Wage subsidies and youth employment in South Africa: Evidence from a randomised control trial

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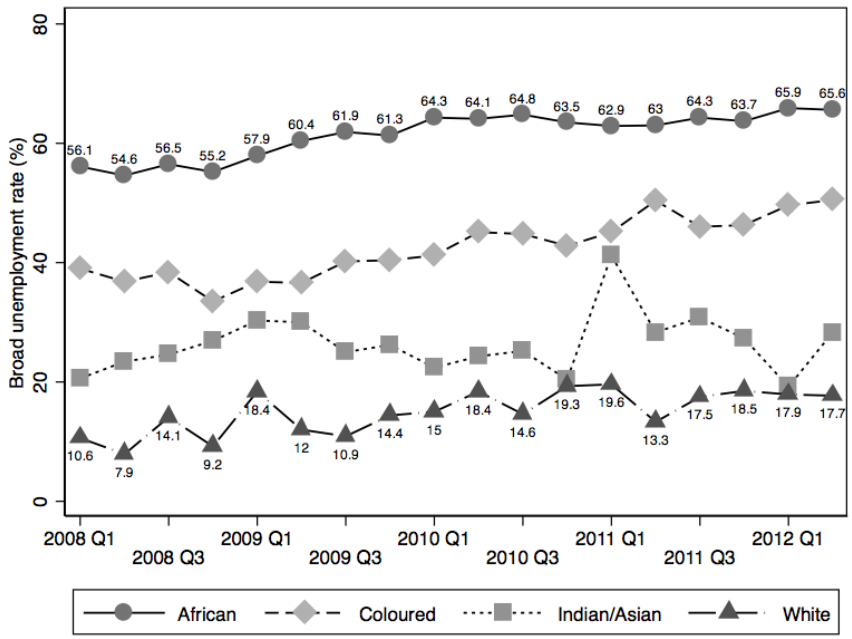
Why a youth wage subsidy in South Africa?



- South African youth unemployment is high and increasing
- Previous work experience correlated with having a job, and having a job is correlated with being non-poor
- Wages cannot fall due to institutional bargaining structures in labour market and factors such as distance
- Uncertainty about current productivity signals which young work-seekers possess
- Firms need to be ‘encouraged’ to hire young workers

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But….it is controversial

Opposition march in support of wage subsidy

Source: http://www.iol.co.za/business/business-news/gallery-da-marches-on-cosatu-1.1297398

Why?

- Replacement of existing workers by subsidised workers;
- Encourage young people to leave school to look for jobs;
- Subsidised jobs will be ‘bad’ jobs;
- Will discard young people once the subsidy ends
- Further support for already profitable business

Useful to have some idea of how firms and young people may react

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What do we do?

- A randomised control trial among young South Africans
- Approximately 1,500 get a ‘voucher’ which entails an employer to claim approximately 40% of median youth wage (2010)
- Follow up one (2011) and two years (2012) later and measure outcomes like employment, length of employment and wages
- Interview firms which employ the young people in the sample as well as a broader sample of firms as a comparison to the firms hiring young people
- Ask questions about substitutability, hypothetical responses, why not taken up voucher

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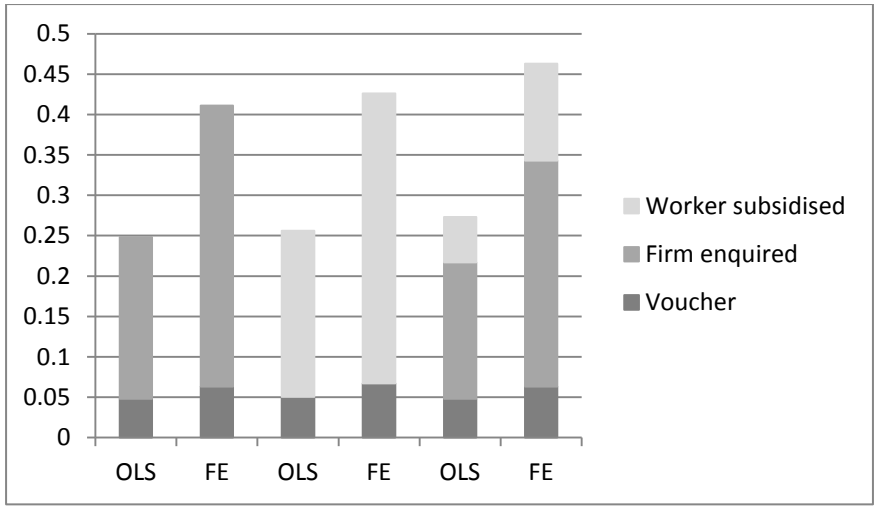
Impact?

None:

- Labour force participation (did not leave school)
- Wages (not worse jobs)

Percentage point impacts one year post allocation



Positive:

- Substantially more likely to be in wage employment (more than 50%)
- Employment length
- Effects persist

Firms:

- Very few claim the voucher
- Smaller firms
- Cannot say whether these are new jobs
- Report that they do not substitute

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More puzzles?

- Low firm take-up
  - Administrative burden

- Large impact for those who used and understood the vouchers

- BUT some impact remains even after controlling for firm interest

- Some (approximately 20% of impact) explained by individuals in the control group, with other people in the household working, turning down job offers

- Still cannot explain approximately half of the observed impact
  - NOT changes in search behaviour or intensity
  - NOT attrition

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Household characteristics matter

- Ways young people search/get jobs is often different from how firms recruit

- Most common way to find a job is through networks

- BUT many young people do not have access to these since they do not have people in the household who are working

- The experiment shows that those with earners in households who received a voucher:

    - Spent less time searching;
    - Approached fewer firms;
    - Were less likely to turn down job offers;
    - Were more likely to hear about a job through social networks.

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Outcomes after the subsidy lapsed

- Two years after allocation, when the subsidy was no longer valid, those in the treatment group were still 5-8 percentage points more likely to be in wage employment

- They have about 45 days more work experience

- No statistical significant difference in wages or chances of promotion

- The voucher had an impact two years after allocation
    - Young people were able to retain the jobs they entered or transition to other jobs
    - They were not ‘discarded’ once the subsidy ended

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Policy implications

1. Getting young people into jobs earlier can have a sustained impact
    - Need policies to do this

2. No evidence of some of fears:
    - Exit from education
    - Worse jobs
    - Substitution
    - ‘Exploitation’ of young workers

3. How the subsidy is administrated matters
    - Lower the administrative burden (tax incentive)

4. The amount and duration of the subsidy might also matter
    - Higher amount (by about 20%)
    - Longer duration – 1 year with extension at lower rate to 2nd year

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(More) Policy implications

5. Young people may not respond as expected
    - Queue for better jobs, expectations

6. May be other constraints in the labour market
    - Liquidity
    - Information

7. 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

8. Not going to create a large number of new jobs
    - 88,000
    - Need other policies and labour market reform

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Current situation

- In December 2013 the President signed the Youth Employment Tax Incentive into law
- This became operational in January 2014
- Higher amounts than the subsidy we tested, longer duration (up to two years)
- Broader target group (18-29)
- Tax incentive
- Treasury claims approximately 50,000 young people have been hired (or registered)

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