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10 Concerns about the Employment Tax Incentive Bill which seeks to introduce a youth wage subsidy for businesses

**Submission to National Treasury (Government of the Republic of South Africa)
by Equal Education**

14 November 2013

Introduction

Equal Education (EE) has serious concerns about the [Employment Tax Incentive Bill](#), which has been passed by Parliament on 31 October 2013, and awaits the President's assent before becoming law.

This submission builds on EE's [previous submission](#) to Treasury on the earlier [Draft Employment Tax Incentive Bill](#), published on 20 September 2013.

The proposed law is unlikely to have a significant effect on youth unemployment, a gigantic problem facing South Africa, but one affecting most countries and the global economy as a whole. In South Africa approximately 3,4 million (32,9%) of the 10,4 million youth aged 15 – 24 are not in employment, education or training, according to [the latest Quarterly Labour Force Survey](#). Any move to improve the situation should be welcome, but we are concerned that the Bill fosters illusions about how youth unemployment in South Africa can be addressed.

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EE is a movement of learners, parents, teachers and community members working for quality and equality in South African education. The vast majority of the organisation's members are youth. EE views efforts to address youth unemployment as important because they have a direct impact on the organisation's members, and because alignment between effective policies to address educational and labour market challenges is crucial.

What is the proposed Employment Tax Incentive?

This policy was previously known as the Youth Wage Subsidy.¹ It is an amount which will be given by government to private businesses. Businesses will earn the amount for each worker they hire who is aged 19 to 29 and is earning between R2000 and R6000 per month.² This applies for two years, with the amount being halved in the second year. For a worker earning between R2000 and R4000 per month the amount paid by government to the business is R1000. For a worker earning over R4000 the amount decreases. Businesses receive the amount as a deduction from what they pay over in income tax on behalf of their employees each month. The scheme is therefore administered by SARS and businesses need to be registered with SARS to qualify. The government says the scheme will promote employment of low-skilled young people.

PROBLEM 1: On the available evidence the likely impact on unemployment is fairly low

The Employment Tax Incentive, known previously as the Youth Wage Subsidy, has been campaigned for as if it has the potential to significantly address youth unemployment, and to do so by tackling unemployment at its root cause. Neither of these claims is supported by the evidence.

The opposition Democratic Alliance's campaign for the Youth Wage Subsidy claimed that it would create 400,000 new jobs. The Treasury document (2011) on ['Confronting](#)

¹ This document uses 'subsidy' and 'incentive' interchangeably.

² The R2000 minimum could vary up or down if there is a sector determination issued by the Minister of Labour in terms section 51 of the Basic Conditions of Employment Act or a bargaining counsel agreement extended by the Minister of Labour in terms of section 32 of the Labour Relations Act. See section 4 of the Bill.

[Youth Unemployment: policy options for South Africa](#), actually said that 400,000 jobs would be created but that only 178,000 of these would be new (i.e. jobs that wouldn't have been created anyway) of which 133 000 are estimated to be 'sustainable' (i.e. jobs lasting longer than 6 months).

But 133,000 is likely to be optimistic. The World Bank Development Report 2013 warns that, typically, many of the "new" jobs created by a wage subsidy are created by retrenching existing workers to take advantage of the subsidy. These are called substitution effects. (We discuss below the provisions in the Bill intended to avoid substitution effects.) Moreover, the Report argues that, "The real costs of wage subsidies are often hard to calculate; the direct toll on the public purse is only part of the story" and most wage subsidy schemes assumptions prove to be unrealistic. The Report therefore concludes: "Proper cost accounting can reduce the estimated employment impact of wage subsidies by up to 90 percent. *Aggregate employment effects are hence low at best*" (our emphasis).³

Wage subsidies have been tried in many countries. The balance of international research shows weak or poor results, unless the country was already experiencing a period of growth.

The 2011 Treasury document, referred to above, cites fairly positive evidence. However there are seven problems with the evidence cited by Treasury:

First, the evidence is 'micro' in focus, i.e. it looks at whether the subsidy was successful in getting the target group employed relative to other groups, not if the policy had an overall positive effect on employment or the economy.

Second, the studies referenced by Treasury often refer to examples of 'active labour market policies', or policies which involved more than just a wage subsidy. Therefore the impact of the specific wage subsidy policy is not necessarily isolated in the selected research.

