

# The effects of a youth wage subsidy on employment

Amina Ebrahim

Research Associate, UNU-WIDER

PhD candidate, University of Cape Town

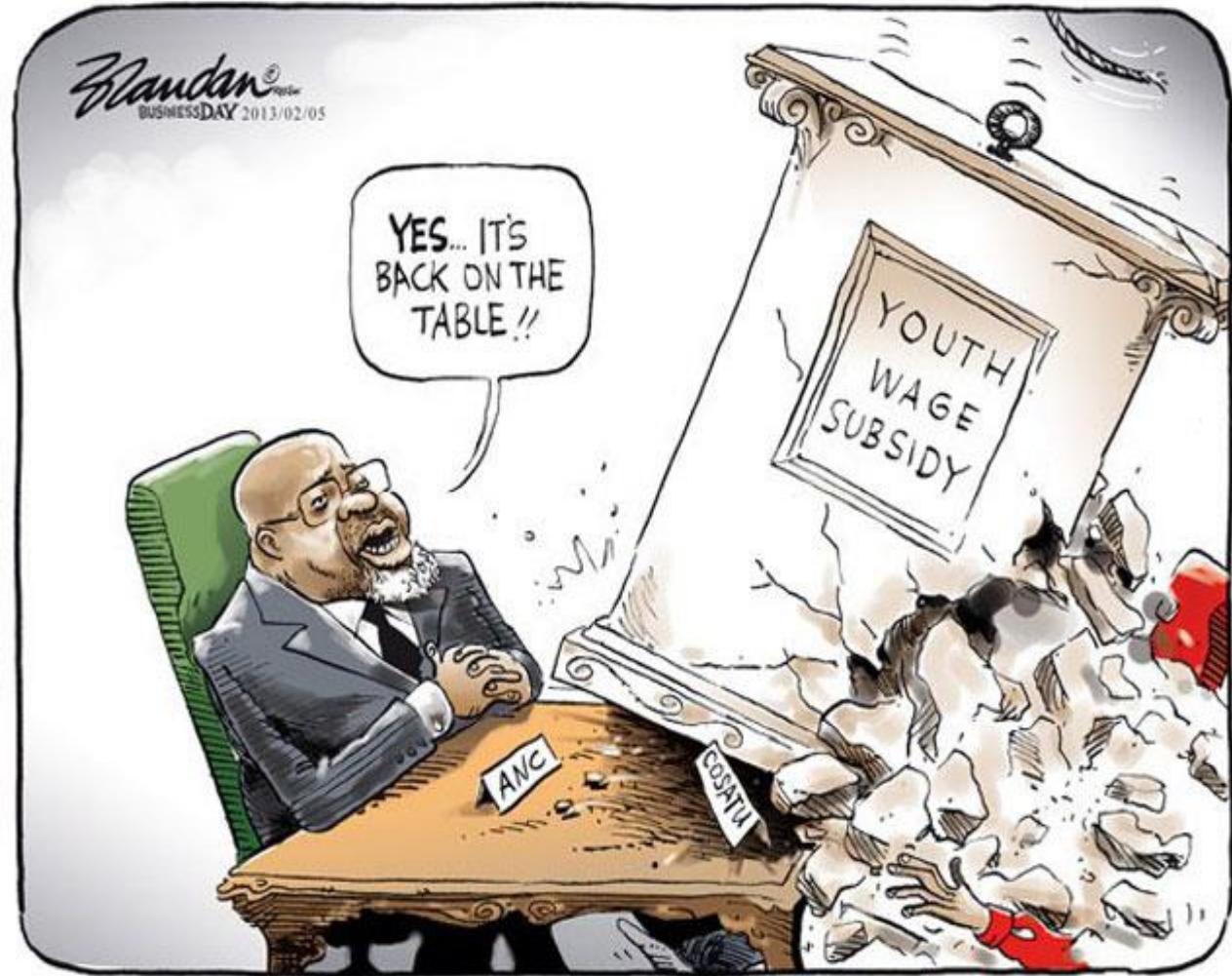
CSAE Conference

17 March 2019, Oxford

**Introduced 1 January 2014  
for 3 years ending 31  
December 2016**

**Low wage subsidy for  
youth earning below  
R6,000 (£314) per month**

**Government decided to  
extend the policy for  
another 2 years ending  
February 2019. Recently  
further extended for 10  
years.**



# Details of the ETI

## Eligibility

### Employees

- Hired after 1 October 2013
- Between 18-29 years old
- South African citizen
- Cannot be related to employer

### Employers

- Registered for Pay-As-You-Earn (PAYE) – formal sector
- No public companies
- No debt owed to SARS
- Claimable from 1 January 2014



# Details of the ETI

**Payment vehicle** – reduction tax bill

**Basis for computing subsidy** – monthly earnings

**Subsidy duration** – 24 months, reduction in amount after 12 months

	Monthly subsidy	
Monthly pay (ZAR)	First 12 months	Next 12 months
0 – 2000	50% of monthly pay	25% of monthly pay
2000 – 4000	R1,000	R500
4000 – 6000	$1000 - (0.5 \times (\text{monthly pay} - 4000))$	$1000 - (0.25 \times (\text{monthly pay} - 4000))$



# ETI evaluation

Examine the policy 6 months and 12 after its inception. No statistically significant change in the probability of youth employment (Ranchhod and Finn 2015, 2016).

