

TAX002 ‘Born free’ to unemployment? A critical review of the Employment Tax Incentive

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Abstract

Youth unemployment is a serious policy challenge confronting South Africa as 35% of South African youth are unemployed. This paper discusses a tax solution for the long-term employability of South African youth that has recently been implemented- the Employment Tax Incentive (ETI) or Youth Wage Subsidy. This analysis is achieved by performing a critical review of the ETI and comparing the scheme to other similar tax solutions that were implemented in other countries, namely the Polish Intervention Works Programme, Argentinian Proempleo Experiment, the French Apprenticeship System and the Australian Special Youth Employment Training Programme. These comparisons enrich the body of knowledge on the current Youth Wage Subsidy as a possible solution for youth unemployment in South Africa. In the performance of this comparison, this paper identifies that there are many strategies which can improve the current ETI scheme. The research finds that the ETI by itself will not resolve South Africa’s youth unemployment problem as the quality of both basic and higher education needs to improve through education interventions to achieve a sustainable employment future for the youth. However, the research does find that the ETI is an effective way to create some jobs in the economy. The findings also reflect that the implementation of the ETI, if fashioned and revised in light of international policies, is welcomed as it is likely to be a cost-effective measure to decrease unemployment among South African youth.

Keywords: Employment Tax Incentive; Youth Unemployment; Youth Wage Subsidy

1. Introduction and background to the Employment Tax Incentive scheme

Youth unemployment is a serious policy challenge confronting South Africa; the South African working age population consists 55.4% of youth, with the unemployment rate of individuals between the ages of 15 and 34 at an alarming 35.1% (STATS, 2014). Of the unemployed youth in South Africa, 68% of them have not had any form of higher education or training, while 66% have no job experience (National Treasury, 2011). A young person who has had some job experience is three times more likely to find employment, compared to a young person who has had no previous work experience (National Treasury, 2011) so it is imperative that a person is able to find employment in his/her first year of attempt.

The Employment Tax Incentive Act came into effect on the 1 January 2014 in an effort to address this critical problem. The ETI, often referred to as the Youth Wage Subsidy, is designed to assist young South Africans who are unemployed by providing employers with an incentive to hire these ‘poorly-skilled’ individuals who lack experience. The

subsidy, although a National Treasury initiative, is administered through the South African Revenue Service (SARS) to ensure no undue administrative tasks are created and to minimise the misuse of the incentive and taxpayer funds by practitioners through potential fraud by creating fictitious employers and employees (National Treasury, 2011). The amounts that employers can claim from the incentive each month are presented in Table 1 below.

Table 1: Details of the ETI per qualifying employee (SARS, 2014):

	Year 1 ETI per month for qualifying employee	Year 2 ETI per month for qualifying employee
Monthly remuneration		
R0 - R2 000	50% of monthly pay	25% of monthly pay
R2 001 - R4 000	R1 000	R500
R4 001 - R6 000	R1 000 - (0.5*(monthly pay - R4 000))	R500 - (0.25*(monthly pay - R4 000))

This incentive is important as it lowers the cost of labour to the employer, or assists the employer with paying for training the employee, motivating job creation and resulting in higher employment amongst the youth. The youth who qualify for this incentive would benefit by being employed in a position in which they can gain crucial experience while qualifying for the remuneration incentives of the ETI at the same time. After two years they are expected to have gained the necessary experience to be able to secure a position in which they can earn a marketable salary (SARS, 2014).

Studies conducted by Nevondwe and Odeku (2014) indicate that the continued high youth unemployment rate means that the youth are not acquiring the skills or experience necessary to drive the South African economy forward, resulting in the State's social assistance burden increasing more than ever before (Bhorat, Hirsch, Kanbur & Ncube, 2013). However, according to the National Treasury (2014), the percentage spent on social grants has remained constant since 2010/2011 to 2013/2014 and is expected to decrease to 3.2% by 2016/2017.

This is arguably because the National Treasury recognises that the persisting youth unemployment problem requires short- and long-term policies and measures that include increasing demand for labour, improvement of education and skills, and labour market interventions that result in the increased employability of the youth (National Treasury, 2011). The workplace must therefore be seen as a training ground that should be incentivised with financial assistance from the government, so that small businesses and other companies investing in the youth will create the much needed opportunity for the youth to gain the necessary experience and skills (Broumels, 2014).

In this regard, the shift towards a more labour-intensive growth path is supported by the ETI, in which tax revenue of R1 billion has already been foregone in the 2014 Budget to support this initiative. The ETI will create an estimated minimum of 423 000 jobs for qualifying youth and this is expected to cost approximately R5 billion in tax expenditure over the next three years (National Treasury, 2011). Moreover, the government plans to expand the programme in the years ahead (National Treasury, 2015). Whether or not the ETI scheme will indeed “solve” youth unemployment in the long-term is what this paper examines.

