust as a high priority when hiring new employees. Young South Africans have found themselves in a labour environment of high unemployment, low trust, and labour market regulations that make it difficult for employers to fire workers, making employers unwilling to hire young workers with little to none work experience.

The authors reveal from research conducted by the CDE that young South Africans themselves are not unwilling entrants into the labour market. On the contrary, they have vigour, and are willing to learn and experiment. These traits and other positive characteristics should set them in good stead when looking for employment. Thus, the challenge is primarily the shortage of job op-

portunities in the labour market and the reluctance of employers to hire those with no previous work experience. Any feasible policy intervention should then create incentives for employers to hire young people. The authors aptly quote the Harvard group of experts that were asked to investigate the Accelerated and Shared Growth Initiative for South Africa (ASGISA), "we must find jobs for the people that we have, rather than continue to create opportunities for the people that we wish we had".

### **Government's role**

The new South African government is faced with the daunting task of creating programmes that will create work for the large numbers of unemployed youth. During the recent elections, the ruling party, the ANC had in its manifesto aims to create decent work opportunities for many. The authors suggest that given the massive shortage of jobs we cannot be choosy about the kinds of jobs that are deemed acceptable. Their argument is that once unemployment has been reduced to normal levels (normal unemployment levels are described as those below 10%), that the challenge on ensuring quality jobs should be looked at. For now, the ideal to create decent work should not be the primary focus. Proposals tackling unemployment tabled in the recent ANC's election manifesto the authors argue, would require an improvement on the capacity of government and all its public institutions. At present, this is not the most feasible solution. Instead, the authors suggest that a workable approach should be developed by government in conjunction with business, trade unions and relevant civil society organisations.

### **Policy proposals**

CDE's proposed policy proposals are based on considerable research and relevant international experience. While acknowledging that tried and

tested international youth employment interventions may not be directly transferable to the South African context, the authors argue that without attempting similar methods we cannot be sure that what works to tackle the same central issue in another country can be successful here. With continued engaged debate on the suggestions the article makes at a provincial level, I argue that interventions that fit the diverse situations of unemployed youth across the different provinces can be developed. The article notes that a number of proposals to tackle youth unemployment are focussed on dealing with the symptoms rather than the causes, and are not being as effective as they should. A number of training initiatives have been found ineffective in creating jobs. Most training interventions are slightly misguided as they are often weakly connected with the skill requirements of employers and create an over-supply of specific skills. Undoubtedly, basic skills like computer skills and office management make an individual more employable, however job specific skills are those that are more favoured. Within this context, they propose four initiatives that can be implemented in a specific place for a set time. If approaches prove to be beneficial they can be extended, otherwise, they can be abandoned or modified. The advantage of this, is that these decisions can be made based on actual experience. The proposals are:

- initiating an Active Labour Market Policy (ALMP), in the form of tax breaks and labour law exemptions for employers hiring first-time employees between the ages of 18 and 24;
- the creation of Special Economic Zones (SEZs);
- launching an employment-guarantee scheme in the poorest parts of South Africa;
- a design of a vocational-educational programme combined with apprenticeships.

What follows is a review of each of these suggestions.

### *Active Labour Market Policies*

ALMPs tend to be directed towards a specific group of people, in most cases, the youth. The goals of these policies are to make it easy for young people to be hired and difficult for them to stay unemployed while on welfare. They have been implemented in a number of developed countries such as Germany, Spain and Poland. In France proposals to exempt young people from aspects of the labour market legislation were thwarted by unions and the youth themselves. During the early 1990s in Spain, exemptions to lower the firing costs of youth led to an increased willingness of employers to hire youth, but to shorter more temporary contracts. Unemployment still remained high. While caution needs to be taken when assuming that policies of this form can be implemented in a developing nation such as South Africa who do not have the same financial resources and higher rates of unemployment, aspects of these policies are likely to produce favourable returns. CDE is of the opinion that the international experience will have a limited relevance for the South African context. One reason for this being, that unlike their counterparts in developed nations, South African youth are unlikely to be choosy about the kind of work that they accept. Furthermore, Research in the South African labour market reveals that once young people enter into formal employment, they are likely to stay employed. Any forms of temporary employment that result from ALMPs can act as a stepping stone to permanent employment. However, the strength and possible resistance of trade unions in South Africa towards initiatives that create certain exemptions for particular groups should not be underestimated.

