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How the old age pension is helping young people from rural areas find jobs

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It is important to know whether the old age pension eases financial constraints in rural areas, thereby allowing young men to migrate to urban areas for work – or whether these grants encourage idleness and dependency. This study finds no evidence of the latter. Instead, for young rural males there is an increase in their chances of migrating and finding work when a member of the household starts receiving the pension. Notably, these effects are only present for young men with at least a matric.

Introduction

Youth unemployment is a global problem. The International Labour Organization (ILO 2010) has warned of a 'scarred generation of young people' who are failing to engage in meaningful development as they sit idle, neither employed, studying nor seeking work. This is especially concerning in South Africa where broadly-defined unemployment[1] amongst 20 to 24 year olds is estimated at close to 60% (Woolard 2013). The problem is most severe for young African men and women, particularly those living in rural areas.

It is likely that high youth unemployment in rural areas is caused at least partly by the inability of young people to search for jobs in an effective manner. Given that relatively few jobs are available in rural areas, looking for a job implies travelling to other areas (e.g. urban areas). This can be very expensive, so many young people cannot afford to look for employment.

For this reason, the income of the poor rural households where these unemployed young people live comes under scrutiny. Since social grants are a key source of income in such poor households, the following, perhaps surprising, question arises: what role could, or do,

[1] The broad (or extended) measure of unemployment includes discouraged workers who would like to work but have given up actively seeking employment.

social grants play in alleviating this problem? Even though the social-grants system is based on other considerations, could its impact on household income possibly extend benefits to work-seeking youths?

South Africa's system of social grants is extensive in terms of both the range of the available grants and the number of people who access them. While there is no grant which directly targets the unemployed, 14% of unemployed youth receive direct support in the form of a grant while 45% are indirectly supported by living in the same household as a grant recipient (Woolard 2012). This often occurs when an unemployed youth lives with a relative who receives the state old age pension (SOAP).

Approximately 90% of the elderly, particularly in rural areas, receive a state old age pension. Its value (R1 080 per month in 2011) is generous by international standards, being approximately twice the median per capita income of blacks. Since pensioners generally live in multi-generational households (i.e. with children and grandchildren), one can examine whether the receipt of the pension income affects the labour market behaviour of young adults who live in such households. This effect is not necessarily clear cut. On the one hand, additional household income could subsidise migration costs, placing those who live in rural areas in a better position to look for work in urban areas. Alternatively, the pension could encourage dependency on this regular inflow of income and reduce the incentive to find work.

To help resolve this matter, this article presents empirical evidence on the old age pension's effect, if any, on work-seeking by rural youths (and thus on rural youth unemployment).

Do social grants ease or aggravate the problem of unemployment?

Identifying the effects of grants on labour market behaviour is quite complex. Earlier work which investigated the impact of the old age pension on job searching and employment patterns – not of the youth specifically – report mixed results.

Bertrand *et al.* (2003) found that working-age household members are less likely to work if they reside with a pensioner. However, Klasen & Woolard (2009) suggest that this is not because the income from a pension actually reduces the quest for work, but rather because unemployed people tend to join households where they can share in the pension. Many of those households are located in rural areas; therefore, if unemployed people leave urban areas to join a pension-receiving household, their chances of finding employment will be further reduced. In addition, Posel *et al*. (2006) find contrasting results to Bertrand *et al*. once migrant members of the household are taken into account; African women in particular are significantly more likely to be labour migrants when they are members of a household which receives a pension.

All of these studies are based on the analysis of cross-sectional data. When longitudinal data from rural KwaZulu-Natal is analysed (in which the same individuals are repeatedly interviewed over several years), Ardington *et al.* (2009) find that the pension markedly increases the probability that rural working-age adults migrate to find employment elsewhere, suggesting that the pension is being used to finance labour migration. Abel (2013), using nationally representative data to examine employment rather than migration, finds evidence suggesting that the increased availability of pension income – e.g. through an increase in the number of pensioners in a household – reduces the number of other household members who are employed. Nevertheless, his results are strongest for metropolitan areas and he notes that the effect may be different in a specific region such as rural KwaZulu-Natal.

These mixed results suggest that one needs to look closer, at specific groups or regions, to understand the impact of social grants on job search and employment.

This article reports findings from Ardington *et al.* (2013) on the decisions of a specific group, i.e. young rural males,[2] to migrate in search of work. The researchers use eight rounds of longitudinal data collected in rural KwaZulu-Natal over a period of 11 years (starting in 2001). Data was collected on approximately 100 000 people in an area two-and-a-half hours north of Durban (which includes a township and a tribal area) – one of the poorest regions in Kwazulu-Natal.