2. Research problem

This research paper aims to evaluate critically the appropriateness of the ETI as a policy option to address the unemployment situation in the long-term in South Africa. This will be answered by analysing and comparing the ETI to similar youth wage subsidies implemented internationally, in an effort to derive any lessons that can be learned for South Africa. This will be further analysed by means of a critical review of the negative and positive impacts of the current ETI system.

3. Objectives of the study

The research provides a critical review of whether the ETI is likely to meet its objectives and encourage long-term sustainable employment of the youth in South Africa. The objective of this paper is primarily to determine whether the ETI system positively or negatively affects unemployment in South Africa and whether any strategies can be learned from other countries’ initiatives undertaken.

4. Research Methodology

This paper aims to provide a descriptive analysis of the ETI initiative in South Africa. A normative study and a literature review were conducted and analysed using discussion papers, budget reviews, journal articles, statistics, and Organisation for Economic Co-operation and Development (OECD) publications on youth wage subsidies.

The sample used to gather information about the ETI system is limited to the literature that currently exists on youth wage subsidies in South Africa and various other countries. The results from the existing literature on the ETI and its effect on the permanent employment of the South African youth was analysed and compared to the information gathered on other countries’ (Poland, Argentina, Australia and France) initiatives and their outcomes. A broad systematic text analysis was performed to identify patterns and similarities within the existing literature on the ETI and these international countries (Leedy & Ormrod, 2013). These analyses shed insight on the scope of the ETI to improve long-term employment in South Africa.

Five important questions were used in evaluating these foreign wage subsidies, in line with the studies of Dar and Tzannatos (1999). These questions are: *Who received the wage subsidy? What was the duration of the wage subsidy? At what point economically was the wage subsidy implemented? Was the wage subsidy used on its own or in a combination of*

policies such as training? What was the effect that the wage subsidy had on the country or region? (Dar & Tzannatos, 1999).

5. A comparison to other countries' employment incentive schemes

A summary of the following five countries' incentive schemes can be found in Appendix A at the end of this article.

5.1 General: Other Countries

Governments throughout the world would like to ensure that members of the population, who are able to work, find employment and do not need to be supported by the government through welfare systems (Galasso, Ravallion & Sal, 2001). The World Bank's opinion is that the majority of countries' wage subsidies (including transition and developing countries) do not appear to have an overall advantageous effect on the earnings of workers or on the long-term unemployment rates in those countries. However, wage subsidies utilised in developed countries have had positive implications for earnings and employment, especially with regards to the youth of the country ((Betcherman, Olivas & Dar, 2004). Further, wage subsidies that are utilised in combination with training and job search assistance are thought to have had the most positive impacts on the unemployment of a country ((Betcherman, et al., 2004).

Developed countries in the OECD spend more on Active Labour Market Programmes (ALMP) as a percentage of Gross Domestic Product (GDP) than transition countries (Betcherman, et al., 2004). These include programmes aimed at increasing training and self-employment, public works, employment services (such as job counselling), as well as wage and employment subsidies. This paper compares the ETI initiative to both developed (France and Australia) and transition countries (Poland and Argentina), so as to learn from their reforms and initiatives.

5.2 A lesson from Poland (Transition)

Poland is an example of a country that implemented a wage subsidy known as The Polish Intervention Works Programme (PIWP), which ran from 1992 until 1995. It is generally considered to have been effective in increasing employment in the country, as well as being cost effective (Betcherman, et al., 2004). Poland is classified as a transition country and spends between 0.34% and 0.54% of GDP on ALMP (Betcherman, et al., 2004).

5.2.1 Who received the subsidy?

PIWP allowed for a wage subsidy for employers who employed workers of any age. It is different from South Africa's ETI which is only available for employees aged between 18 and 29 years of age (National Treasury, 2011). The maximum value of the subsidy granted to employers was the level of compensation. This also differs from South Africa's ETI as the maximum value of the subsidy is R24 000 per annum (National Treasury, 2011).

5.2.2 At what point economically was the wage subsidy implemented?

Unemployment in Poland in 1989 was 0%. By 1994 unemployment had risen to 16.4% of the Polish population because Poland moved from a centrally planned economy to a market economy (along with a number of other European countries) (Puhani, 1998). By 1995, the end of the PWIP, the unemployment rate had decreased to 13.6% of the Polish population (O'Leary, 1998).

5.2.3 What was the duration of the wage subsidy?

The PIWP covered the cost of the employees' wages, as well as their insurance, for a period of six months. This differs from the South African ETI which will give employees a wage subsidy for a period of two years (National Treasury, 2011).