CDE proposes a rather bold approach of reducing general levels of regulations across the board. They carefully note that in order for ALMPs to be successful they need to be combined with job-search assistance, training and strict job-search monitoring. Any policy implementations would have to be easy to implement

and developed taking into consideration views of all stakeholders such as government, employers and unions. They propose introducing a wage subsidy for every South African once they turn 18 years old. The wage subsidy could only be used once the individual is working for a registered firm. A wage subsidy card would contain information about an individual's working career. A simultaneous alternative approach was suggested of providing employers with a tax rebate for employing young people. In addition to the wage subsidy, it was recommended that an exemption period of 12 to 18 months in which first-time employees would not be covered by employment-protection laws. This they argue would reduce the risk of an employer hiring an unknown, untested employee. Although this poses as a good initiative, again, the size of the informal sector in the country is increasing, and a number of youth workers who could possibly be absorbed into the informal sector would not benefit from this.

### *Special Economic Zones*

Special Economic Zones are areas where certain incentives for investment are enforced. These incentives can take the form of tax holidays, duty-free export and import, and free repatriation of profits. CDE reports that across developing nations SEZs have created an avenue for young women to enter the formal economy at better wages than in agriculture and domestic services. However, labour turnover in these zones can be high. SEZs could potentially benefit young women in South Africa who consist of the category most vulnerable to unemployment. CDE argues, that despite the tendency for high turnover, while in employment young people can acquire job experience which will make it easier for them to find further employment.

CDE proposes the creation of SEZs in two of the country's coastal provinces, the Eastern Cape and KwaZulu-Natal. They propose 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.

### *A low wage public-works programme*

For the government to reach its goal of halving unemployment by 2014, an expansion of the current public-sector employment is needed. CDE points out the difficulties with the existing public works programme being that it is not sufficiently targeted at the poor, it places large demands on bureaucratic structures and it has too many goals to achieve. CDE proposes that 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 public works scheme should be seen as a temporary measure to compensate for the lack of jobs, while measure are taken to remove regulatory and other barriers that make it difficult for the creation of jobs in the private sector. Drawing from evidence of the Indian employment schemes, CDE proposes that public works programmes should not be focussed primarily on youth, but rather open to all, to avoid any corruption. They also suggest that the wage should strike a balance between providing significant numbers of jobs and fiscal sustainability, and that the focus should be primarily on the provision of jobs more than on ensuring that the work is structured in such a way as to lead to transferrable skills being gained. CDE stresses that public works initiatives should remain a temporary intervention and that they should not interfere with existing labour markets, or long term developmental trends.

### *A vocational education programme combined with apprenticeships*

While the country is faced with high rates of unemployment, there is also an incredible skills

shortage. CDE proposes the government shift from current initiatives of relying on the private sector for funding and conducting training through Sector Education and Training Authorities (SETAs). They propose that companies begin to become more active in the formation of school curriculum, and link certain on-the-job training opportunities to particular school programmes. This can be done by introducing a vocational schooling system as well as a more systematic apprenticeship system than the one currently in place.

In comparison to most countries, South Africa makes very little use of vocational training. CDE proposes locating four-year vocational-training opportunities within existing schools. Students may be able to enter these programmes once they have passed grade 9. They propose that the development of vocational programmes should be in close consultation with interested businesses and local employers, and provincial departments. Depending on the location of a school it may choose to develop programmes on for instance, forestry and wood technology, or on wholesale and retail trade. CDE maintains the argument that implementing a vocational education programme can produce relatively quick results. Central to their proposal is a linking of vocational education to apprenticeship programmes. This can strengthen the link between what is taught and what is needed in the world of work. Apprenticeships provide young people with the job experience many South African employers are requiring for employment. They acknowledge the challenges in creating a link between employers and education systems. Thus, they propose the creation of an incentive programme similar to Joven a programme initiated in Chile where below minimum wage apprenticeships were developed. This may act as an incentive for employers to engage in the apprenticeship system.

Very early in the article, the authors state that policy proposals should be evaluated asking three questions. Firstly, whether or not it is affordable. Secondly, whether it is implementable,

and lastly whether or not it's impact will go to scale. The article makes a strong case for all four proposals using these criteria. The call for an implementation of these initiatives in particular areas for a particular time so as to assess their success can be implemented for the first three initiatives. However, creating a system where vocational education is combined with apprenticeships cannot be done very easily. It is my opinion that the debate on vocational education in South Africa should be revived, and new measures quickly initiated only once the support of employers is guaranteed.

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