³ For studies cited in the World Bank Report see Calmfors and Martin & Grubb references in bibliography, marked Ø.

Third, many of the examples Treasury draws from are over a decade old. Their value is somewhat diminished due to significant changes in the dynamics of labour markets (Autor, 2012). In the case of South Africa, the number of jobs available for those with a primary education or less has shrunk by around 770 000 since 1993, according to Leibbrandt and others (2010), while over 2.5 million *additional* jobs have been created for more educated workers (defined as those with at least a Grade 12 qualification). Therefore, some of the studies cited by Treasury have been contradicted by more recent studies. For example, O’Leary (1998), who presents optimistic results from a Polish program, is directly contradicted by more recent research using more rigorous data (Kluve, Lehmann & Schmidt 2007). The same is the case for the German precedent. Treasury’s source, Jaenich & Stephan (2007), is directly contradicted by a later study, by Schünemann, Lechner & Wunsch (2011:20).

Fourth, the Treasury’s body of evidence is predominantly derived from moderately or strongly advanced economies. Of the 13 case studies cited by the Treasury only one, Colombia, would have strong similarities with South African circumstances. No attempt is made to problematise the comparisons.

Fifth, the Treasury document consequently omits discussion of most of the available international literature particularly that focused on the implications for developing nations. Dar & Tzannatos (1999:ii), for example, review evaluations of Active Labour Market Programs (ALMPs)⁴ in 100 countries and find:

‘While it can be argued that the lessons from developed countries on the effectiveness of these programs may not be directly applicable to developing countries, it is unlikely that these programs will be more successful in developing countries given the scarcity of administrative capacity to implement these programs and the paucity of monitoring and evaluation experience to study their effectiveness.’

Analysing 159 studies in a World Bank discussion paper, Bechterman, Olivas and Dar (2004:42) find that,

⁴ Active labour market policies (ALMPs) are government programmes that intervene in the labour market to help the unemployed find work.

‘The clear majority of subsidy programs do not appear to have net positive impacts on the longer-term employability or earnings of participants. This is particularly the case for developing and transition countries where the limited evaluation evidence is uniformly negative.’

Smith (2006:41), who focuses on the applicability of ALMPs for SA, argues ultimately that,

‘[T]he accumulation of available evidence is discouraging – the evaluations reviewed here suggest any of the employment effects from firm-side subsidies that do exist are small. This is not a new conclusion, as similar reviews by other researchers concluded that employer-side subsidies are cost inefficient because they subsidise hiring that would have occurred anyhow – and if the subsidy is targeted towards workers of specific characteristics, it may simply induce substitution by the employer from untargeted to targeted workers.’

Thus the balance from international experience weighs heavily against a youth wage subsidy. It becomes incumbent therefore on proponents to explain what particularities of the South African labour market may provide for happier outcomes. But the Treasury’s document does not do this.

The growing body of evidence against the efficacy of wage subsidies is reflected in the Financial Times (FT) repeatedly questioning why the British government has embarked on wage subsidies at present despite the evidence noting that their efficacy will be minimal under conditions of low growth. In June of this year the [FT reported](#) on the failure of a youth wage subsidy policy in the UK: ‘In a survey of 200 employers by the Recruitment and Employment Confederation, none said it had used a wage incentive of £2,275 on offer employing a young person who had been out of work for several months.’ Then in July the [FT reported](#) on new data from the scheme and concluded that ‘at the current rate it looks as though it will come nowhere near meeting its own assumptions about the scheme’s demand.’

In this light it is unsurprising that the World Bank and other institutions have changed their emphasis away from wage subsidies and towards programs which encourage structured skills development.

Sixth, the Treasury document incorrectly summarises the conclusions of many of the examples it draws on.⁵ As COSATU (2012) has pointed out, some of the studies cited by the Treasury have misleading citations, and in fact conclude firmly against the use of wage subsidies. Sweden is the notable example, especially important given the overall size of its subsidy program, which Larsson (2003) concludes had negative net employment effects on participants due to stigma effects.⁶

Bechterman & Daysal (2009:1), cited by the Treasury, appear to give very encouraging estimates of overall job increases from subsidy programs in Turkey, but in fact conclude that, “the evidence suggests that the dominant effect of subsidies was to increase social security registration of firms and workers rather than boosting total employment and economic activity”.

