

## **Cultural and psychological aspects of labour market behaviour among less skilled young people in Cape Town**

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These three related projects examine the supply of unskilled labour, focusing on how the behavior and decision-making of young men and women in poor urban neighbourhoods are shaped by their understanding of the labour market, their values and norms, and their psychological health. All three fall into categories 9 and 10 in the framework document. The common objective is to understand better the stickiness of wages for unskilled labour in urban areas: why, amidst very high unemployment rates and widespread income poverty is there not a larger supply of labour at low wages? The three projects combine quantitative and qualitative data from Cape Town, South Africa. Reservation wages and other factors shaping the supply of labour have obvious policy implications, not least for wage subsidies which serve to reduce the gap between what employers can pay and what young workers demand (even if wage subsidies raise further reservation wages, as argued by Levinsohn and Potatch, 2009).

I am asking for a prospective budget allocation of R80k, comprising two 'incentive grants' of R25k each on acceptance for publication of journal articles and a Masters top-up scholarship grant of R30k. Output will comprise three papers.

### Projects 1 and 2: Reservation wages

The first two projects will examine reservation wages, using evidence from the five-wave Cape Area Panel Study (CAPS) combined with additional, more in-depth research among unemployed young people in poor Cape Town neighbourhoods.

Kingdon and Knight's (2001) analysis of data on reservation wages from the countrywide 1993 PSLSD suggested that there was a very weak relationship between reservation wages reported by unemployed people and the wages that would be predicted for them given their education and other relevant characteristics. They speculate that this might reflect various factors, including a 'lack of information about the labour market – because of living in remote areas, low education, or lack of previous work experience' (2001: 89). Natrass and Walker (2005) examined data from Cape Town in 2000, and found that the reservation wages of unemployed people in poor neighbourhoods were broadly in line with the wages paid in the jobs being done by other people with similar individual characteristics. Rankin & Roberts (2011) focused on specifically young people (aged 20-34) from the 2006 South African Young Persons Survey (which, despite its name, was concentrated in selected areas in only three of South Africa's nine provinces, i.e. Gauteng, Limpopo and KwaZulu-Natal). They found that the reservation wages of young men and women who were actively searching for work were broadly in line with the wages paid by large firms but were above the wages paid in smaller firms, where work is more likely to be available. Only one in five unemployed young people had reservation wages higher than the predicted wages if employed in a large firm, but 50 percent had reservation wages higher than the predicted wages if employed in a small firm. This was less true for young women than for young men,

and the misalignment of reservation and predicted wages declined with age and post-matric education. Rankin and Roberts suggest that this might reflect young people's limited knowledge of the labour market, i.e. both 'what they can reasonably expect to earn and where and how they find jobs' (Rankin and Roberts, 2011: 142).

Existing studies of reservation wages in South Africa suffer from a conceptual limitation in that their focus is on the relationship between every respondent's self-reported reservation wages and their predicted wages, i.e. the wages that they would be predicted to earn, given their characteristics and a wage model based on the wages earned by employed people. The limitation arises from the fact that the wage model is for actually existing work, and cannot be used to compare reservation wages with the wages paid for work that does not exist. Given the actual paucity of unskilled employment, the standard methodology provides an inadequate account of how reservation wages shape the structure of employment. In other words, a young person might set be prepared to accept the kind of job and earnings that people with comparable qualifications or characteristics actually have, but might at the same time be pricing him or herself out of opportunities for lower-paid work, contributing to a structure of employment with few opportunities at the bottom end. In the South African context, the standard methodology might thus underestimate the extent to which reservation wages contribute to unemployment.

The study of reservation wages in South Africa is also complicated by the fact that unemployment is so widespread that young people have very limited, imperfect information. Few young people have been offered work in the past and thus have little information about the structure of demand for labour. There is some other evidence that many young people misunderstand the labour market. Several studies have found that young people without educational qualifications tend to rely on ineffective strategies of job search (Seekings and Nattrass, 2005; Schöer, Rankin and Roberts, 2012). Roberts (2011) explores whether young people overestimate their prospects of finding employment that pays a stipulated minimum wage. Using data from different rounds of the Labour Market Entry Survey (which also seems to be a 3-province study), Roberts finds that a majority of young people overestimate their own prospects, and a large minority overestimate the prospects of other young people.