5.2.4 Was a combination of policies used with the wage subsidy?

The PIWP allowed an additional 150% subsidy if the employee remained part of the employer's workforce after the six-month period of the wage subsidy. The additional subsidy was an incentive to keep workers employed by the employer after the wage subsidy ended. South Africa's ETI system currently does not contain such provision (National Treasury, 2011). The PIWP aimed to incentivise the employer-employee relationship to continue for as long as possible. Accordingly, the workers participating in the PIWP also had an incentive to stay employed for at least 120 days (Kluve, Lehmann & Schmidt, 1998).

5.2.5 Effectiveness of the wage subsidy.

The effect of the PIWP resulted in a 60% retention of workers after the wage subsidy ended. The chance of finding employment after a person was employed with the PIWP (even if the PIWP was used up) increased by 26% and employment in Poland increased by 13.1% (National Treasury, 2011). The average age of people participating in the PIWP was 23. Women and the less educated people in Poland appear to have profited most from the PIWP (Puerto, 2007).

The negative effects of the implementation of the PIWP were the damaging impact on the earnings of employees who were under the age of 30 (National Treasury, 2011). Kluve, et al. (1998) cite this impact to be a result of the stigmatisation involved with being an individual who qualified for the wage subsidy and/or that employers may have fired workers once the wage subsidy was fully utilised, in order to hire workers that would qualify for the wage subsidy (*'recycling of workers'*).

5.3 A lesson from Argentina (Transition)

Argentina has a large number of unemployed, unskilled labourers, while skilled labourers are less affected by unemployment, a situation similar to that in South Africa. South Africa and Argentina also have other unemployment trends in common such as a large supply of poorly skilled workers and a strong demand for skilled workers (Centre for the International and Comparative Labour and Social Security Law, 2007).

5.3.1 Who received the subsidy?

The wage subsidy was available to employers whose workers were registered with the State employment agency (Centre for the International and Comparative Labour and Social Security Law, 2007).

5.3.2 At what point economically was the wage subsidy implemented?

The Argentinian Proempleo Experiment (APE) was a well-designed and successful programme that targeted the poorest people of the country; 80% of the people who participated in the APE fell into the lowest income quartile of Argentina. The APE was implemented in two cities in Argentina, namely, Cutral Co and Plaza, both with high levels of unemployment due to the downscaling and privatisation of large factories in the areas (Galasso, et al., 2001).

5.3.3 What was the duration of the wage subsidy?

A wage subsidy could be utilised by the employer of an employee who qualifies for the wage subsidy under the APE for a period of a year and a half (Galasso, et al., 2001).

5.3.4 Was a combination of policies used with the wage subsidy?

The APE was a combination of a wage subsidy with training to decrease unemployment in the country. The workers that participated in the Proempleo Experiment were people who previously received welfare from the Argentinian government (Galasso, et al., 2001).

The first component of the APE was the wage subsidy: an employer who officially registered employees received a wage subsidy of \$150 per month for workers who were over the age of 45, and \$100 per month for workers who were under the age of 45 years. When officially registering an employee, the Argentinian government paid the social security costs for the employee, which was estimated to be 30% of the employee's gross wages (Galasso, et al., 2001).

The second component of the APE was the training component which comprised two training elements. The first was a three-day mandatory workshop which taught participants skills like how to find work in the area, information about demand for labour in the area as well as skills that could assist them in becoming self-employed. Those who were successful were invited to participate in further training and received another training voucher which enabled them to participate in a training programme. This training programme lasted 2300 hours and taught them identified (community) skills such as welding, house construction, running small businesses, cooking, electrical skills and farming pigs and plants. Participants were able to choose from twelve subjects which were based on the labour demand in the area (Galasso, et al., 2001).

5.3.5 Effectiveness of the wage subsidy.

30% of people who were given the training vouchers did not use these (Galasso, et al., 2001), implying a 70% success rate. Moreover, the amount of money that was spent by Argentina's welfare in the first five months of the year 2000 was only 29% of the welfare

that was spent in the last five months of the year 1999 (Galasso, et al., 2001). This reflects the cost-effectiveness of implementing the APE.

The substitution effect of the Proempleo Experiment was limited due to the fact that employers would need to pay a significant severance benefit package to any employee who was fired (National Treasury, 2011). The success of the APE is undisputed and it is the only wage subsidy programme implemented in a developing country that has been evaluated by the World Bank. The evaluation found that, eighteen months after the programme, 14% of people who received the vouchers for the wage subsidy found private sector employment, while the control group who did not participate in the APE achieved a 9% employment rate (Betcherman, et al., 2004).

