

School to Work Transitions in South Africa: A Structural Approach*

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Abstract

I estimate a structural model of school to work transitions in South Africa using a panel dataset that contains the entire schooling and labor market histories of sampled youths. The model accounts for uncertainty in both schooling and labor market outcomes, and allows for learning about academic ability and job market prospects over the life cycle. Additionally, by allowing for re-entry to school after periods of withdrawal, the model accounts for the widespread school re-enrollment observed in the data. In a policy simulation under which re-enrollment following dropout is completely restricted, enrollment rates rise sharply relative to both the data and results from the unrestricted model. The results offer a surprising channel through which policymakers might increase human capital investment among South African youth: by restricting the options for dropouts to return to school, South African schools may dramatically lower incentives for dropout. Simulation of a post-secondary schooling subsidy shows increases in post-secondary enrollment, although increases are attenuated for youths from the poorest households.

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