#### Data for Project 1: Reservation wages in Cape Town

The first project will analyse data from five waves of the Cape Area Panel Study (CAPS). The CAPS panel comprised an initial sample of 4752 young men and women, aged 14-22 at the time of the first wave in 2002. By wave 5 (2009), the panel participants were aged 20-29. Attrition reduced the size of the panel, to 3927 (wave 2), 3531 (wave 3), 3439 (wave 4) and 2915 (wave 5, plus an additional 262 telephonic, partial interviews in place of the full, face-to-face interview, and an additional 84 young people on whom limited information was collected through other household members). Attrition especially affected the older, wealthier and better educated members of the panel, and affected less the young people from poor neighbourhoods who would be the focus of this project.

Questions were asked about employment prospects, reservation wages and the labour market in every wave (with the exception of wave 2a, which accounted for approximately

one-third of wave 2). Some questions were asked in only one panel, and others were asked in a series of panels (see Table 1 below). The CAPS data thus make possible the analysis of the relationships between individuals' assessments of their employment prospects and their reservation wages for different kinds of employment, and how these change over time in response to (for example) additional education, duration of unemployment or experience of employment. CAPS also has extensive data on work and earnings, but unfortunately not on offers of work that were turned down.

Table 1: Questions asked in more than one wave of CAPS about employment prospects, reservation wages, etc						
category	Label	w1y	w2b	w3y	w4y	w5y
prospects	Chances of you working in December	w1y_d55	w2b_h21			
	Chances of you working next March	w1y_d56	w2b_h22	w3y_d38	w4y_d32	
	Chances of you working in 3 years time	w1y_d57	w2b_h23	w3y_d39		
	Chances of you getting a well paid job	w1y_d58	w2b_h24	w3y_d40		
	Chances of you getting an enjoyable job	w1y_d59	w2b_h27	w3y_d41		
	What work expect/plan to do at 30, SOC coded	w1y_c15code	w2b_h28code	w3y_d42code		
	Expect to be self employed at 30			w3y_d42self		
	Do what at 30 if don't expect to be working?		w2b_h29	w3y_d43		
Do what ELSE at 30 if don't expect to be working?		w2b_h29o	w3y_d43_o			
reservation wages	Lowest daily wage accept for part-time work	w1y_d61day	w2b_h31_2			
	Lowest hourly wage accept for part-time work	w1y_d61hr	w2b_h31_1			
	Don't know lowest wage would accept for part-time work		w2b_h31dk			
	Would accept job as domestic worker at a specified wage		w2b_h36_1	w3y_d45_1	w4y_d26_1	w5y_d25_1
	Would accept job as a security guard at a specified wage		w2b_h36_2	w3y_d45_2	w4y_d26_2	w5y_d25_2
	Would accept job as a general worker at a specified wage		w2b_h36_3	w3y_d45_3	w4y_d26_3	w5y_d25_3
	Would accept job as a machine operator at a specified wage		w2b_h36_4	w3y_d45_4	w4y_d26_4	w5y_d25_4
	Would accept job as a cashier at retail store at a specified wage		w2b_h36_5	w3y_d45_5	w4y_d26_5	w5y_d25_5
	Would accept job as a bookkeeper at a specified wage		w2b_h36_6	w3y_d45_6	w4y_d26_6	
	Would accept job as a production manager at a specified wage				w4y_d26_7	
labour market knowledge	Typical monthly wage (full-time) for person like you?		w2b_h20	w3y_d37		
	Agree/disagree: pure luck whether get a job		w2b_h51_1	w3y_d50_1		
	Agree/disagree: looking for work not worth transport cost		w2b_h51_2	w3y_d50_2		
Norms etc	Agree/disagree: you are nobody if don't have job		w2b_h51_4	w3y_d50_3		
	Agree/disagree: any job is better than no job		w2b_h51_11	w3y_d50_4		
	How strongly want to work now?	w1y_d62	w2b_h15			
	How strongly do parents/guardian want you to work now	w1y_d63	w2b_h16	w3y_d36		

Among young people in poor neighbourhoods who had left school without matric and were either looking for work or said that they wanted work, a large minority said that they would *not* take a job as a domestic worker at a wage of (in 2004-05) approximately R900 per month, but almost all would take higher-paid jobs. It seems that urban outsiders may be pricing themselves out of the kinds of jobs that they are most likely to get, setting reservation wages for themselves that could be paid for the more formal employment that they are unlikely to get.