They examine how the labour market behaviour of young men responded to a change in the 'pension status' of their household – either when they receive an old age pension for the first time, or when they lose such a pension.

The aim was to determine whether financial constraints limit the ability of rural households to send their young men to find work in the city – and whether the gain of a relatively large, stable source of income, in the form of an old age pension, helps households to overcome these constraints. If so, it would imply that the old age pension enhances the ability of young people to find and retain employment in the city as labour migrants.

[2] The focus is solely on young men as over half the women interviewed had borne a child prior to the age of 20 and it was felt that the interrelated choices these young women face went beyond the scope of the paper.

Youth unemployment in a rural area in KwaZulu-Natal

There are marked differences in employment and school enrolment between men aged 18-24 and those who are older. Table 1 presents characteristics of males (aged 18 up to 50) who were resident or non-resident members of households in the rural KwaZulu-Natal field site in 2011.[3]

Table 1: Characteristics of males aged 18 to 50 (2011)

	Aged 18-24	Aged 25-35	Aged 36-50
Employed	**25%**	**64%**	**70%**
Enrolled in secondary education	**31%**	**2%**	**2%**
Enrolled in tertiary education	**9%**	**3%**	**2%**
Neither studying nor employed	**39%**	**33%**	**28%**
Working migrant	**15%**	**41%**	**38%**
Years of education	**10.3**	**10.4**	**8.5**
Completed high school (matric)	**40%**	**51%**	**34%**
From a household with someone eligible to receive a pension[4]	**39%**	**42%**	**42%**

The following are notable:

- While more than 60% of those aged 25-35 and 36-50 are reported to be employed, only 25% of men in the youngest age category work.
- Fifteen per cent of men aged 18-24 are labour migrants; for older workers this percentage is more than double that (approximately 40%).
- Thirty per cent of men in the youngest category are still enrolled at secondary school, compared to only two percent of older men.
- About 40% of young men live in a household with someone who is eligible for the state old age pension.

What men in all these age categories have in common, though, is that fully a third of them are neither employed nor in school. This percentage is the highest for 18-24 year olds.

[3] The table presents characteristics for the most recent set of data collected in 2011. Patterns evident in the table are broadly similar over the years in the period under study.

[4] This is irrespective of whether the pension is actually taken up by that person.

How does the gain or loss of a pension in the household affect the chance that the youth in rural areas will migrate for work?

Ardington *et al*. consider how the labour market activities of men aged 18-35 change in response to the gain or loss of an old age pension in their households.[5] They analyse the likelihood of a change in the labour-migrant status of these young men between rounds of the survey, which were mostly one year apart. Simply put: do they get (or retain) a migrant job – and is this affected by somebody in their household getting, or losing, an old age pension during that year?

Pension gain and pension loss are likely to have different effects on migration. Young men who have not yet migrated for work may find that when someone in the household gains a pension it offers them a chance to do so, perhaps supporting them until they find work and become financially more self-reliant. The loss of a pension should reduce their chances to go and find work even further.

On the other hand, current labour migrants apparently had enough money to overcome financial constraints and thus were able to migrate. If their household were to gain a pension, we would not expect much of an effect on their decision to work. However, the loss of a previously-received pension may force such labour migrants to return to their rural homes, if their sharing in the pension had enabled them to look for and retain a job.

Thus, to measure the effects of the old age pension, we have to separate, or isolate, the following:

1) the effect of pension gain on the likelihood that a young male will leave his home area to find work; and

2) the effect of the loss of a pension on the likelihood that a young male labour migrant will return home.[6]

This can be done using regression analysis (see Ardington *et al.* 2013 for more detail). It produces the following results. The first row in Table 2 shows the 'baseline' probability of becoming a labour migrant in a survey *for young men whose households did not lose or gain*

[5] The ILO and UN define 'youth' as individuals aged 15 to 24. The South African National Youth Development Agency includes all individuals aged 15 to 35 in their definition of 'youth.' In South Africa, there is little evidence that people under age 18 work, so the analysis is restricted to young adults aged 18 and above. In some of the analyses 'youth' is sub-divided into those aged 18 to 24 and those aged 25 to 35; this is because the relaxation of financial constraints is expected to have different effects on the behaviour of the two groups.
[6] A household is considered to have gained pension status between survey rounds when someone who is eligible for an old age pension is resident in the household and no eligible individuals resided in the household in the previous round of the survey. Pension loss is similarly defined.

a pension. From one to the next survey round, only 17% of such young men typically become labour migrants; likewise, of those who already are labour migrants, approximately three quarters (74%) remain that way.

