

## The Introduction of Youth Wage Subsidy under the Employment Tax Incentive Act, 26 of 2013 and Job Seekers' Grant

Lufuno Nevondwe

Kola O. Odeku

Faculty of Management and Law, School of Law, University of Limpopo, South Africa  
E-mail: lufuno3@gmail.com

Doi:10.5901/mjss.2014.v5n2p779

### Abstract

*There is chronic youth unemployment in South Africa. The situation is appalling and the youth are restless. Government has come up with various policies interventions to address the problem and create jobs. But each policy discussion to make this happen has been met with stiff oppositions from different stakeholders. For instance, a leading trade union in South Africa has vehemently opposed wage subsidies being proposed by the government. The ruling party has intervened by proposing job seekers' grants. The concern is that while different stakeholders are jostling for recognition regarding the issue of youth unemployment, the youths are the hardest hit. The situation is becoming unbearable because those who are supposedly employed are losing their jobs due to various strike actions and economic meltdown. This article therefore, makes a modest attempt to examine the two concepts of wage subsidies and jobseekers' grants. What they stand for and what they set out to achieve.*

**Keywords:** Chronic Youth Unemployment, Stakeholders, Wage subsidies, Job seekers' grants, policies interventions

### 1. Introduction

Every society has those who are helpless and vulnerable such as the destitute, the disabled, the aged and the orphaned young and so on. The state has a responsibility towards them by ensuring that they provide them basic social economic benefits and services as the last resort (Green, 2008). The passing of numerous poverty alleviation policies has reaffirmed that the South African government is committed in putting into place a system which will ensure that no South African live in poverty (Hunter et al. 2013). The extent to which South Africa has progressively implemented Poverty Reduction Strategy programme (PRSP) was aptly described by Hunter et al. (2013:3) thus "South Africa offers an interesting case study that may assist in the analysis and implementation of PRSP in other African countries. South Africa has introduced many of the reforms expected of a PRSP, although the country is neither a highly indebted country, nor has prepared a PRSP. Indeed, the South African government has moved away from a broad strategic statement on poverty reduction and the Reconstruction and Development Programme (RDP) towards sector specific programmes governed by a macroeconomic strategy of structural adjustment (the Growth, Employment and Redistribution strategy, or GEAR). At the same time, despite its status as a middle income country, South Africa displays many of the socio-economic indicators of countries characterised as low income, and high inequality remains an intransigent problem."

Youth unemployment is one of the factors that escalate poverty and source of persistent social unrest and protests in South Africa (Seeda et al. 2009). Seeda et al. (2009:1011) described the situation in South Africa thus "violence and injuries are the second leading cause of deaths and lost disability-adjusted life years in South Africa. The overall injury death rate of 157.8 per 100 000 population is nearly twice the global average."

In the same vein, Yu (2012:2) described how unemployment is impacting on the youth thus "The persistently high unemployment rate has always been one of the most pressing socio-economic problems of the South African economy. There is a general consensus that unemployment is structural, as there is a mismatch between the skills demanded by employers for the available jobs and the skills supplied by the labour force seeking work. As there is an increase of demand for highly-skilled workers with the adoption of capital-intensive and technologically more advanced production processes, most of the unemployed are unskilled and not well educated."

It is important to point out that the problem of youth unemployment and unemployment generally is not peculiar to South Africa alone but a global crisis (Emmerij, 1994). According to The Consilium (2013), "In Europe, the youth

employment rate is more than twice as high as the adult one, with a staggering 22.7% against 9.2% in the third quarter of 2012. On top of this number, it seems to be hard for young people to keep a stable job (In 2012, 42% of young workers had a temporary contract and 32% only worked half time.)

In May 2012 during Youth Employment Summit, the International Labour Organization (ILO, 2012) reported that:

"75 Million young people were unemployed worldwide in the 2012;

- Globally young people are on average nearly three times more likely than adults to be unemployed; and
- Four out of every ten unemployed is a young woman or man

But unemployment is only the tip of the iceberg. It was further reported that:

- Inequalities, insecurities and vulnerability are rising;
- Quality of jobs available for youth is declining;
- Underemployment and poverty for youth is on the rise;
- Young workers are disproportionately represented in low paid work;
- Young workers are disproportionately concentrated in informal economy; and
- Temporary employment and lack of permanent employment for youth is rising. "

According to Bell and Blanchflower (2011), "youth unemployment is one of the most pressing economic and social problems confronting those countries whose labor markets have weakened substantially since 2008, following the near collapse of worldwide financial markets." Ortiz and Cummins (2012) described the situation as a 'ticking time bomb', the manifestation of which is apparent through various youth unrest and criminality.