5.4 A lesson from France (Developed)

France introduced labour market policies at the beginning of the 1970's because of employment challenges. The policies were implemented to assist the unemployed youth by providing financial assistance to entities that provided employment as well as to subsidise training courses these entities offered (Fougere, Kramarz & Magnac, 2000). These policies are essential to the French economy as according to Scarpetta, Sonnet & Manfredi (2010), France's youth faces a challenge with only one individual in every four finding employment.

5.4.1 Who received the subsidy?

The French apprenticeship system is a training scheme which offers individual participants a two year part-time employment in the entity, which is complemented by a part-time education programme in a public training organisation. The apprenticeship programme combines training in a company, based on exercising a professional activity, and teaching, dispensed in an apprentice training centre that leads to obtaining a professional diploma (Fougere et al., 2000). The apprentice's schedule is thus split between the training centre and the company (60-75% of his/her time) where the apprentice is under the authority of a tutor. An age restriction exists: the participants must be in the age group of 16 to 25 years of age (Ministere de l'Education Nationale France, 2015).

5.4.2 At what point economically was the wage subsidy implemented?

As a result of the Labour Market policies introduced in France, 800 000 French individuals receive financial assistance annually through public programmes, which then allow them entry to a further training course or subsidised employment programme (Fougere et al., 2000). These labour market policies were initially targeted at the general body of unemployed individuals, as well as workers with the highest unemployment risks (such as young adults or older workers), but was subsequently amended to target the 16 to 25 age group only (Fougere et al., 2000).

5.4.3 What was the duration of the subsidy?

The normal duration of an apprenticeship contract is two years, however, it may vary between one and three years. This commences once the apprenticeship contract is signed by the employer and employee (Fougere et al., 2000).

5.4.4 Was a combination of policies used with the wage subsidy?

The French apprenticeship programme combines training in a firm where the participant exercises professional activity and formal educational learning at an apprentice training centre. The apprentice attains a national diploma, while receiving a monthly salary (Fougere et al., 2000). To achieve this, the government provides different incentives for employers to hire apprentices. These range from a tax relief for companies when they take on apprentices to the promotion of the remuneration of the apprentice (which is a minimum pay that is fixed nation-wide based on the apprentice's age and the level reached in the training cycle), amongst others. The French apprenticeship thus supplies theoretical and practical training to apprentices (who have completed compulsory schooling), which leads to a certificate of vocational or technological education at secondary or a higher level (Ministere de l'Education Nationale France, 2015).

5.4.5 Effectiveness of the wage subsidy.

It is found that individuals in France who have successfully completed the apprenticeship programme (training and diploma) are more frequently hired with long-term employment contracts (Fougere et al., 2000). Some 61% of apprentices go directly into employment upon completion of the training and over 50% of those contracts are permanent/open-ended. Some 3 years after completion, 86% are in employment (Apprenticeship and Traineeship Schemes in EU27: Key Success Factors, 2013).

Bonnal, Mendes & Sofer (2002) show that former apprentices in France experience less long-term unemployment as young adults than those who go through full-time vocational schooling. Similarly, non-apprenticeship training programmes (without educational learning) for unemployed young workers have shown little to no impact on post-training wages or employment possibilities (Fougere et al., 2000). This is also supported by a number of studies reviewed by Ryan (1998, 2001) which show that compared to entering the labour market with only compulsory education, having completed an apprenticeship in France has positive effects in terms of both employment and wage returns. The apprenticeship is most effective as it assists the individual in attaining his/her national diploma as well as gaining some experience in professional activity throughout the duration of the apprenticeship (Fougere et al., 2000). This is in line with the findings of the World Bank, discussed in Chapter 5.1.

5.5. A lesson from Australia (Developed)

In Australia, the aim of the Special Youth Employment Training Programme (SYETP) introduced in the late 1970's was to enhance the long-term prospects of participants so as not merely to enjoy a brief period of employment, but rather to increase the employability of participants permanently, similarly to the aim of the ETI (Richardson, 1998).

5.5.1 Who received the subsidy?

The SYETP targeted teenagers, unemployed for a minimum period of four months and was subsequently extended to cover individuals between the ages of 15 and 24 (Richardson, 1998).

5.5.2 At what point economically was the wage subsidy implemented?

The SYETP was introduced because of a rapid rise in teenage unemployment, together with the failure of a large-scale direct job creation programme previously implemented (known as Regional Employment Development Scheme) (REDS), which led the Australian government to introduce what was Australia's first wage subsidy (Chapman, 1985).

