

Impact of Youth Unemployment on Economic Growth in Sub-Saharan Africa (SSA): A Review Paper

Chimdessa Uma Negera
Department of Agricultural Economics, Ambo University
E-mail: chimdo2015.sena@gmail.com

Abstract

Sub-Saharan Africa (SSA) has the highest population growth in the world, while unemployment was one of the major prevailing socio-economic problems in almost all countries of the world which every country should fight against. Africa is confronted with this problem that has been extremely challenging. This paper is to review recent research works studied on impacts of youth unemployment on economic growth in Sub-Saharan Africa (SSA). In this paper, therefore, empirical studies done on the area were reviewed in terms of their publication year, the sources of data, methodology they employed and the results they obtained. Moreover, this paper has tried to assess secondary data collected to get a more insight on the impacts of youth unemployment on economic growth. By reviewing previous studies done on impacts of youth unemployment on economic growth were leads to low income, low savings, low investment, low national income and loss of gross domestic product(GDP) and unemployed youth constitute threat to security as they often involve in social vices. The reviewed recommend the future studies on impact of youth unemployment on economic growth were crucial for mapping strategies to address impact of youth unemployment and insights on gaps for policy direction and areas for capacity development in addressing youth unemployment.

Keywords: Youth, Unemployment, Economic growth

DOI: 10.7176/JESD/15-1-04

Publication date: January 31st 2024

1. INTRODUCTION

Unemployment is regarded as a serious problem faced by most developed and developing countries and resulting to socio-economic problems. In justifying this assertion, Akeju and Olanipeun (2014) noted that the greatest challenges of the Sub-Saharan African economies today is the high rate of youth unemployment that has maintained a rising trend over the years. Different authors conceptualized the term youth unemployment as a problem that affects most countries and the ability of youth to engage in productive activities has both social and economic consequences for an economy. In developing countries, youth face not only the challenge of obtaining productive employment, but also obtaining safe and acceptable work.

The region of Sub-Saharan Africa (SSA) has a rapidly growing population of youth with an average age of 18 years, but it is as low as 15 years in some countries like Niger and Chad. The SSA population below the age of 15 years grew by 150 percent between 1970 and 2005 and about 170 percent in 2011(United Nations, Population Division, 2011). In 2013, youths in the Sub-Saharan Africa were twice likely to be unemployed compared to other age cohort.(World Bank, 2013 as cited in Ihensekhien, 2017). Likewise Madito & Khumalo (2014) described the high unemployment rate and slow growth as the two challenges facing every nation regardless of the state of their economic and social development. Youth Unemployment is one of the major challenges facing today's world that coupled with population growth and increased poverty, it has a significant impact on economic growth and development at large.

In many developing countries, the supply of workers far exceeds the demand, the result being extremely high rate of the unemployment and under employment in urban area Todaro (2006). Ethiopia was characterized by high growth in population and almost a subsistence economy. Unbalanced growth between the population and the economy has an effect on employment and growing labor forces that tended to increase unemployment. Because of this high population growth resulted from internal migration, unemployment problem is becoming more acute in the country. Economic growth and unemployment are among the most significant macro-economic variables and indispensable fundamentals in every strategic economic fiscal and monetary policies of every prosperous economy (Soylu, Çakmak, & Okur, 2017).

As cited by Tsauni, (2017) unemployment is often defined by classical economists as the excess supply of labour over the demand for labour caused by adjustment in real wage. In curtailing unemployment, economic growth has been recognized as a key variable that can address the menace. The contributions of economic growth to economic development cannot be overemphasized as it has been recognized as one of the necessary condition for economic development. It is a medium through which unemployment can be reduced, inflation can be stabilized, innovation can be promoted and a panacea for poverty reduction and eradication in a nation. Economic growth provides the platform for entrepreneurs to emerge who on the other hand reduces unemployment rate through the creation of jobs.

According to the report titled 'World Social and Employment Outlook Trends 2018' prepared by the ILO, young people under the age of 25 are less likely to find work than adults. The global youth unemployment rate stands at 13%, which is three times higher than the figure for adults, which is 4.3%. This lack of job opportunities is one of the issues of greatest concern for the organization. The problem is particularly acute in North Africa, which has the highest rate of young job-seekers. There, almost 30% of young people in working age are unemployed. The situation is also a matter of concern in sub-Saharan Africa, where almost 67% of young workers live in poverty. In 2019, the estimated youth unemployment rate in Ethiopia was at 2.76 percent from 1999 to 2019. Youth employment presents a particular challenge to Ethiopia; the country faces growing youth landlessness in rural areas and in significant rural job creation, potentially leading to an increase in migration to urban areas (World Bank, 2007). The concern is whether there will be substantial growth and job creation in urban areas to absorb new labour market participants. Unemployment and particularly youth unemployment is closely linked to the state of the economy. In order to provide an overall assessment of the youth labour market it is important to provide an assessment of Ethiopia's overall economic situation.