Recently, The South African National Treasury (SNT) released its damning and disturbing report on youth unemployment and acknowledged that South Africa has an acute problem of youth unemployment that requires a multi-pronged strategy to raise employment, support inclusion and social cohesion. The National Treasury asserts that high youth unemployment means young people are not acquiring the skills or experiences needed to drive the economy forward. This inhibits the country's economic development and imposes a larger burden on the state to provide social assistance (SNT, 2011). The report revealed that,

"About 42 per cent of young people under the age of 30 were unemployed compared with less than 17 per cent of adults over 30.

- Only 1 in 8 working age adults under 25 years of age had a job compared with 40 per cent in most emerging economies.
- Employment of 18 to 24 year olds had fallen by more than 20 per cent (320 000) since December 2008.
- Unemployed young people tend to be less skilled and inexperienced – almost 86 per cent do not have formal further or tertiary education, while two-thirds have never worked."

Pursuant to the appalling revelation from the report above, there can be no doubt that youth unemployment in South Africa is a serious cause for concern. The damaging consequences are too ghastly to contemplate (Du Toit, 2003). Du Toit, (2003) observed that currently, a generation of young people in South Africa is caught in an inhumane dilemma that affects all spheres of their lives. Most of them have no prospect of a decent work-life that could enable them to earn an income, choose working activities that they would like to do, and be integrated into a socio-economic system whose stated aim is to benefit the majority of the nation.

According to Vavi (2012), it is evident that the persistently high rate of unemployment in South Africa is one of the most pressing socio-economic challenges facing the government and the question is what measures is the South African government taking to curb youth unemployment which has been described as a 'ticking bomb in South Africa..' The wage subsidy and job seekers' grant are currently two proposals by the African National Congress (ANC) that sparked an ongoing debate amongst different stakeholders in South Africa. These two proposals are aimed at reducing youth unemployment but critics are of a different view. Below is a discussion of these proposals.

The article therefore relies on and draws substantive insightful and useful information from the National Treasury Youth Unemployment: Policy Options for South Africa, 2011 to support and explain the meaning of wage subsidies and why efforts should be made to ensure its implementation in order to alleviate unemployment and create jobs. To this end, other policies documents of government and stakeholders and proposals of political parties were also considered, particularly the job seekers' grants proposal of the African National Congress (ANC).

## 2. Youth Wage Subsidy

Yu (2012:2) observed that in South Africa, "the unemployment rate is much higher amongst youths than amongst the older workforce. Also, youths are less likely to find employment and employed youths are relatively more likely to be

retrenched during recessions due to their lack of experience. The announcement by the Finance Minister in the February 2011 Budget Speech that a youth wage subsidy will be implemented in 2012 was based on the hope that the subsidy program would boost the labour demand for youths, and decrease youth unemployment."

According to Lee (2005), "it may be possible to raise net employment gains by wage subsidies by 20 to 30 per cent or more through effective targeting to specific disadvantaged groups and by closely monitoring behaviours of employers in order to prevent possible abuse of the subsidies,".