This project will analyse patterns in the CAPS data on reservation wages, perceptions of the labour market and labour market outcomes. The project will, inter alia:

- plot the supply of labour at low wages, paying attention to (a) the distribution of reservation wages for different kinds of employment, (b) the observed relationship between reservation wages and the wages earned in actual, subsequent employment, and (c) individuals' decisions to exit employment;
- identify, using cross-sectional data, the correlates of labour supply decisions at low wages (where 'decisions' refers primarily to individuals' responses to hypothetical opportunities posed in survey questionnaires, and secondly to decisions to take or exit real employment, but not to decisions to decline actual offers or opportunities, on which CAPS provides no data);
- identify, using panel data, the causes of changes in individuals' decision-making about labour supply at low wages (including, especially, the effects of education, access to income, and unemployment duration).

Attention will be paid to the methodological difficulties identified in studies of reservation wages elsewhere in the world (see, for example, Sestito and Viviano, 2011, on Italian data).

### Data for Project 2: Perceptions of the labour market and reservation wage-setting

A fuller understanding of how young people perceive and understand the labour market – i.e. of the quality of the information on which they act and make decisions, and the values and norms that inform their use of information – requires going beyond survey data to the analysis of in-depth interviews with smaller numbers of young people. We began to do this with interviews with sub-samples of CAPS respondents in 2007-10 and again earlier this year (2012). Most of these interviews have been transcribed and are, or will soon be, available on the CSSR's online archive of interview transcripts. These existing interviews will be re-examined. If necessary, further interviews will be conducted with selected CAPS participants, concentrating on low-income neighbourhoods in Delft, Mfuleni and Khayelitsha.

The in-depth interviews fill in many of the gaps that inevitably exist in the data on individuals' histories of engagement with the labour market through employment and job search. These gaps include details of job offers and work opportunities that were declined (and why), as well as additional explanation of why job offers and work opportunities were accepted, even when this was inconsistent with prior, reported reservation wages. More importantly, they allow us to document and understand better the thinking behind the quantitative data. How do young people perceive and understand the labour market? What affects their decision-making on reservation wages, i.e. how they set their reservation wages? Important factors may include actual offers of employment, but are more likely to include indirect knowledge of the labour market (through other people or the media), as well as norms and values. Particular attention will be paid to the reference groups which are pertinent to young men and women (given that higher-wage reference groups may accentuate the injustice of low wages, as shown in the US by Holzer, 1986) as well as the effects of institutions (such as minimum wage legislation, see Falk *et al.*, 2006). How do other people – whether inside or outside the household – affect reservation wage-setting?

### Project 3: Duration of unemployment, mental health and job search

CAPS data, time use survey data and in-depth interviews with a sub-sample of CAPS respondents seem to suggest that chronic joblessness traps many young adults in a condition of passivity. Many unemployed young men and women in poor neighbourhoods hold, at least publicly, to the ideal of returning to school and obtaining the qualifications that (they say) serve as an almost magic passport to employment. In the meantime, they often behave as if finding employment is not an urgent priority. Only a minority of jobless young people seem to be actively looking for work at any one time. It is usually assumed that not searching reflects the perception that searching is futile, i.e. that the unemployed have been 'discouraged' from active search because in their or others' experiences it is futile. But the nature of this 'discouragement' is poorly understood. To what extent is it a rational calculation? To what extent does chronic joblessness fuel general psychological depression, inhibiting action whatever its rationality?