Other sources are more tentative than suggested by the Treasury’s policy document. Katz (1996) finds very marginal employment probability gains from a targeted subsidy scheme in the US, but argues that further investigation is merited.

Seventh, the Treasury’s document does not meet basic standards of academic rigour. In its review of the Czech Republic the document cites Leetma et al. (2003) to the effect that subsidy programs resulted in a 9% net increase in employment. In fact that paper, as the title makes clear, examines Estonia. It also doesn’t venture estimates for subsidy programs given that the study included only four participants.

Government is thus proceeding with this policy experiment despite considerable evidence to the contrary, and a lack of detailed evidence for its positive aggregate effects.

⁵ Reddy, Niall and Strauss, Ilan. ‘Treasury Evidence on Youth Wage Subsidy Suspect’, *South African Labour Bulletin*, Vol 36 Number 3: 45-48, August/September, 2012.

⁶ This section draws on Strauss and Reddy (2012) and Reddy (2014).

A South African researcher recently conducted a trial run to evaluate the likely impact of a youth wage subsidy, and concluded as follows:

'Incentives to create employment for young people are unlikely to generate the large numbers of jobs required to substantially reduce youth unemployment rates. But they do seem like a relatively cheap and effective way to create some employment, particularly when compared to other government schemes. They increase young job seekers' likelihood of being employed and increase the length of time young people remain in employment. As such, the introduction of such an incentive is an opportunity to experiment with, to evaluate and to improve policy design to create jobs for young people.'⁷

However this study failed to assess whether *total* employment was higher as a result of the subsidy. It therefore is of no use to the question of whether the subsidy would increase employment overall. It merely describes employment of the 'control' group (those who received the subsidy) relative to the 'treatment' group (those who did not).

Interestingly, the firms who hired the subsidised workers did not even claim the subsidy in most instances. The study says that "despite a significantly higher proportion of voucher holders becoming employed, only a relatively small number of the employing firms eventually chose to claim the subsidy". This seems to indicate that the subsidy was not a relevant determinant in the hiring of that worker by the firm, from the point of view of the businesses. Perhaps those workers who knew their employment would be subsidised simply looked harder for work. In this regard it is interesting to note that in the trial run workers were given vouchers, something that will not happen under the legislation, and so this side-effect – if that is what happened – would be unlikely to repeat itself. The study in fact acknowledges that while "pretty close" it "does not constitute a direct test of the proposed employment incentive format".

The international evidence is somewhat mixed, but the majority of it suggests that a youth wage subsidy will have a negligible positive impact under current economic conditions.

⁷ Rankin, Neil 'The impact of youth employment incentives and wage subsidies: results of a trial run' *Econ3x3* 29 October 2013.

PROBLEM 2. To reduce unemployment we need a growing economy

The success of the wage subsidy is inseparable from broader economic conditions (see studies cited by World Bank, 2013)⁸. If there is significant growth the subsidy may induce greater and more labour intensive investment outlays and thus lead to higher job creation than would otherwise be the case. If there is no growth firms may simply increase mark-ups over labour – absorbing the subsidy as profit. The subsidy then mainly subsidises jobs that would have existed or been created anyway. In other words it subsidises company profits without tackling unemployment.

PROBLEM 3. There is a danger that the subsidy can cause displacement of existing workers, also known as substitution or ‘churning’

As explained above, “new” jobs can potentially be created by businesses looking to benefit from the subsidy by retrenching existing workers to hire new workers. Treasury has said this will not happen because it doesn’t make “business sense”. But replacing existing workers with cheaper, less organised workers is, for some, precisely what makes “business sense”. In a recent trial run of the youth wage subsidy 21% of businesses admitted that they would replace non-subsidised workers with subsidised workers.⁹ Surely it can be assumed that the real number would be higher, since many firms would not want to admit this. Similarly, the rise of labour brokering suggests that many businesses which need low-skilled labourers – the group targeted by the wage subsidy – prefer labour-power as a transient commodity than as a relationship of employment in which employees have the full protections of the Labour Relations Act 66 of 1995 (“the LRA”) and other legislation applicable to employees.