5.5.3 What was the duration of the subsidy?

The SYETP commenced in September 1970. The programme assisted unemployed youth in Australia for a period of nine years before coming to an end in December 1985 (Richardson, 1998). The subsidies were paid to participating employers at a flat rate that was proportionately greater for low wage workers, as seen with the ETI. The subsidies were valid for periods of 17 weeks at a time. The SYETP could be extended by further periods of 17 weeks to improve the skill sets of the participants, however, they often spent much longer periods than those required for eligibility (Richardson, 1998).

5.5.4 Was a combination of policies used with the wage subsidy?

Similar to the ETI, the SYETP consisted mainly of a subsidy/ incentive with no formal training, even though employers participating in the SYETP had to agree to a 'training plan' for each individual worker. However, this 'training plan' could have been nominal and simple in nature, for example an orientation/induction to the company was adequate in order to suffice as a 'training plan' for the purposes of the SYETP. And so it is generally considered to be an incentive scheme with no formal training (Richardson, 1998).

5.5.5 Effectiveness of the wage subsidy.

Richardson's study finds evidence of significant positive impacts on the probability of participants being employed in subsequent years. Much of this seems to stem from retention of jobs after subsidy expiry, contradicting the concern that firms will simply lay off participants as soon as the subsidy ends. His findings showed that the SYETP appeared to prolong the life of very short duration jobs that would otherwise have terminated before the subsidy expired (Richardson, 1998). His study also finds a great and significant positive effect on the subsequent employment of the individual participants, improving their employability (Richardson, 1998).

6 A critical analysis of the South African Youth Wage Subsidy scheme

6.1 The negative impacts of the ETI system on employment

COSATU has vehemently argued that the introduction of a youth wage subsidy could see the replacement of older workers by subsidised youth (Rankin, 2013). The risk of displacing existing workers that no longer qualify for the ETI is also recognised as employers may favour only those employees who qualify for the ETI (AFBD & OECD, 2012). This may result in the firing of or discrimination against workers who do not qualify for the youth wage subsidy. The ETI may also cause inefficiency in terms of a business's hiring policy as businesses may focus on short-term employment as opposed to longer-term employment.

It is estimated that a minimum of 3.7 million workers in South Africa are vulnerable to being substituted, and of these the majority are unskilled labourers (COSATU, 2012). With an estimated 29% of working South Africans belonging to unions, the remaining 71% of working South Africans will be vulnerable to substitution (COSATU, 2012). The National Treasury has argued that due to the ETI being introduced in South Africa during an economic recovery, the substitution rate would be less. However, there is limited empirical evidence supporting this argument. Another factor opposing the ETI is that employers may be incentivised to keep the wages they pay to employees low in order to qualify for the Youth Wage Subsidy and that it may actually increase poverty in the country in the long run (COSATU, 2012).

Economically, the Youth Wage Subsidy may have a possible adverse effect on competition between businesses. Since businesses that utilise the Youth Wage Subsidy will be able to produce goods and services more cheaply than businesses that do not utilise the ETI, this may cause job losses elsewhere in the economy. This is known as the displacement effect (Centre for the International and Comparative Labour and Social Security Law, 2007). Another aspect that must be borne in mind is that the wage subsidy initiative relies on private firms to create jobs for the youth, as South Africa's public sector only employs a small percentage of youth under the age of 30. This reality is not feasible over the long-term as the private sector is unable to absorb employees at the rate at which the labour force is growing (Yu, 2012).

The introduction of the ETI may also stimulate a 'deadweight loss' to occur in the economy, i.e. the Youth Wage Subsidy may not increase employment among youth any more than would have occurred without the subsidy. The subsidy would still, however, cost the country in the form of the tax deduction given to employers (Centre for the International and Comparative Labour and Social Security Law, 2007).

Further, the ETI does not guarantee that training and skills development will actually occur. The National Treasury has indicated that there will not be requirements in terms of training and skills development due to the fact that these administrative requirements will then be too burdensome for employers to carry, which may cause employers not to make

use of the ETI at all (COSATU, 2012). Whether this absence of regulation will affect the overall objective of the ETI remains to be seen (however, this can be compared to the Australian SYETP in Chapter 5.5).

The government may be producing a ‘dependency syndrome’ as the Youth Wage Subsidy initiative does not address the need for good, quality, sustainable employment (Richardson, 1998). Given this concern, one must bear in mind that South Africa is not unique in its unemployment struggle. Many countries have tried to reform their economic situations: we can, and should, learn from their experiences. A similar ‘dependency syndrome’ is identified from the French Apprenticeship System (Chapter 5.4) in which training schemes (without formal educational learning) do not seem effective in promoting access to employment under a long-term labour contract in France (Fougere et al., 2000). This evidence indicates that the ETI system in South Africa could be the most heavily relied on initiative to curb youth unemployment and un-employability if educational policies (pre-employment) continue to have a minimal success rate.