There seems to have been little research into these issues in South Africa since Moller's exploratory research twenty years ago (Moller, 1992) other than some preliminary analysis of the effects of unemployment on satisfaction using 1993 PSLSD data (Seekings, 2002; Kingdon and Knight, xxxx; Seekings and Nattrass, 2005; Powdthavee, 2003, 2007). Internationally, however, there is a wealth of research on the negative effects of unemployment on mental health (and the positive effects of re-employment on mental health). The foundational work of Jahoda, Lazarsfeld and Zeisel (1933) in the Austrian town of Marienthal has been corroborated in different parts of Europe, North America and Australia by both cross-sectional and longitudinal studies (Marsden, 1975; Jahoda, 1982; Warr, 1987; Gallie *et al.*, 1994; Carroll, 2007; for a recent meta-analysis, see Karsten and Moser, 2009). Studies outside of South Africa have found that unemployment compromises mental health not only through ensuing financial insecurity, but also through the absence of the varied ways in which employment structures daily life, including sociability. These latter effects are likely to be gendered, and are likely to be shaped by social, economic and cultural changes in – as well as differences between – societies. For example, changing gender roles in advanced capitalist societies may have made it easier for men to cope with unemployment by assuming new roles and a sense of purpose in the home.

European studies have also found some evidence that depression reduces success in finding work, although the findings are somewhat ambiguous (see, for example, Schaufeli, 1997 and Taris, 2002, on Dutch studies). In the South African case, might young people fall into a "joblessness trap" because of depression? This is likely to be gendered, in that young women are more likely to participate in (unpaid) domestic work, whilst young men spend more time watching television (Wittenberg, 2009).

In the South African context, we might expect that several factors would mitigate depression among unemployed young men and women: many have never been employed, and thus might not suffer the psychological effects associated with the *loss* of employment; and most live in neighbourhoods where unemployment is pervasive rather than exceptional, and financial insecurity is commonplace. European studies have differed in their findings on the effects of inter-regional variations in unemployment rates on the mental health of unemployed people (Clark, 2003; Oesch and Lipps, 2012), but these studies all focus on

areas where the unemployment rates were far below those in poor neighbourhoods in contemporary South Africa. Moreover, the extent of unemployment, dependency and financial insecurity might compromise also the mental health of people in employment, especially if that employment is precarious. Insofar as unemployment has reduced psychological costs in South Africa, it is presumably less likely to result in a psychological 'joblessness trap', although it might result in a socio-cultural trap in that unemployment ceases to have pejorative connotations (as has been suggested for advanced capitalist societies during economic downturns, by Blanchard, 1988, and Lindbeck et al, 1999).

This project will examine CAPS and time use survey data, supplemented with in-depth interviews, to document and analyse patterns of passivity and activity among young, unemployed men and women in Cape Town. CAPS included, in waves 4 and 5, a battery of questions designed to provide sufficient data on mental health to construct an index.

- About how often during the past 30 days did you feel nervous, would you say all of the time, most of the time, some of the time, a little of the time, or none of the time?
- During the past 30 days, about how often did you feel hopeless?
- During the past 30 days, about how often did you feel restless or fidgety?
- During the past 30 days, about how often did you feel so depressed that nothing could cheer you up?
- During the past 30 days, about how often did you feel that everything was an effort?
- During the past 30 days, about how often did you feel worthless?

These were followed by questions intended to probe how debilitating were these feelings, and whether the individual sought treatment.

CAPS panel data will be used to examine both the causal relationship between unemployment and mental health, and the causal relationship between mental health, job search and success in finding employment.

The analysis of quantitative CAPS data may be supplemented with additional in-depth interviews with selected individuals. As with the projects on reservation wages, an important topic for in-depth research is how an individual's reference group and normative environment shapes his or her psychological responses to unemployment (see Clark, 2003, for a comparative study).

#### Further information

All three projects comprise new research using mostly existing quantitative and qualitative data, but with additional new qualitative research as necessary.

The projects will be undertaken in the sequence above, i.e. first the CAPS data will be analysed, then we shall analyse the qualitative data on reservation wages, and finally we shall examine the mental health story. We anticipate that, with funding, all three projects will be undertaken in 2013, and papers will be submitted for publication in late 2013 or early 2014. We have no other funding for this research.

One of the papers will be written by Masters student Kezia Lilenstein. Kezia did her Honours degree in Economics in 2012, and will be studying for the Masters in Applied Economics in 2013-14.

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