The Bill does not require businesses to show an actual increase in overall employment. So in theory a business could actually be cutting net jobs by hiring a smaller number of “new” workers to replace a larger number of existing workers, and receive the subsidy for doing so.

⁸ These studies are marked with ‡ in the bibliography of this document.

⁹ See note 6 above.

The proposed law is supposed to protect against such dismissals. Government [stated last week](#) that it, Government, “will ensure that the implementation of the Bill will not lead to a potential hiring bias towards younger people where older employees could easily be replaced.” This will be exceedingly difficult on the terms of the Bill in its current form.

The means to hold businesses accountable are even weaker in the final Bill than they were in the Draft Bill.

The Draft Bill provided that if it was found that a “dismissal was made for the purpose of enabling the employer to comply with the criteria for the employer to receive the incentive” the business would be fined 150% of the “total amount of the employment tax incentive that the employer received ... during the 12 months preceding the finding” and be disqualified from receiving it in future.

The final Bill provides instead for a fine of R30,000. In comparison to the Draft Bill, which would have fined equal to 150% of the subsidies received on all workers, which could have cost a large business hundreds of thousands of rands, the R30,000 figure seems pitiful and not much of a deterrent. The final Bill further provides that the Minister of Finance ‘may’ disqualify a business by publishing an official notice in the Government Gazette, ‘after taking into account the number of employees that have been displaced by the employer and the effect that the disqualification may directly or indirectly have on the employees of the employer.’

Whereas an employer would previously have been disqualified after one court or CCMA ruling that there had been intentional displacement of a worker, now the number of employees displaced must be taken into account. Clearly one breach may not be enough to merit disqualification. How many separate dismissed workers might need to succeed in separate and successful proceedings against a company to get the Minister of Finance’s attention?

Furthermore the final Bill requires that the ‘effect that the disqualification may directly or indirectly have on the employees of the employer’ must be taken into account. The logic here is that disqualifying a company from receiving the subsidy may imperil the

jobs of new young workers that have come on board thanks to the subsidy. A worker displaced in favour of a qualifying employee will therefore not be able to hold the business properly to account because the business is able to hide behind the wellbeing of the very employee for whom the dismissed worker was displaced. There is something Orwellian about this. The only time the Bill concerns itself with the welfare of the general employees is when the employer's position is in question.

The net effect of these additional requirements is to make it impossible to imagine any business ever being disqualified by the Minister of Finance. It seems reasonable to assume that this is unlikely to ever happen.

The country should therefore not be deceived into thinking that there is any real protection for the jobs of existing workers.

The Bill also does not say which party bears the burden of proof in regard to all of the above, should these issues be dealt with at the CCMA, a court, or in arbitration proceedings. Ordinarily, an employee bears the onus to prove that he was dismissed, and the onus then shifts to the employer to prove that the dismissal was fair.¹⁰ If a dismissed employee will bear the onus to prove that he was "replaced", this will be a difficult onus to discharge and place employees at greater risk of such dismissals.

The problems with this section of the Bill go further though. There seems to be a major drafting error in section 5(2). This relates to the crucial matter of how to know when an employer will be "deemed" to have "displaced" an employee.

To understand the apparent problem with the present Bill it is necessary to go back to the corresponding section in the Draft Bill. Section 5(1) of the Draft Bill was incomprehensibly drafted, but its logic, explained in the Explanatory Memorandum, appears to have been this: the penalties discussed above would be triggered against an employer if a dismissal was found by a court or the CCMA to have been an automatic unfair dismissal in terms of section 187(1)(f) of the LRA (the section which proscribes unfair discrimination as a ground of dismissal). What the Draft Bill attempted to do, in essence, was to add a new ground of unfair dismissal to section 187(1)(f) of

¹⁰ Section 192 of the LRA.

the LRA, being dismissal for the purpose of enabling the employer to hire another worker in order to comply with the criteria for receiving the incentive.

But the logic of the present Bill is quite different. It clearly requires that, for potential penalties against an employer to be triggered, a dismissal must meet the *existing grounds* of unfair discrimination listed in section 187(1)(f) of the LRA and be an instance where the employer “replaces” the dismissed employee with an employee in respect of which the employer is eligible to receive the incentive. This seems to mean that there are now two separate requirements that must be met, whereas in the Draft Bill the latter appeared to encompass the former.