The OECD identifies the transition of an individual from the schooling environment to the employment environment as a factor in the unemployment situation (AFBD & OECD, 2012). The ETI system is not able to address this neglect (Scarpetta et al., 2010): firms often require practical or technical skills, rather than only what is taught in the school system. It is acknowledged in the national Budget speech that quality education and training is essential to the growth of South Africa and in solving the unemployment crisis (Gordhan, 2013). However, the ETI may not be the most effective way to address this (AFBD & OECD, 2012). What is also of concern is that there is an inadequate functioning of FET centres which were, ironically, introduced as a mechanism to combat youth unemployment (Bhorat et al., 2013). As long as these remain unchanged, there will continue to be a mismatch of the skills demanded by employers and those available in the pool of unemployed workers (which will continue to result in a higher aggregate of unemployment), indicating that a subsidy without improved education may not be a solution (Richardson, 1998).

6.2 The positive impacts of the ETI system on employment

Rankin, Roberts and Schoer (2012) find that the Youth Wage Subsidy is fair relative to the average starting wage for unskilled labour and that a substantial number of South African firms, currently paying starting-wages, would qualify for the subsidy. The study found that 38% of firms responded positively to the potential hiring of youth with subsidies and indicated that they would, on average, hire an additional seven and a half young workers upon the formal implementation of the ETI system. The remaining 62% of firms indicated that the decision to hire young applicants with wage subsidies would depend on the number of openings that they had available (Rankin et al., 2012).

The Minister of Finance reported during the 2015 Budget speech that the employment of 216 000 individuals in December 2014 was supported solely by the ETI, whilst the most significant level of success of the ETI was during August 2014 at 268 000 young

employees (National Treasury, 2015). Thus, the Youth Wage Subsidy has already exceeded the predictions of its inception according to the estimates of National Treasury in 2011, where it was estimated that an average of only 141 000 jobs annually were to be created as a result of the ETI. It must also be identified that a study by Ranchhod & Finn (2014) found that statistically, the initial six months of implementation of the ETI did not show a significant improvement in the employment of South African youth. Therefore, additional job creation can be expected as a result of the ETI in the next two years of the programme.

By example and by comparison with other ALMP initiatives, *'The Jobs Fund'* was established by National Treasury in 2011 to assist in the creation of sustainable employment. To date, a total of R4 billion has been budgeted for this project but it is expected to generate 150 000 jobs only (National Treasury, 2015). By using estimates made by the National Treasury in 2011, the cost of the ETI will be R5 billion and will (prudently) create an estimated 423 000 new jobs (National Treasury, 2011). It is thus evident that the Youth Wage Subsidy is a cost-effective ALMP in comparison to other ALMP initiatives by government.

Other studies have indicated that the ETI will work well in the short term: the youth who have access to a wage subsidy are more likely to be employed for up to two years after receiving the subsidies, compared to those without subsidies (Rankin, 2013). By international comparison, Richardson (1998) revealed that in Australia subsidies appeared to extend the duration of jobs, as well as have significant positive impacts on the probability of participants being employed in subsequent years, contradicting the concern that firms will simply lay off participants as soon as the subsidy ends.

It could be also said that through the ETI system, subsidised young workers will gain experience and skills from employment and potentially become more attractive to employers, even once they no longer qualify for the subsidy, because of the training and experience gained while they were employed with the subsidy (National Treasury, 2011). In addition, on a macro-economic level, inflation may be decreased by the implementation of the Youth Wage Subsidy as the employment in the country increases and the costs that businesses incur in the production of goods and services decrease due to reduced labour costs (Centre for the International and Comparative Labour and Social Security Law, 2007).

Commercially, the ETI may be an attractive solution to a problem currently faced by employers that young and inexperienced workers are expensive to train and these costs are generally borne by the employer. The Youth Wage Subsidy will effectively decrease employment training costs (Levinsohn, 2007). Socially, some positive impacts may also result, such as a decrease in crime and an increase in a person's dignity. This would decrease the burden that these social impact costs have on the country as a whole (Levinsohn, 2007).

Administratively, for a subsidy to work it has to be sufficient to overcome the administrative and other constraints, such as uncertainty involved in hiring inexperienced, young people (Rankin et al., 2012). The ETI has, in this light, been designed to ensure that it is administratively simple (National Treasury, 2013). Politically, the use of a targeted Youth Wage Subsidy can be used by the government to illustrate the priority to assist the youth of the country (Betcherman et al., 2004). Further, the ETI may promote equality within the economy as the gap between skilled and unskilled workers diminishes (Centre for the International and Comparative Labour and Social Security Law, 2007).