Table 2: The likelihood of being a labour migrant in a particular survey round as a result of the change in household pension status (for males aged 18 - 35)

Pension status of home household	Becoming a labour migrant since the previous survey round	Remaining a labour migrant since the previous survey round
No change in pension status	17.1%	74.0%
Gained a pension	19.5%	74.9%
Lost a pension	15.2%	63.3%

But what about those from households where there is a change in pension status? Gaining a pension in the household raises the probability that young men will get a job in the city to 19.5% (compared to the baseline probability of 17.1%). This is a statistically significant effect.

However, as expected, young men who already are labour migrants are not affected by their rural household's gaining access to a pension: their likelihood of remaining a labour migrant is unchanged at approximately 75% (second row, second column).

The third row of table 2 shows the effects of pension *loss*. It reduces the probability of rural young men becoming labour migrants in the next period to 15.2% (compared to the baseline's 17.1%). For men who already work in the city, there is a much larger effect: the loss of a pension in their rural household reduces the probability that they will remain labour migrants by around 11 percentage points (i.e. from the baseline 74% to 63%).

The effects are clear. Gaining an old age pension in a household helps young men to become labour migrants in the city (though it does not affect those already there). The pension does not encourage these young men to remain idle. But losing a pension in the household is bad: it reduces the likelihood that rural young men either become or remain labour migrants.

Digging deeper: are all male youths similarly affected by an old age pension in the household?

The impact of the gain or loss of a pension on young men in the household varies by their age. The benefits of pension gain are greatest for those aged 25 to 30. The small benefits for

18-24 year olds may be partially explained by these young men using some of the pension income to further their education. There is no significant impact on older youth (aged 31-35). When a pension is lost to a household, the youngest male group is most vulnerable to losing the ability to continue as a labour migrant – older workers probably have had more time to become established.[7]

Another factor is the household's wealth or assets.[8] Young men from households with more assets are less affected by the household's gaining or losing a pension than those from poorer households.[9] These findings support the theory that income from a pension helps members of poorer households to overcome financial constraints that would otherwise prevent their migration and search for a job.

A last, and important, factor to consider is whether these young men have matriculated. The key finding is that a pension gain in the household appears not to improve the odds that a young man will migrate to find work *unless he has matric*. This appears to reflect that young matriculants are better positioned than non-matriculants to take the opportunity to migrate after their households have gained a pension. (Generally, young people with matric are known to be in a much better position to find employment than non-matriculants *and* they have better earnings prospects; see Hofmeyr *et al., Econ3x3*, October 2013).

Among young men who already are labour migrants, the loss of the pension affects both those with and those without matric. Nevertheless, those without matric are much more likely to return home after a pension has been lost than those with matric. Having matric makes these young labour migrants less vulnerable to the loss of a pension at home – they probably are eligible for a greater number of jobs and/or better jobs than those with less education.[10]

Conclusion

Especially in poor rural households the receipt of an old age pension is not of benefit only to the pensioner. The easing of the household's financial constraints when a member of the family unit is granted a pension has beneficial effects also for young people in the household: it encourages and enables them find and retain work in the city (i.e. as a labour

[7] See table 4 on page 15 of Ardington *et al.* (2013) for more detail.
[8] This is called the household's socio-economic status (SES). Those in the top third of asset ownership distribution are defined as 'high SES' and the remainder as 'low SES'. See Ardington *et al.* (2013) for more detail.
[9] See table 3 on page 14 of Ardington *et al.* (2013) for more detail.
[10] See table 5 on page 16 of Ardington *et al.* (2013) for more detail.

migrant). However, the additional household income only helps young men in this regard if they have at least a matric.

These research findings also mean that the old age pension does not appear to have unintended, or perverse, effects on the choices of these rural young men in the labour market, i.e. it does not encourage them to be 'idle' (neither studying nor working).

Clearly the old age pension is not a solution for the problem of unemployment among the youth in South Africa – that never was its intention. However, the findings for this rural area suggest that financial constraints are a real obstacle to young men who want to find employment in urban areas. Policies that address these financial constraints could make a major difference to help such young men to find employment.

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