According to Akutson, Messiah, & Dalhatu (2018), unemployment is a serious predicament confronted by most developed and developing nations which leads to economic and social issues. The nature of unemployment is dependent on the structures of the country and the category of which the country falls under whether it is developed, developing or undeveloped (Soylu, Çakmak, & Okur, 2017). The level of unemployment is a mirror image of the state of a nation's economy. Suffice to also say, youth unemployment is highly dependent on the overall status of the economy. Economic activity, measured by GDP growth, is probably the single factor that most influences the chances of young people to a job. Low or negative GDP growth, economic recession and low investment are direct causes in the shrinking demand for labour (ILO, 2007).

Unemployment has been an issue of concern, most especially in developing country like Ethiopia, to policymakers and researchers alike. This is because unemployment is one of the key macroeconomics indicator and determinant of economic growth and development which is the priority of any economy. Overtime, economists tried to establish the relationship between inflation and unemployment; however these two variables are linked together economically. Youth unemployment in sub Saharan Africa is 13.11 percent. Likewise ILO (2019) estimated youth unemployment rate in South Africa was at 53.18 percent. According to survey in Ethiopia youth unemployment rate in Ethiopia was at approximately 1.79 percent World Bank (2019). This review paper discusses the impact of youth unemployment on Economic growth of the country. The secondary data were used for accomplishing the objectives of the review which has been collected from various published sources like books, article review, reports and research papers.

2. LITERATURE REVIEW

2.1. The concept of Unemployment

Several Authors defined Unemployment in different way. According the classical economists define Unemployment as the excess supply of labour over the demand for labour which is cause by adjustment in real wage. The Classical or real-wage unemployment occurs when real wages for job are set above the market clearing level, causing number of job-seekers to exceed the number of vacancies. Likewise International Labour Organization (2009) define Unemployment as a state of joblessness which occurs when people are without jobs and they have actively sought work within the past four weeks. As cited by International Labour Organization (ILO, 2019) defines unemployment based on three (3) important conditions of which must be meet simultaneously and these conditions are; not working, ready to get employed and searching for a job. The unemployment is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by individuals currently in the labour force.

In a 2011 news story, Business Week Reported, "More than two hundred million people globally are out of work, a high record, as almost two-third of advanced economies and half of developing economies are experiencing a slowdown in employment growth. According to Jhingan (2003), unemployment can be conceived as the number of people who are unemployed in an economy, often given as a percentage of the labour force. Unemployment is also defined as numbers of people who are willing and able to work as well make themselves available for work at the prevailing wage but no work for them. Unemployment has been classified into different types and these are voluntary and involuntary redundancy, frictional and cyclical redundancy, seasonal and technological redundancy, structural and hidden redundancy (Soylu, Çakmak, & Okur, 2017).

According to Wubie (2012) examined that major causes of youth unemployment such as absence of land justice, legal and policy problems, misguided educational policy, capital intensive technologies, nepotism and corruption, lack of knowledge and skill to perform jobs and lack of a culture of work ethic and job creation in the respective societies in the Ethiopia. It identify the effects of unemployed youth can easily be manipulated for any cause of which one could be armed groups rebelling against governments. This will take our continent to the vicious circle of civil war and instability as well as seriously affects the country's economy (Wubie 2012).

2.2. The Concept of Economic Growth

Economic progress is considered as part of the utmost imperative fiscal tools for plummeting poverty as well as improving the eminence of life (DFID, 2008). Economic progress is well-defined as the rise in gross domestic product or real gross per capital and it is, however, influenced directly by labour (employment), natural resources and capital and influenced indirectly by the collective demand, institutions, economic and fiscal policies, efficiency of the government (Boldeanu & Constantinescu, 2005).

Gross domestic product which often abstracted as economic development is appreciated as a balanced practice of raising the industrious ability of the individuals and henceforth, of rising general revenue, being categorized by greater rates of rise of per capita productivity and whole factor output, particularly labour output (Seth, John, & Dalhatu, 2018). A growing economy produces more goods and services in each successive time period. Thus in a wider perspective, it implies raising the standard of living of the people and reducing inequality of income distribution. Likewise Zhattau (2013) economic growth is the basis of increase prosperity and it comes from accumulation of more capital and innovations which lead to technical progress, the idea similar to Solow (2002) growth model who sees economic growth in terms of growth in total GDP due to increase in population, technical progress and investment. Growth according to Classical Economist signifies increase in the rate of investment. In other words, growth is a function of share of profit in the national income. There exists a positive relationship between higher rate of profit and higher rate of growth in the long run.