This is either a serious drafting error, or another example of the present Bill deliberately making it all but impossible for employers ever to be held to account for abusing the subsidy.

The word “replaces” is also problematic. The drafters have tried to define “displace” by using “replace” but this is circular and begs the question. It is therefore not clear how to prove that an employee “replaces” a dismissed employee with someone else in respect of whom the business is eligible to receive the subsidy.

Although the notion of “replace” may be preferable to a requirement that a dismissal must have been for the “(sole) purpose” of hiring a subsidised worker in the place of the dismissed worker, “replace” may also be interpreted to require proof of causation. It will be difficult for a dismissed employee to prove that she was dismissed specifically so that she could be replaced with a particular ‘new’ subsidised employee. On the other hand, this language will provide employers with considerable room to structure dismissals and hiring of subsidised employees so as to avoid the penalty.

There is nothing to stop an opportunist employer from *first* hiring a new qualifying worker, accessing the subsidy, and *then* dismissing the non-qualifying worker. In such a case where nobody new is employed after a dismissal it would be even harder to show that one worker “replaces” another.¹¹ It would be preferable to use language

¹¹ The previous Draft Bill said that displacement needed to be established as “the purpose” of the dismissal. The Explanatory Memorandum explained “the purpose” to mean “the sole purpose”; in other

similar to section 187(1)(g), which provides that a dismissal is automatically unfair if the reason for the dismissal was “a transfer, or a reason related to a transfer, contemplated in section 197”. It would offer more protection in section 5(2) if the deeming provision were to apply to any dismissal *related to* the employment of employees qualifying for a subsidy.

The attempt to cure the defects of this section as it was in the Draft Bill has left more questions than answers, and possibly greater defects. Given the rush with which this legislation was prepared and passed, this is not surprising.

Additional Note: The Bill, now passed by Parliament, incorrectly refers to section 187(f) of the LRA (a section which does not exist) when it means section 187(1)(f).

PROBLEM 4. The result of the subsidy could be to put downward pressure on all wages

Some argue that South Africa has minimum wage determinations, strong unions and an inflexible labour market, which result in wage levels being higher than what is justified by the actual productivity of SA’s labour force. Some of the same people argue that a wage subsidy to businesses – which makes labour cheaper for them – is justified to correct what they see as the distorting effects on the labour market of strong labour legislation and unions. However, a danger is that the wage subsidy will not only lower the cost of labour for businesses, but also put downward pressure on wages.

If the subsidy results in experienced workers being displaced for younger workers, so that businesses can qualify for the two-year subsidy – rather than creating genuinely new jobs – the result of the subsidy will be to put downward pressure on all wages. Those experienced workers who do keep their jobs will then be seen as overpaid relative to their younger, subsidised colleagues, and their jobs might be threatened. There is an understandable fear that this subsidy is therefore the thin end of the wedge in a general attack on wage levels.

words that the worker must show that the business dismissed her with the sole purpose of hiring another worker in order to claim the subsidy. Business purposes can almost always be shown to be mixed. Job titles can be changed. And a worker alleging an unfair dismissal would have great difficulty in accessing the necessary evidence to bring it before a competent authority. The final Bill has left out the word purpose, but it is not clear that it has achieved a clearer meaning by using the word “replaces”.

The wage subsidy attempts to make South African labour more 'productive' by making it relatively less 'expensive'. But South Africa's labour force is relatively uncompetitive because it lacks the skills, machines, transports, health care, food subsidies that workers in other middle-income countries have.

It is also noteworthy that the November 2012 publication of the *The Economist* [recently expressed](#) a firm view in favour of legislated minimum wages at moderate levels. In the absence of such minimum wages, subsidised young workers are likely to be faced with pressure to accept lower wages or risk losing their jobs when the subsidies expire. Indeed other workers could come under similar pressure.

In addition, if the longer term effect of the wage subsidy is to drive down wages, workers will have less money to buy things. This would hurt effective demand, and slow growth further. To sustain their lives workers would resort to yet more credit, which leads to the kind of instability that preceded the 2008 financial crisis and the indebtedness of the Marikana miners before the Marikana Massacre. If all countries engaged in this competitive race to the bottom by driving down wages the vicious cycle would collapse global demand and the result would be global depression. Alternatively, using the same money to invest directly in the economy would stimulate demand.