So what is this wage subsidy? Wage subsidies are incentives that aim to accelerate job creation and raise employment (Katz, 1996). They form a central feature of labour market policies in many countries through lowering the cost of labour to an employer or raising the wage a worker receives (Snower, 1994). This stimulates job creation and higher employment (Katz, 1996). Through assisting the unemployed get formal, well-regulated employment, employment subsidies also contribute toward the creation of decent jobs (SNT, 2011). According to the SNT (2011), youth unemployment discussion paper, "The objective of a targeted subsidy is to improve the employment prospects and opportunities for a particular group. It does this by reducing the costs of employing the targeted group relative to other groups thus making them more attractive for firms to hire them." According to the SNT (2011:28), "the youth wage subsidy in South Africa aims to address a number of the causes of youth unemployment. Firstly, the subsidy compensates employers for taking on young employees when the productivity of the new hire is unknown. In this case, the subsidy acts to offset the costs or risk associated with this information problem – allowing firms to identify high productivity workers at a lower cost. Those individuals, who are retained and now have work experience, are thus marked as high productivity workers and thus can more easily access other decent formal sector jobs. Secondly, the youth employment subsidy could offset the costs associated with skills development and improving workers' productivity by making the training of young workers more affordable to employers. Training in job- or firm-specific skills would also improve the employability of young people and raise their probability of future employment. Thirdly, the wage subsidy may encourage active job-search attitude in youths as it will increase their employment probability, confidence and belief that they will be able to find work."

Several middle income countries including Chile, Korea, Mexico, the Slovak Republic and Turkey have adopted wage subsidies as a result of rising unemployment during the global economic crisis. Accordingly Chile introduced an employment subsidy for the hiring of those aged 18 to 24 years while Korea is providing wage subsidies to Small and Medium sized Enterprises (SMEs) for new hires, interns, as well as those that convert from irregular to regular job (SNT, 2011).

There are various forms of wage subsidy. (SNT 2011:24) described them thus "They can be provided to employers to raise labour demand by reducing the cost of labour (employer-side subsidies) or given to employees to promote labour supply through increasing the returns to employment and hence improving the incentives to work (employee-side subsidies). The subsidy can also be a direct transfer, a reduction of or exemption from social security contributions, or paid as an income tax credit. It can be provided to those already employed or to new hires (SNT 2011:24).

In South Africa, the youth wage subsidy was first introduced by the Finance Minister, Privan Gordhan in 2011. The youth wage subsidy aims to subsidise 423 000 new jobs for young and less skilled people aged between 18 and 29 years old. It was announced that it would cost R5-billion in tax expenditure over three years (SNT, 2011).

The wage subsidy would reduce the financial cost of firms hiring youths without knowledge of their productivity and, at the same time, make the training of those employees more affordable. In addition, as the Treasury research paper suggested, the wage subsidy would encourage job seekers to become more active in their job search. The wage subsidy has been subject to heated and robust debates as some welcomed it while others criticized it.

SNT (2011) shares the view of Lewis (2001) and alluded to the fact that the employment subsidies are appealing because they target job creation directly unlike indirect measures aimed at improving the quality of workers entering the labour market. This is important since deficient labour demand is one of the main problems youths encounter..

The high rate of youth unemployment in South Africa suggests that demand for young workers is insufficient and cannot absorb the rising number of job-seekers entering the labour market (SNT, 2011:24). These features of the labour market indicate that an incentive scheme such as an employment subsidy that encourages firms to hire young workers is appropriate for South Africa and has a high potential to create decent jobs (SNT 2011:24). Employment subsidies operating through the tax system also rapidly reaches a scale that cannot be achieved by targeted administrative schemes generating much greater potential for employment growth (SNT, 2011:24).

It has been argued that the magnitude of the employment challenge in South Africa, particularly among its youths, suggests that an employment subsidy is an appropriate policy intervention to boost labour demand (SNT, 2011:37). The proposed youth employment subsidy would lower the costs to employers of hiring young workers, stimulating

employment creation and improve young people's access to decent jobs in important, well-regulated and potentially rapidly growing sectors of the economy such as agriculture and manufacturing, albeit at relatively low pay levels upon entry (SNT 2011:37).

The worrying concern is that, instead of giving implementation a trial, regrettably, the youth wage subsidy proposal, has since stalled at National Economic Development and Labour Council (NEDLAC). However in his recent State of Nation address, President Jacob Zuma stated that "just over a third of the population is under the age of 15. Our country, like many others has a crisis of youth unemployment...I have asked constituencies at NEDLAC to discuss youth employment incentives. I am pleased that discussions have been concluded and that agreement has been reached on key principles. The parties will sign the Accord later this month. The incentives will add to what Government is already doing to empower the youth." It is worthy to mention that till date, the implementation of the programme is yet to take off.