2.3. Impact of Youth Unemployment on Economic growth

These sections of the study present the empirical literature on the relationship between economic growth and unemployment. According to Popovic(2009) higher the unemployment rate propels greater shifts of GDP from its trend. Study on the impact of inflation and unemployment on the economic growth of Pakistan via the ARDL model approach found that a long run relationship between the variables existed(Anning *et al.*, 2017). Likewise the study on investigated the relationship between unemployment, inflation and economic growth in Nigeria. Utilizing secondary data with OLS regression method, their results confirmed that interest rate and total public expenditure bares significant impact on economic growth in the long run whereas on the contrary, inflation and unemployment has inverse effects on growth in the Nigerian economy(Anning *et al.*, 2017).

Likewise Mohseni, M. *et al* (2016) takes into account a re-examination of the role of inflation and unemployment on economic growth using the linear regression model. The results showed a long run negative effect of inflation and unemployment on economic growth. In line with the above study, Bakere (2012), the OLS method of regression was adopted in examining the stabilization policy, unemployment crises and economic growth in the economy. Their findings showed negative relationship unemployment and economic growth were negative. Rafindadi (2012) further investigates the nexus using OLS and threshold model. He found a negative nonlinear relationship between output and unemployment. The current attempt contributes to the existing literature on the effects of inflation and unemployment on economic growth.

Unemployment has negative consequences on various fate of life at individual, local regional as well as national level. Loss of income but many people have major commitments (mortgage, credit agreements), Fall in real living standards, Unemployment in their 20s has a huge effect on living standards for people in their 50s, Increased health and social risks (particularly for long term unemployed), Stress / reduction in quality of die, Increased risk of marital break-up and Social exclusion (McClelland and Macdonald, 2009; Riley *et al.*, 2010; Machin and Manning, 1998 as cited by Te (2016)). Loss of marketable skills (human capital), The longer the duration of unemployment, the lower the chances of finding fresh employment and particular problem facing the youth unemployed result in 'lost generation'(Riley *et al.*, 2010, P.9 as cited by Te, 2016).

As cited by Te, (2016) unemployment has the following "consequences for the Economy as a whole: Lost output (real GDP) from people being out of work the economy will be operating well within its production frontier, Unemployment seen as an inefficient way of allocating resources labour market failure and Some of the long-term unemployed may leave the labour force permanently fall in potential GDP (hysteresis effects). Misini and Badivuku Pantina(2017) used a simple linear regression to analyze the relationship between nominal gross domestic product (economic growth) and the rate of unemployment. The findings of their studies revealed a negative relationship exists between nominal gross domestic product (economic growth) and unemployment. As cited by Clement (2018) to explore the relationship among unemployment and growth (GDP) for the period from 2000 to 2008. Their findings supposed that unemployment effect is 65.5 percent on the GDP growth and there exist a negative relationship between unemployment and economic growth.

Study conducted by Rafindadi (2012) to determine the relationship between output and unemployment dynamics. In employing OLS and Threshold model, the study found a negative nonlinear relationship between output and unemployment. Similarly Shahid's (2014) study examined the effect of inflation and unemployment on economic growth in Pakistan and found that there is an inverse relationship between economic growth and unemployment. According to Mankiw, N. Gregory (2007) high inflation increases the opportunity cost of holding cash balance and can induce people to hold greater portion of their assets in interest paying accounts with high

inflation, firms must change their prices often in order to keep up with economy. It can benefit the inflators (those responsible for the inflation) it be benefit early and first recipients of the inflated money (because the negative effects of inflation are not there yet).it can benefit the cartels (it benefits big cartels, destroys small sellers, and can use price control set by the cartels for their own benefits. Likewise Fikirte, T. (2012) has studied about the inflation and economic growth entitled that the channel through which inflation affect economic growth reveal that inflation negatively affects growth by reducing investment and by reducing rate of productivity growth.

As cited by Lorenzini and Giugui (2010) pointed out that youth unemployment leads to social isolation and decreased social contacts and collective participation of individuals as they became psychological depressed and feels lonely. It usually affects both the mental and psychological health of individuals and the person becomes pessimistic that either the person can attempt suicide or involve themselves in activities that negatively affect their lives. Ogueze and Odim (2015) examined the cost of unemployment and GDP growth. The study used annual time series data from 1970 to 2010. The variables used for the study included: real GDP, unemployment rate, interest rate, investment, import and money supply. The study employed ordinary Least Square. The result shows that unemployment rate has a negative impact on economic growth. Similarly Onwachukwu (2015) examined that the impact of unemployment on the economic growth. The study used time series data from 1985 to 2010. The variables used in the study include real GDP Growth which serves as a dependent variable, while the independent variables are inflation rate and unemployment rate. The study employed ordinary least squares (OLS) and Augmented Dickey Fuller methods. The result shows that unemployment has significant negative effect on economic growth. It was also observed that the inflation has an insignificant negative effect on the economic growth.

