

A YOUTH WAGE SUBSIDY EXPERIMENT FOR SOUTH AFRICA

Key Messages:

- Getting young people into jobs earlier can have a sustained impact.
- How the subsidy is administered matters.
- Appears to be a relatively cheap intervention to administer.

BACKGROUND

IMPACT EVALUATION

FINDINGS

POLICY LESSONS

BACKGROUND

Unemployment and in particular youth unemployment is arguably one of the most pressing socio-economic issues facing South Africa. Over 3 million young people in South Africa are classified as unemployed. This translates to a youth unemployment rate of 34.7 per cent and represents 72 per cent of overall unemployment (Stats SA, QLFS, September 2009).

The importance of boosting job creation and increasing youth employment is at the centre of the government's economic agenda. A youth wage subsidy can help to solve the problem of information asymmetry by reducing the risk associated with employing young inexperienced workers, fostering long-term employability within the young workers.

The youth wage subsidy experiment is a collaborative effort between the National Treasury, Department of Labour and the African Microeconomic Research Unit at the University of the Witwatersrand. It aims to inform policy discussions by providing evidence on the potential role a wage subsidy can play in alleviating youth unemployment.

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- Youth unemployment in South Africa represents 72% of overall unemployment

IMPACT EVALUATION

This evaluation study looks at whether reducing the initial cost of labour overcomes this problem, and improves employment and longer-term employability. The study is a randomised control trial where a sample of 4 000 young South Africans aged 20 to 24 years are split into a treatment and control groups with the former eligible for a R5 000 subsidy. Re-surveying the sample will allow a comparison in outcomes between those that received the subsidy and those that did not. The analysis aims to gain an estimate of the extent to which a wage subsidy for the youth can indeed improve employment outcomes.

IMPACT EVALUATION continued

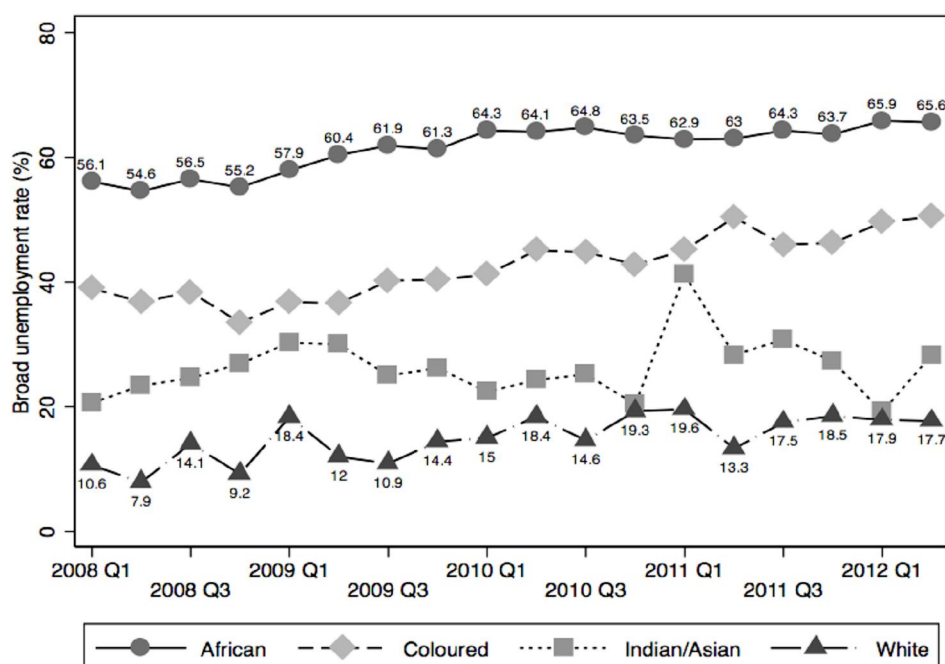
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The idea of targeting wage subsidy at the youth was suggested by the International Growth Advisory Panel (IGAP). The panel argued that one of the reasons for high youth unemployment was that potential employers often use work experience as an important indicator of ability, which young people struggled to gain. The information asymmetry could help explain the large number of unemployed young South Africans who spend prolonged periods without a job after leaving education.

The National Treasury, Department of Labour of South Africa and the University of the Witwatersrand carried out an experiment to provide a youth wage subsidy to unemployed workers in the provinces of Gauteng, KwaZulu Natal and Limpopo. A sample of 4,000 unemployed and non-economically-active individuals aged 20 to 24 was randomly selected from clusters or from Department of Labour Centres. The sample was randomly split between a control and a treatment group using a pair wise matching strategy on age, cluster and education.

The study uses difference-in-difference techniques to estimate the programme's impact on the probability of finding a job. Data come from a household baseline survey and from follow-up surveys conducted after 1 and 2 years of the programme.

Table 1: Distribution of unemployment rates among South African youths



FINDINGS

Results indicate that the voucher had no impact on labour force participation. This suggests that those in school who were allocated the voucher did not leave school to look for jobs, alleviating one of the concerns raised by Levinsohn (2008). It did have an impact on wage employment though. Those in the voucher group were significantly more likely to be in employment one year after the allocation of the voucher even after controlling for being in wage employment in the previous period (2010).

In the study very few firms actually took up the voucher (22 firms), although a larger number enquired about the voucher (an additional 16). Enquiring about the voucher may be a signal of its efficacy since firms may have hired individuals based on the voucher but not have taken it up once they learnt of the process they had to go through.

Interviews with firms and young people suggest that firm take up was low for a number of reasons: the young people did not even get a chance to show the voucher to someone who makes hiring decision; the administrative burden associated with claiming the money, although not onerous, could not be overcome (for example, larger firms did not have a process for accepting subsidy money, human resource functions were centralised and HR had little incentive to engage in the process of claiming the voucher); or managers or firm owners questioned the legitimacy of the voucher. This suggests that any wage subsidy policy at a national level would need to be widely advertised and information and support provided to firms that would like to claim the subsidy. It may also be that the subsidy was too low to persuade firms to employ unskilled young people.

POLICY LESSONS

1. There is a need to create policies that get young people into jobs earlier as this can have a sustained impact
2. How the subsidy is administered matters. There is a need to lower the administrative burden to businesses perhaps by introducing tax incentives.
3. The amount and duration of the subsidy might also matter. The amount should be increased by at least 20% with a longer duration.
4. Young people may not respond as expected as they queue for better jobs and have different expectations.
5. Seems like a cheap intervention. With rates observed in the experiment the cost per new job is significantly (more than half) that of existing programmes
6. The Youth Wage Subsidy alone is not going to create a large number of new jobs. There is need other policies and labour market reform

FOR FURTHER INFORMATION Visit www.treasury.gov.za

REFERENCES:

Levinsohn, J., 2008. Two Policies to Alleviate Unemployment in South Africa. *Center for International Development at Harvard University Working Paper* 166.