### 3. Job Seekers' Grant

Job seekers' grant is another proposal that is equally sparking debates in South Africa. The job seekers' grant was proposed in the social transformation policy discussion document of the ANC issued in March, 2012. The social transformation policy discussion document, youth unemployment pointed out that "In seeking to address youth unemployment which can be arguably attributable to the structure of the South African economy it would be important to further develop strategies to ensure the improvement of education and skill levels amongst young people so that they are better prepared for the world of work. To complement these, measures to support young people who are actively seeking employment, possibly through a job seekers' grant that is linked to compulsory skills development programmes, should be explored." This discussion document does not differentiate between the youth wage subsidy and job seekers' grant.

The ANC 53<sup>rd</sup> national conference that took place in 2012 at Mangaung has noted that "the Youth aged 15–24 years account for almost 20% of the country's population while those aged 15–34 years account for 37%. The majority of the youths are poor and more than half of all 18–24 year olds lived under the lower bound poverty line of R604 per month in 2011 (ANC, 2012)." It was also observed that "more than two-thirds of the youths live under the higher bound poverty line of R1 113 per month and that about half are unemployed and about two thirds are inactive. Further noted is that employment projections show that even if average annual growth were to rise to 5%, unemployment amongst 15–24 year olds would be 44% and 31% by 2020 and 2030 respectively, in the absence of special other interventions (ANC 2012)" Youths are unduly burdened with all key social challenges including unemployment, substance abuse and HIV and Aids prevalence (ANC 2012).

The question is whether the introduction of Job seekers' grants is a replacement of the youth wage subsidy? Is the introduction of Job seekers' grant an indication that Youth wage subsidy will fail? These questions are relevant because both policies seem to have the same objective, to address youth unemployment in South Africa. Although the ANC has denied that the job seekers' grant is a replacement of the youth wage subsidy, critics seem to think otherwise.

The Minister of Finance in his 2013 budget speech stated that "And following careful consideration of inputs from various stakeholders, a revised youth employment incentive will be tabled in the House, together with a proposed employment incentive for special economic zones." It would seem that both the young wage subsidy and the job seekers' grant policies have not been ruled out, and from the State of Nation address and the Budget Speech 2013, both incentives may be implemented. What is left to be seen is whether the incentives are able to curb youths' unemployment as intended. Because we anticipate poor service delivery just like any other services or implementation of government policies in South Africa, whenever the wage subsidies will commence, we recommended that the implementation of these incentives should be evaluated annually to determine whether their objectives are being met. Corruption and abuse of these incentives should not be overruled; in this regard we recommend that the responsibilities of each role players in these incentives should be clearly outlined so as to ensure accountability.

### 4. Conclusions and Recommendations

It has been vehemently asserted that the "magnitude of the youth employment challenge facing South Africa means it cannot be resolved by a single employment policy. A combination of interventions, or multi-pronged approach, is likely to offer the greatest potential for young people to gain decent work opportunities and alleviate youth unemployment" (SNT, 2011).

Is the introduction of the job seekers' grant and the youth wage subsidy the right approach to reduce poverty in South Africa? The answer to this question raises other concerns, whether South Africa can afford to sustain these

incentives in the long term? These questions can spark further debates. Standing and Samson (2003) rightfully pointed it out that "it is not helpful to allow the debate on this serious situation to degenerate into a cycle of point-scoring against government, combined with defensiveness and denial by officialdom, which leads to myopia around the reality of the problem. Objective analysis of the role of current policies in addressing the crisis needs to identify."

- The role of existing policies in ameliorating the problem(i.e., without which the situation would in fact be worse);
  - The role of existing policies in perpetuating the problem;
- Gaps in current policies which need to be addressed (Standing and Samson, 2003).
- The Taylor Committee, in summarizing the massive gaps in the social security systems concluded that (Standing and Samson, 2003):

"There is no income support for children between 7-18 years, adults between 18 and 59 years, (or) general household assistance where no-one is employed. Over 13 million people live below the poverty line and have no access to social security. As such, South Africa's social security system is neither comprehensive nor adequate."