PROBLEM 5. What else could usefully be done with the money?

The Treasury expects to spend around R5bn to create the 133,000 new jobs it predicts. If it achieves this then, at R37,000 per new job, this is cost effective. But as discussed above, this is unlikely.

What else could have been done with the money? R5bn would be a major boost to FET colleges, school infrastructure, or structured internship and training programs which large business should be required to participate in. R5bn could help create a national youth service scheme that employed young people as assistants in Early Childhood Development (ECD) centres, assistant sports coaches in schools, or as youth-librarians (as we are currently doing), amongst other things.

PROBLEM 6. The subsidy is not necessarily linked to any training

Supporters of the youth wage subsidy point to the great benefits of experience and training on the job prospects of young people. This is very important, and it is indeed crucial to find ways to get young people into forms of work.

In the [Explanatory Memorandum](#) Treasury states that '[d]ata from the "Matched Labour Force Survey" indicates that young unemployed people with previous work experience are three times more likely to find a job than those who have none'. However correlation does not prove causation. Whilst there is a high correlation between previous work experience and strong future job prospects, there may be an equally high correlation between strong job prospects and having better education, or living closer to an urban centre. The factor causing the person to be more employable is, therefore, not necessarily the work experience per se but the underlying factors which saw the person gain work experience in the first place.¹²

Moreover, unless workers are enabled to become more efficient through on job the training and investment in new technologies and business practises, businesses will remain reluctant to take on workers who cannot undertake the necessary tasks efficiently.

The World Bank Development Report 2013, discussed above, recommends structured training and internship programs as more likely to generate employment for young people than a wage subsidy for businesses. The report finds that such policies work only when the specific labour demands of a part of the private sector is met, which requires well-tailored training programs.

These need to be formal as well as on-the-job training programs, rather than serve to provide cheap interns. One option is thus for government to fund and arrange for young job-seekers to undertake structured and paid internships in companies, and for these to include training.

¹² The first Investment Climate Assessment in 2008 surveyed 800 firms. A shortage of skills was said to be the primary constraint followed by macroeconomic instability, labour regulations and crime. The second Investment Climate Assessment in 2010 found the top three constraints to be crime, electricity, and corruption. These are marked # in the bibliography of this document.

This way the company does not incur a cost, and the job-seeker is modestly remunerated. This means young people get some actual training, something which the Bill is silent on. Companies could be incentivised to undertake large-scale structured internship programs of this kind through BEE codes or other mechanisms.

Treasury has in fact recently [accepted](#) as “valid” that it is “a serious problem that none of the subsidies are linked to mandatory skills development or training.” A late addition to the Bill, section 3(c)(ii), enables the Minister of Finance, after consultation with the Minister of Labour, to prescribe by regulation, conditions that businesses would be required to meet in respect of the training of employees. A training component would greatly improve the scheme, but since this would require further regulations, it remains to be seen whether these come into existence, and if so, what they are.

PROBLEM 7. The subsidy discriminates against informal businesses and small low-wage businesses

The Bill requires employers to be registered with SARS. This is because SARS will administer the wage subsidy scheme. However, structuring the subsidy as a tax incentive based on the reduction of an employer’s PAYE liabilities carries with it grave problems affecting the fairness of the scheme. It is inherently unfair to small businesses employing workers whose wages are below the threshold for income tax.

The [Explanatory Memorandum](#) admits that “an employer will not be eligible for the tax incentive if the employer only employs low-wage earning employees” who fall below tax threshold. The way the subsidy works is that it is a *deduction* from what businesses would pay SARS each month as PAYE tax, on behalf of its employees. However, businesses where everyone earns below the tax threshold don’t pay SARS each month, even if they’re registered. In such a case there is nothing to deduct against, so they would never receive the wage subsidy at all.

