



## THE YOUTH WAGE SUBSIDY – ONE YEAR ON

*"There is nothing more dangerous than to build a society with a large segment of people in that society who feel they have no stake in it, who feel like they have nothing to lose. People who have a stake in their society protect that society, but when they don't have it, they unconsciously want to destroy it."*

Rev. Martin Luther King Jr

### 1. Introduction

Youth unemployment in South Africa is a major, well-documented problem. Writing for the *Daily Vox*, Aalia Cassim states that "there are 3.3-million unemployed South African youth making up an eye-watering 70% of the total unemployed population."<sup>1</sup> This problem is a persistent one, and this is not the first time that the CPLO has written on this topic.<sup>2</sup> However, in light of recent developments – notably the one year anniversary of the enactment of the youth wage subsidy – it is worth revisiting this topic and taking stock of how this latest government response has fared.

### 2. Diving Into the Numbers

In June 2014, Statistics South Africa released a comprehensive report on youth unemployment.<sup>3</sup> Based on annual quarterly surveys, the report covers the period 2008 – 2014. It must be noted that it does not have much to say about the specifics of the youth wage subsidy, since it was released barely five months into the subsidy's existence. However, the report still provides some of the best and most recent figures on youth unemployment in South Africa, and as a longitudinal survey, it is very useful for spotting trends during the time period in question.

The first obvious point that the report makes is that youth<sup>4</sup> unemployment worsened during the period in question in all provinces. On average, youth unemployment went from 32.7% to 36.1%.<sup>5</sup>

This is despite education levels among youth increasing over the same period in all provinces except for the Northern Cape.

It might be tempting to put this all down to the international recession which began in 2008. However, were it solely linked to the recession one would expect an uptick when the recession ended<sup>6</sup>, but this has not been the case for unemployed youth. While the adult labour force participation dropped from 2008 to 2011, it then improved, and by 2014 had nearly reached the same level as 2008.<sup>7</sup> This suggests that, while the recession affected both adults and youth, adults have recovered somewhat, but the youth have been left behind.

On the topic of the recovery, it is worth noting that South Africa's economy has underperformed due to internal factors, including industrial action such as the platinum belt strike. Indeed, speculation that South Africa would slide into a recession was rife in early 2014, but while this was narrowly avoided, the 0.6% quarterly growth rate<sup>8</sup> that was achieved can only be described as underwhelming. Looking forward, the recent power shortages will almost certainly keep the economy repressed.

The report also indicates a clear gender disparity in unemployment. Female unemployment is worse in every province by an overall average of 10%, and in every age group (including people over the age of 35). The one good piece of news is that this gender gap, while persistent, has

narrowed from 2008 to 2014 in all provinces with the exception of the Eastern Cape.

To sum up, the Stats SA survey indicates that the situation is bad, and it is not improving. Young people have been left behind in the wake of the crisis, but this is not a temporary blip – it is a deep seated problem, with origins in the education system and the broader economy.

Government has been aware of the problem, and has not been entirely complacent. Their flagship response to this problem has been the youth wage subsidy.

### **3. The Youth Wage Subsidy – a Ray of Hope?**

Officially known as the Employment Tax Incentive Act, the long-awaited youth wage subsidy has been in place for approximately a year now, having come into force on 1<sup>st</sup> January 2014. It finally came to fruition after a protracted period of heated debate that stretched from 2010 (when President Jacob Zuma first floated the idea) to the beginning of 2014 (when the Act was finally passed). While four years from proposal to implementation is not unheard of in government policymaking, the issue of youth unemployment has been widely acknowledged as an extremely urgent issue, and as a result such a delay in the implementation of this policy approach was disheartening.

The youth wage subsidy was seriously criticised by organised labour, who put up a stubborn resistance, and thus succeeded in delaying, if not defeating the Act. COSATU attempted to stall the Bill within the National Economic Development and Labour Council (NEDLAC), the collective government/business/organised-labour bargaining forum. Treasury was able to bypass this by simply presenting the Bill to Parliament directly, a move that sparked tension between government and NEDLAC.<sup>9</sup> The specific legalities of this debate revolved around whether the Act was a money bill (which Treasury can directly put before Parliament) or a labour bill (which must be placed before NEDLAC). In this debate Treasury prevailed, but it is worth noting that the ANC, as represented by the Zuma administration, felt willing to harm relations with its tripartite alliance partners over this matter. Clearly, the need to tackle unemployment and present the public with some accomplishments in an election year took priority over avoiding conflicts with organised labour.