The growth of unemployment and poverty mean that the existing social security system has to support more people and that other forms of social support for the poor are coming under greater stress. In 2011, President Jacob Zuma stated that South Africa "...cannot be a Welfare State. We cannot sustain a situation where social grants are increasing all the time and think it can be a permanent feature." With the Introduction of the youth wage subsidies, the job seekers' grants and basic grants; it would seem that South Africa is moving towards being a Welfare State if it is not yet one.

## References

- ANC 2012. African National Congress-South Africa Social transformation policy discussion document.
- Bell DNF, Blanchflower DG 2011. , Youth Unemployment in Europe and the United States. From <http://ftp.iza.org/dp5673.pdf>. (Retrieved, April 17, 2013).
- Du Toit R 2003. Unemployed youth in South Africa: the distressed generation? From [http://152.112.253.5/research/output/outputDocuments/2286\\_DuToit\\_UnemployedyouthinSA.pdf](http://152.112.253.5/research/output/outputDocuments/2286_DuToit_UnemployedyouthinSA.pdf). (Retrieved January 16, 2013).
- Emmerij L 1994. Employment Problem and the International Economy, *International Labour Review*, 133:449-61.
- Green D 2008. *From poverty to power: How active citizens and effective states can change the world*, Oxfam International Publishers, Quebec, Canada.
- Hunter N, May J, Padayachee V 2003. Lessons for PRSP from poverty reduction strategies in South Africa. From <http://sds.ukzn.ac.za/files/wp39.pdf>. (Retrieved September 13, 2013).
- ILO, 2012. Youth employment summit: South Africa held on the 7th and 8th of May 2012 at the Birchwood Hotel and Conference Centre, Johannesburg, South Africa.
- Katz LF 1996. Wage subsidies for the disadvantaged. From <http://www.nber.org/papers/w5679>. (Retrieved July 6, 2013).
- Lee J 2005. Evaluation and Lessons from Wage Subsidy Programs in OECD Countries, Directorate of Employment, Labour and Social Affairs. OECD. Paris.
- Lewis JD 2001. Policies to promote growth and employment in South Africa. From [http://www.tips.org.za/files/Policies\\_to\\_Promote\\_Growth\\_and\\_Employment\\_in\\_South\\_Africa.pdf](http://www.tips.org.za/files/Policies_to_Promote_Growth_and_Employment_in_South_Africa.pdf). (Retrieved May 9, 2013).
- Ortiz I, Cummins M 2012. When the global crisis and youth bulge collide: double the jobs trouble for youth. From <http://dx.doi.org/10.2139/ssrn.2029794>. (Retrieved June 5, 2013).
- Seedat M, Van Niekerk A, Jewkes R, Suffla S, Ratele K 2009. Violence and injuries in South Africa: prioritising an agenda for prevention, *The Lancet*, 374(19):1011-1022.
- Snower DJ 1994. Converting Unemployment Benefits into Employment Subsidies, *The American Economic Review*, 84(2):65-70.
- SNT, 2011. The South Africa National Treasury, youth unemployment: policy options for South Africa. From <http://www.treasury.gov.za/documents/national%20budget/2011/Confronting%20youth%20unemployment%20-%20Policy%20options.pdf>. (Retrieved October 4, 2013).
- The Consilium 2013. Youth Unemployment: A Ticking Time Bomb Heralding the End of the European Golden Age, Kulumun, An International Magazine for Muners. From [http://newswire.kulmun.be/kulmun12\\_edition/youth-unemployment-a](http://newswire.kulmun.be/kulmun12_edition/youth-unemployment-a). (Retrieved December 29, 2013).
- Vavi Z 2012. Rejects youth subsidy. From <http://www.citypress.co.za/news/vavi-rejects-youth-subsidy-20120515-5/>. (Retrieved April 7, 2013).
- Yu D 2012. Youths in the South African labour market since the transition: A study of changes between 1995 and 2011. Stellenbosch Economic Working Papers: 18/12, A working paper of the department of economics and the bureau for economic research at the university of Stellenbosch.
- Zuma JC 2011. We cannot be a Welfare State'23 November 2011. From <http://www.reuters.com/article/2011/11/24/ozatp-safrica-zuma-welfare-idafjoe7an04c20111124>. (Retrieved January 22, 2014). (Retrieved June 8, 2013).