The substitution of workers who do not qualify to be subsidised with those who do qualify for subsidies in South Africa may also not be as great as some expect due to the Labour Laws regarding the dismissal of workers (Levinsohn, 2007). The Minister of Finance has stated that SARS will work together with the Department of Labour to ensure that the South African workforce is protected from possibly negative consequences that may arise from the implementation of the ETI, such as the substitution effect (National Treasury, 2013).

The OECD has indicated their belief that the South African Youth Wage Subsidy may have increased potential to alleviate youth unemployment compared to a number of other countries. This is premised on its belief that a form of job search assistance is generally the most efficient policy to decrease unemployment (OECD, 2010). This signifies that policies which address South Africa's large mismatch of skills (discussed earlier) are essential in decreasing unemployment in South Africa.

Continuing with international comparison, the findings of Fougere et al. (2000) show that in France the hiring of poorly-educated, young adults is more heavily subsidised by government within a *community service* job - the objective is not only to increase the employability of these individuals in these areas but to promote these community jobs too (Fougere et al., 2000) which is an aim that could be adopted within the ETI system. Of the many positive aspects noted of the ETI, most notable is the possibility that smaller firms who already employ young workers are expected to grow in response to the implementation of the ETI, given that smaller firms already employ a larger number of young workers and appear to pay lower starting wages (Rankin et al., 2012). Therefore, the growth of small businesses in South Africa could be aided and prioritised as a result of the Youth Wage Subsidy.

7. Conclusion and recommendation

The literature reviewed reveals that South Africa is confronted with an alarming unemployment rate, an education system that faces difficulty in improving the skills levels in the country, and unemployed people without any work experience. The ETI system is thus welcomed, as it is targeted at ensuring that the people who receive the wage subsidy are those that actually need it, which will minimise the 'dependency syndrome' the government is creating, as well minimise the 'deadweight losses' experienced by the government, as suggested by the literature (Chapter 6.1).

Although it could be argued that the ETI may only be one part of an approach to alleviate youth unemployment, ignoring a larger percentage of other unemployed individuals, the literature revealed that the problems encountered by the youth in gaining jobs illustrate the problems faced by all unemployed people in South Africa, and is unlikely to improve if it is not addressed at a youth level. This increase in employment of younger workers, at the expense of older workers, and the fear that workers will simply be fired after the ETI ceases, will indeed be a negative outcome. However, the literature also shows that this ‘substitution/ displacement effect’ can be limited by protecting the rights of workers, ensuring a minimum wage and by supervising the hiring policy of businesses, which is by and large common practice and a Constitutional right in South Africa. From this it can be seen that the ETI system is appropriately aimed: at present, there exist various learnership programmes to increase the skills of the youth in the country, as well as labour laws in place to protect the rights of all workers in South Africa.

In addition, it is the belief of the National Treasury that job creation is not the only benefit to be generated from the subsidies: the youth will be working, using their time constructively, practical skills will be attained and work experience will be gained by them. Further, other economic benefits such as a decrease in inflation and crime and an incentive for small business growth in South Africa can be expected.

Comparing the ETI system to other international countries, such as Australia and Poland, the findings noted that individuals who participated in an employment initiative had success in continuing to be employed in the future, increasing the confidence in the ETI initiative. When this study compared the ETI to other countries such as France, it found that South Africa can have a greater chance of success in the changing of unemployment if it adopts an educational assistance policy (in addition to an employment training policy), as is the case in France. The literature further shows that a formalised training component combined with a wage subsidy appears to be more successful than just a wage subsidy on its own, as seen in the case of the Argentinian Pompeii Experiment. Alternatively, a retainer post the ETI subsidy should be considered to increase the length of the employer-employee relationship, as in the case of the Polish Intervention Works Programme. This is also another worthwhile factor for South Africa to consider.

The Minister of Finance has stated that one of the main areas of focus for South Africa is to increase employment opportunities by furthering education as well as training and skills development prospects (National Treasury, 2011). Thus the ETI system should be embraced as it intends to serve as a wage subsidy but at the same time to decrease the cost of training and to co-function with improved educational development prospects (if successfully implemented and executed). It is hoped this will then address the concern that both long- and short-term policies need to be enacted to address the education, labour and skills shortage in South Africa, especially the concerns over the mismatch of skills and inadequate functioning of the FET centres.

Overall it appears from the findings of the literature that the introduction of the ETI in its current form is a much-needed, *temporary* yet cost-effective mechanism to assist in the reduction of the youth unemployment rate, and that the positives of the ETI initiative outnumber the negative. Undoubtedly a long-term solution that addresses the lack of quality of both basic and higher education should be investigated and implemented to ensure a sustainable employment future for the youth.