In any event, the Act was passed, and provisions were put in place to prevent employers from replacing current workers with younger workers, in the form of financial penalties to deter such a practice.<sup>10</sup>

Following its passage, the Democratic Alliance hailed it as a necessary if inadequate step in dealing with youth unemployment, arguing that while it was welcome, it had been watered down from the original proposal. They also claimed that they had successfully introduced a similar initiative at the provincial level in the Western Cape, and that the ANC had been lax in following their lead. The ANC, in the form of Nhlanhla Nene (then Deputy Minister of Finance, now Minister) rejected the DA's claims entirely, arguing that they were seeking to politicize the bill and falsely take credit.<sup>11</sup> NUMSA threatened strike action and decried it as a "neoliberal economic policy failure".<sup>12</sup>

Putting aside these post-passage debates, how effective has the wage subsidy been?

In the Medium Term Budget Policy Statement, Treasury announced that "the employment tax incentive, which provides firms with incentives to hire young workers, is already supporting at least 209 000 young workers in about 23 500 firms."<sup>13</sup> These figures are extremely promising, if they are accurate. Given the serious extent of youth unemployment, a dent comprising 200 000 workers would be a significant step towards dealing with the problem.

It is important, though, to understand the limitations of this assessment. 209 000 workers being supported by the tax incentive is not necessarily the same as 209 000 new jobs being created by the incentive. It is possible that many of these workers would have been hired anyway, and that businesses are just electing to tap into an extra source of tax relief. How many of these workers would have been hired anyway is unclear. Consequently, more detailed figures and reports on the level of uptake are needed before a final judgement can be made, but these initial results are promising. Given the poor backdrop of the economy – load shedding and weak growth – any good news on youth unemployment is welcome.

Moving on from questions of the effectiveness of the wage subsidy to date, it is important to manage expectations about the broader, long-term impact of the wage subsidy. Even generous subsidies will not transform the employment prospects of such

a disadvantaged group of people. But such measures can certainly assist, and the youth wage subsidy should definitely not be dismissed, especially since the Stats SA report largely covers a time period without the subsidy. However, in the longer run, improvements in the education system and economic growth are the only sustainable measures that will ensure lower unemployment.

Opponents of the youth wage subsidy have a responsibility to put forward evidence for their claims. If the youth wage subsidy is indeed replacing older employees, or failing to increase employment, they should present data to this effect; but following the initial outcry, they have been largely silent. This may be due to a paucity of data supporting their claims, or a sense that the battle has been lost, but it may also be linked to the internal crisis which continues to seize COSATU and occupy the attention of its leadership.

#### **4. A Dream Deferred**

Perhaps the most alarming figure from the Stats SA survey is the number of discouraged youth. The report notes that the number of unemployed youth who have stopped looking for a job, because they do not believe they can find one, has increased significantly, and in fact almost doubled between 2008 and 2014.<sup>14</sup>

This is alarming, and unsustainable. In many ways the crisis of youth unemployment mirrors the broader unsustainability of South Africa's post-transformation economy. The existing arrangement of an insider minority and an outsider majority requires that the outsiders remain patient while the insiders reform the situation on their behalf. However, if young people no longer believe that employment is even possible that would suggest that they have lost hope. People without hope have little reason to remain invested in the system that they have sought employment from.

Far worse than the simple lack of income that comes with unemployment is the alienation, discontent and lack of identity and self-worth that people experience from being locked into a state where they are neither working, training nor being educated. Unemployment is more than just a problem of wealth distribution, it has serious social consequences. Alienated, discouraged and hostile youth often turn to crime or violent protest in order to gain some sense of self-esteem. They will be susceptible to charismatic demagogues

who offer them revolutionary ideals and fast results. It is worth reflecting on the recent upheavals across much of the Middle East, and the pivotal role that disenchanting young people played in these turbulent uprisings.