3. CONCLUSION

Unemployment affects the economy in many different ways but it can be minimized by strategic Government intervention. There are policies that help to contain the effect of unemployment considering that some of the causes can be handled with some of the economic policies. However the choice of the policy has to be analyzed carefully to produce relevant result. The impacts of youth unemployment on economic growth were leads to low income, low savings, low investment, low national income and loss of gross domestic product (GDP) and unemployed youth constitute threat to security as they often involve in social vices.

Furthermore, the results demonstrated that in the both short and long run, unemployment rate increases economic growth becomes decline. As empirically evidenced, from previous studies that economic growth is influenced by unemployment, it can be deduced that Okun's law holds. The empirical results of this study provide the policy makers with a better understanding of unemployment and economic growth linkage to formulate investment policies in South Africa. The government should come up with effective macro-economic policies and ensure improvements in the structure and functioning systems of governance for stabilizing economic growth along with job creation. The government thus needs to create conducive environment and flexible labour market policies or legislations that entice many private sector and small businesses which will in turn consolidate the existing entrepreneurship activity with new entrepreneurial entrants so as to create more employment and absorb a large pool of unemployed population.

REFERENCES

- Akeju, K. F. and Olanipeun, D. B. (2014). Unemployment and economic growth in Nigeria. *Journal of Economics and Sustainable Development*, 5(4): 138-44
- Anning, L., Tuama, A. S., & Darko, S. (2017). Inflation, Unemployment and Economic Growth: Evidence From the Var Model Approach for the Economy of Iraq. *International Journal of Developing and Emerging Economies*, 5(1), 26–39. www.eajournals.org
- Bakare, A.S (2012). Stabilization Policy, Unemployment Crisis and Economic Growth in Nigeria. *Universal Journal of Management and Social Sciences* Vol. 2, No. 4.
- Boldeanu, F. T., & Constantinescu, L. (2005). The main determinants affecting economic growth. *Economic Sciences*, 329-338.
- DFID, G. B. (2008). *Growth: building jobs and prosperity in developing countries*. London: Department for International Development.
- Fikirte Tsegaye Mamo (2012) Thesis on Economic Growth and Inflation Söder törns University
- Ihensekhien, O. A. (2017). *Youth Unemployment and Economic Growth : Lesson From Low-Income Countries in Sub-Saharan Africa*. November.
- ILO. (2019, 03 23). Retrieved from https://www.ilo.org/global/statistics-anddatabases/statistics-overview-and-topics/WCMS_470306/lang--en/index.htm.
- Jhingan, M. L. (2003). *Advanced Macroeconomics Theory* (11th ed.). Delhi: Vrinda Publication Ltd.
- Misini, S., & Badivuku-Pantina, M. (2017). The Effect of Economic Growth In Relation to Unemployment. Research Article

- Ogueze, V.C and Odim, O.K (2015), the cost of Unemployment and its effects on GDP Growth in Nigeria. *World Applied Science Journal* 33(1): 86-95.
- Onwachukwu, C. I. (2015). Does Inflation Significantly Impact on Economic Growth in Nigeria? *Global Journal of Human Social Science: Economics* Volume 15 issue8 version
- Rafinandadi A. (2012), “Empirical Analysis of the Effects of Central Bank Communications on Money Market Volatility in Nigeria: 2007-2011”, published Masters Thesis Ahmadu Bello University
- Shadid A.,(2014), “India-Saudi Arabia bilateral trade relations: Recent experiences and future opportunities”, *International Journal of Economics and Empirical Research (IJEER)* 3(7), 327–342.
- Solow, R. M. (2002). "Neoclassical growth model" in B.Snowdon and H.R Vane (eds);*An Encyclopedia of macroeconomics*. Edward Elgar: Cheltenham, UK and Northampton, MA, USA. Yelwa
- Te, A. (2016). *Challenges and Prospects of Entrepreneurship Development and Job Creation for Youth Unemployed : Evidence from Addis Ababa and Dire Dawa city Administrations , Ethiopia . Project Members*
- Tsauni, A. M. (2017). *An Analytical Study of the Impact of Unemployment on Economic Growth in Nigeria (1970-2016)*. 22(11), 74–81. <https://doi.org/10.9790/0837-2211077481>
- World Bank (2007). *Urban labor markets in Ethiopia: Challenges and prospects*. The World Bank
- Wubie, H. (2012). *Youth Unemployment in Ethiopia : An overview*. 2(456), 2–4.