Moreover, small businesses with few employees, which do have a liability for PAYE, will also be relatively disadvantaged compared with their bigger business competitors if their PAYE liability falls below the subsidy to which they would be entitled. Section 10

of the Bill which allows for “reimbursement” of such amounts will not be operational when the Bill comes into force. The Explanatory Memorandum says “Reimbursements cannot currently be processed.” The recent Treasury response document says that “more sophisticated design options, such as reimbursements” are measures which “the second phase of the incentive will gradually include”. Section 10 is to come into operation only if and when the Minister of Finance so decides. This is putting the cart before the horse. In the interim small businesses will be unfairly prejudiced. The Bill should not have been introduced at all in our opinion, but certainly not until the capacity for reimbursement has been put in place.

It is also noteworthy that government, public entities, and municipalities are specifically excluded from receiving the wage subsidy.

PROBLEM 8. The period allowed for public comment was too short

As stated above, EE made a submission to Treasury on the earlier Draft Bill. This was thanks to Treasury’s Deputy Director General agreeing to receive EE’s submission after the 11 October 2013 deadline. Nevertheless the available time for comment was unacceptably short for a piece of legislation which has been the subject of such intense debate. Between publication on 20 September 2013 and the deadline for comments on 11 October 2013 there were just 14 working days. The revised Bill was then republished on 24 October 2013 and passed by Parliament one week later.

PROBLEM 9. No structured process to evaluate the youth wage subsidy has been announced

The Treasury states in a [Frequently Asked Questions document](#) that it intends to decide whether the subsidy program will continue based on an evaluation of it, but no mechanism to undertake such an assessment has been announced. At present the Bill says that payments of the incentive cease from 1 January 2017, however the Treasury document responding to criticisms raised on the Draft Bill speaks repeatedly about a second phase of the subsidy, which would presumably come after that date.

Serious and accountable policy-making would usually demand that a program only be rolled out if an evaluation mechanism is in place. It is good to see that, following criticism of the Draft Bill, section 11 of the Bill now requires that “the Minister of Finance must publish information on the employment tax incentive twice a year”. It will show greater seriousness if the government sets up a proper evaluation methodology so that the public can hold government accountable and assess the success or failure of the project as it unfolds.

The nature and form of the information to be published by the Minister is also important. In the UK the statistics on subsidy applications by firms, as well as payments by government to the relevant firms, are [permanently publicly available](#). The same should be the case in South Africa, on the SARS or Treasury website. Ideally the statistics should be broken down by geography of claimant and firm type (sector and size). Importantly, the data should track repeated payments made to a same firm in order to enable an assessment of the length of time which a subsidised worker is employed for. To enable this SARS would need to keep a record not simply the firms to which they make subsidy payments, but also of employee names or tax numbers.

PROBLEM 10. The youth wage subsidy proposed by the Employment Tax Incentive Bill creates illusions

Treasury has conceded that a youth wage subsidy “cannot possibly address all structural issues in the youth labour market”. However, this approach still fosters unhelpful illusions. It is premised on the idea that expensive labour is South Africa’s key constraint, and that cheap labour is the solution. According to this logic businesses need a subsidy to lower the cost of labour and to help them hire low-wage earners. However, cheap labour has not provided and cannot provide a solution to South Africa’s predicament. The price of labour-power is a factor in competition, obviously, but cheap labour cannot compete with machinery in the production of cheap goods, and machinery is now (with the development of robotics) beginning to render labour redundant in whole swathes of unskilled and semi-skilled production around the world.

Thus, aside from the fact that the international evidence shows that wage subsidy schemes generate little new employment, illusions in a wage subsidy may divert

attention from the real economic imperatives to generate investment in the real economy; to improve education quality and equity, to lift the skill levels of our youth, so that they can contribute productively to society, and earn a decent income; and to use the tax system to reduce inequality so that purchasing power and effective demand can be boosted. In addition, South Africa needs a broad economic development plan which looks beyond low-wage employment for our youth.

Conclusion

The indications are that the Bill will fail in its stated purpose of creating additional youth employment without jeopardising existing jobs. What is needed is a serious plan to expand the economy. A youth wage subsidy is not such a plan. In our opinion the Bill is misconceived and should be scrapped. If the government is determined to persist with it, nonetheless, it should go back to the drawing board so that serious attention can be given to eliminating the unfair discrimination. Moreover the Bill does not address the underlying challenges of unemployment; instead it represents a serious threat to existing older workers and does not provide a durable opportunity for the youth in South Africa.

[END]

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