Reducing youth unemployment in South Africa undeniably requires a number of initiatives that include public sector involvement, private sector involvement, and a genuine interest from civil society. Accordingly, a joint venture in which all related parties actively work together to address the various problems resulting from unemployment is required to find a way forward.

8. Further research areas

This paper only focuses on one of the initiatives introduced by the South African government, the ETI scheme. It is clear that there are a number of other tax and non-tax solutions such as the learnership allowance, employment subsidies for special economic zones, etc. which could motivate the creation of job opportunities and enhance training and skills development in South Africa (National Treasury, 2011). It is important to study all of these solutions when considering appropriate ways to alleviate the problem of unemployment as they each have advantages and disadvantages and need to be applied in a way that is relevant to the South African context.

This research is restricted to provide a critical analysis of existing literature on the newly implemented ETI system only and endeavours to investigate literature available, with the assumption that the existing literature is extensive in knowledge on the ETI system from a governmental and private sector view in South Africa. It is recommended that future research be performed once the ETI system is complete to investigate/evaluate the actual effects of the incentive on long-term employment of the youth. As the ETI is relatively new, existing literature can provide only limited information associated with the initiative. The practical implementation of the ETI, however, needs to be studied through information provided by interviews/surveys with people in practice, as existing literature provides no information by job seekers and businesses on the practical implementation.

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Appendix A:

The following table summarises the findings of the South African ETI, the Polish Intervention Works Programme, the Argentinian Proempleo Experiment, the French Apprenticeship system, and the Australian Special Youth Employment Training Programme, which formed the basis of Chapter 5 of the paper.

	South African Employment Tax Incentive Scheme	Polish Intervention Works Programme	Argentinian Proempleo Experiment	French Apprenticeship System	Australian Special Youth Employment Training Programme
Who received the subsidy?	Individuals between the ages of 18 and 29 (SARS, 2014).	Employers that employed workers of all ages (National Treasury, 2011).	Employers that employed workers of all ages who were registered with the state employment agency (Centre for the International and Comparative Labour and Social Security Law, 2007).	Individuals between the ages of 15 and 25 (Fougere et al., 2000).	Teenagers unemployed for at least four months; as well as individuals between the ages of 15 and 24 (Richardson, 1998).
At what point economically was the wage subsidy implemented?	The ETI was implemented as in response to the high rate of youth unemployment in South Africa (National Treasury, 2011).	During the change from the Polish economy from a centrally planned economy to a market economy (O'Leary, 1998).	After large scale retrenchments that resulted in high levels of unemployment (Galasso, et al., 2001).	The labour policies in France were introduced initially in the 1970s when unemployment began increasing (Fougere et al., 2000).	The SYETP was introduced following a rapid rise in unemployment and the failure of a large scale direct job creation programme previously implemented (Richardson, 1998).
What was the duration of the wage subsidy?	The subsidy is available to employers for a three year period, however, each qualifying employee may be subsidized for a maximum period of two years (National Treasury, 2011).	The wage subsidy was available for a six month employment period (National Treasury, 2011).	The duration of the wage subsidy was a year and a half (Galasso, et al., 2001).	The apprenticeship contract is for a period of two years, but it can vary between one and three years (Fougere et al., 2000).	The SYETP was available for a period of nine years in 17 week intervals per participating individual (Richardson, 1998).

Was a combination of policies used with the wage subsidy?	The ETI is a tax incentive offered to employers only, there is no training or educational programmes associated with this incentive (National Treasury, 2011).	An additional subsidy was available if after a six month employment period the employer retained the employee. This additional incentive was used to increase the length of the employer-employee relationship (National Treasury, 2011).	A training programme was combined with the wage subsidy (Galasso, et al., 2001).	The training scheme offers participants part-time work in a firm, in conjunction with part-time education in a public training centre in the pursuance of a national diploma (Fougere et al., 2000).	The employer was required to submit a training plan, however the SYETP was a subsidy with no formal training needed to be effective (Richardson, 1998).
Effectiveness of the wage subsidy.	National Treasury believes two years is sufficient as it should align the large wage and productivity of these unskilled, inexperienced employees (National Treasury, 2011). The effectiveness of this initiative is yet to be determined.	Employment in Poland increased by 13.1%, and 59.7% of the programme participants were retained after the end of programme (National Treasury, 2011).	The use of the combination of training as well as the wage subsidy increased employment by 7.5%, and substitution effects were limited due to cost of severance pay if fired. (National Treasury, 2011).	A significant increase in the employment of low-income employees initially, however the training programmes offered have little to no impact on their post-training wages or other employment possibilities (Fougere et al., 2000).	Significant positive impacts are found on the probability of participants being employed in subsequent years (Richardson, 1998).