South Africa is not Tunisia or Egypt. We have a functioning democracy, and people can express their views through a political process that still enjoys wide legitimacy. However, such distinctions will not be easy to explain to young people who were promised a bright future, but have found themselves without the dignity of employment or education.

#### **5. Conclusion**

Youth unemployment is an urgent and ongoing problem, and any serious initiatives that can put a dent in it should be welcomed. Early indications are that the youth wage subsidy is improving the situation somewhat. Despite the political squabbles between the major political parties over who is truly responsible for this Act and whether it does enough, they should be given credit for putting it in place – in particular the ANC, which has steered this Act through the rocky shores of the tripartite alliance. Debates over which party first endorsed this initiative and whether it should have passed earlier are less important than the fact that it has passed, and appears to be fairly successful.

However, the long term prospects of South Africa's youth will depend on a growing and vibrant economy, and on an education system that adequately equips them with marketable and entrepreneurial skills. Subsidies will encourage businesses to employ more young people, but on their own they will not make the unemployable into valuable, productive employees, nor will they cancel out the effects of a sputtering economy that is continuously hampered by labour unrest, power restrictions and a grossly undereducated workforce who suffer from a host of social ills. Without a greatly improved skills base productivity will not improve. Without a strong, diverse economy businesses – large and small – will not flourish. These are facts that cannot be legislated away, but can only be addressed by concerted and sustained improvement by government institutions at all levels, from the Office of the Presidency to the smallest municipalities.

The current economy leaves too many people out – most of whom are young, and angry. They youth are not known for their patience, and policymakers, thinkers, business people and organised labour should be seized with the urgency of making sustainable, major improvements to this situation.

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<sup>1</sup> <http://www.thedailyvox.co.za/sa-youth-unemployment-whats-the-problem/>

<sup>2</sup> See CPLO Briefing Paper 316, *Encouraging Employment through Incentives*, February 2013.

<sup>3</sup> Statistics South Africa: *National and Provincial Labour Market: Youth*. 5 June 2014. Available at: <http://beta2.statssa.gov.za/publications/P02114.2/P02114.22014.pdf>

<sup>4</sup> The Statistics SA report refers to people aged 15 – 35 as ‘youth’. There is significant nuance within this definition, and specific cohorts within this group will have widely differing experiences – a fact that Stats SA acknowledges. When discussing the Stats SA report, however, their own definitions will be used.

<sup>5</sup> Table 3, Page 4, in the Stats SA report. For an easier article to read, see: <http://www.engineeringnews.co.za/print-version/young-women-less-likely-to-find-employment-than-young-men-2014-06-05>

<sup>6</sup> Officially South Africa only went into recession from the fourth quarter of 2008 until the 2<sup>nd</sup> quarter of 2009, but one would expect some lag effect between the recession ending and employment improving. By now, however, any such recovery should have come into effect for both adults and youth.

<sup>7</sup> Stats SA report, Table 3, Page 4.

<sup>8</sup> <http://mg.co.za/article/2014-08-26-sa-narrowly-avoids-recession>

<sup>9</sup> <http://www.iol.co.za/sundayindependent/nedlac-treasury-clash-over-youth-wage-subsidy-1.1636891#.VlfzxlsplWGw>

<sup>10</sup> <http://www.sars.gov.za/TaxTypes/PAYE/Pages/Employment-Tax-Incentive.aspx>

<sup>11</sup> <http://mg.co.za/article/2013-10-31-parliament-passes-youth-wage-subsidy-bill>

<sup>12</sup> <http://mg.co.za/article/2013-10-31-parliament-passes-youth-wage-subsidy-bill>

<sup>13</sup> <http://www.treasury.gov.za/documents/mtbps/2014/mtbps/Chapter%204.pdf>

<sup>14</sup> Pages 9 and 10, Figure 18. Discouraged work seekers aged 15 – 35 years were 4.4% of the working age population in 2008. In 2014 they were 7.9% of the working age population.

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