Study of the perceptions of the ETI in the Vaal triangle. Firms support the policy but the majority of admit to not creating any new jobs (De Jongh et al., 2016).

Comparative analysis on the ETI with similar policies enacted in different countries. The ETI unlikely to reach its goal of due to firm lack of awareness, the short duration and absence of compulsory skills training (Odendaal, 2016).



# Data used

## Individual income tax (IRP5)

- Anonymised
- Job level tax data
- Unaudited

## Company Income Tax (CIT)

- Firm level data

## Unit of analysis is Tax Ref No

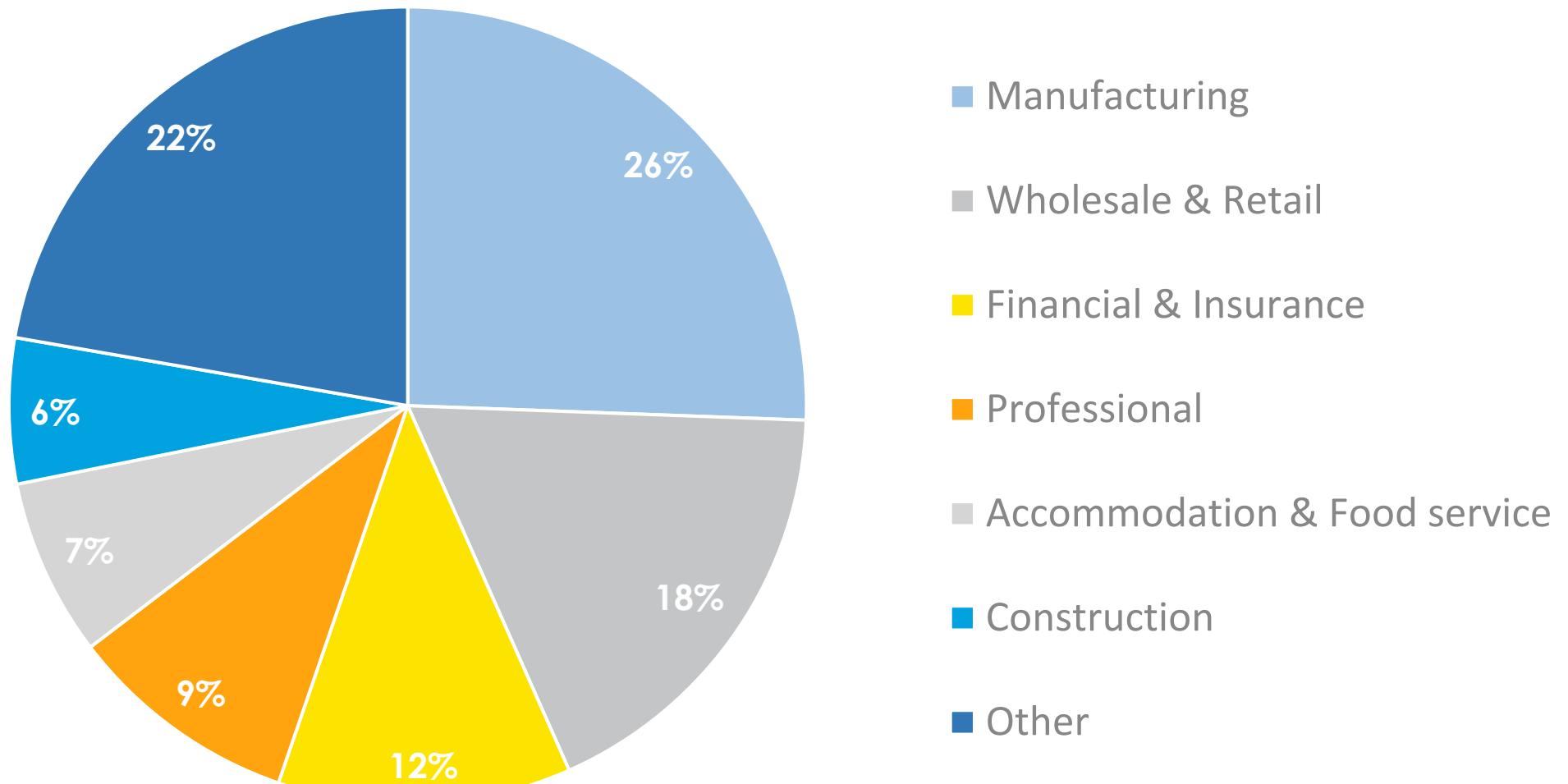
- Larger firms may have many PAYE Reference Numbers

## Time Period

- Tax Year
- 2013 – 2015
- 1 Mar '12 – 28 Feb '15



# Industry distribution of ETI firms



# Firm size classes: ETI vs non-ETI firms

	Tax year 2015	
Firms size	ETI	Take-up
0-5 Employees	3,400	3%
6-10 Employees	4,442	9%
11-50 Employees	13,548	21%
51-200 Employees	7,417	50%
201+ Employees	3,038	69%
<b>Total number of firms</b>	<b>31,845</b>	<b>13%</b>



# Methodology

## Conditional Difference-in-Differences approach (cDiD)

Step 1

Remove any ineligible firms (public sector firms)

Step 2

Calculate propensity score for each firm

Step 3

Identify a matched treatment and control firm

Step 4

Check balance of treatment and control groups

Step 5

Estimate a difference-in-differences model

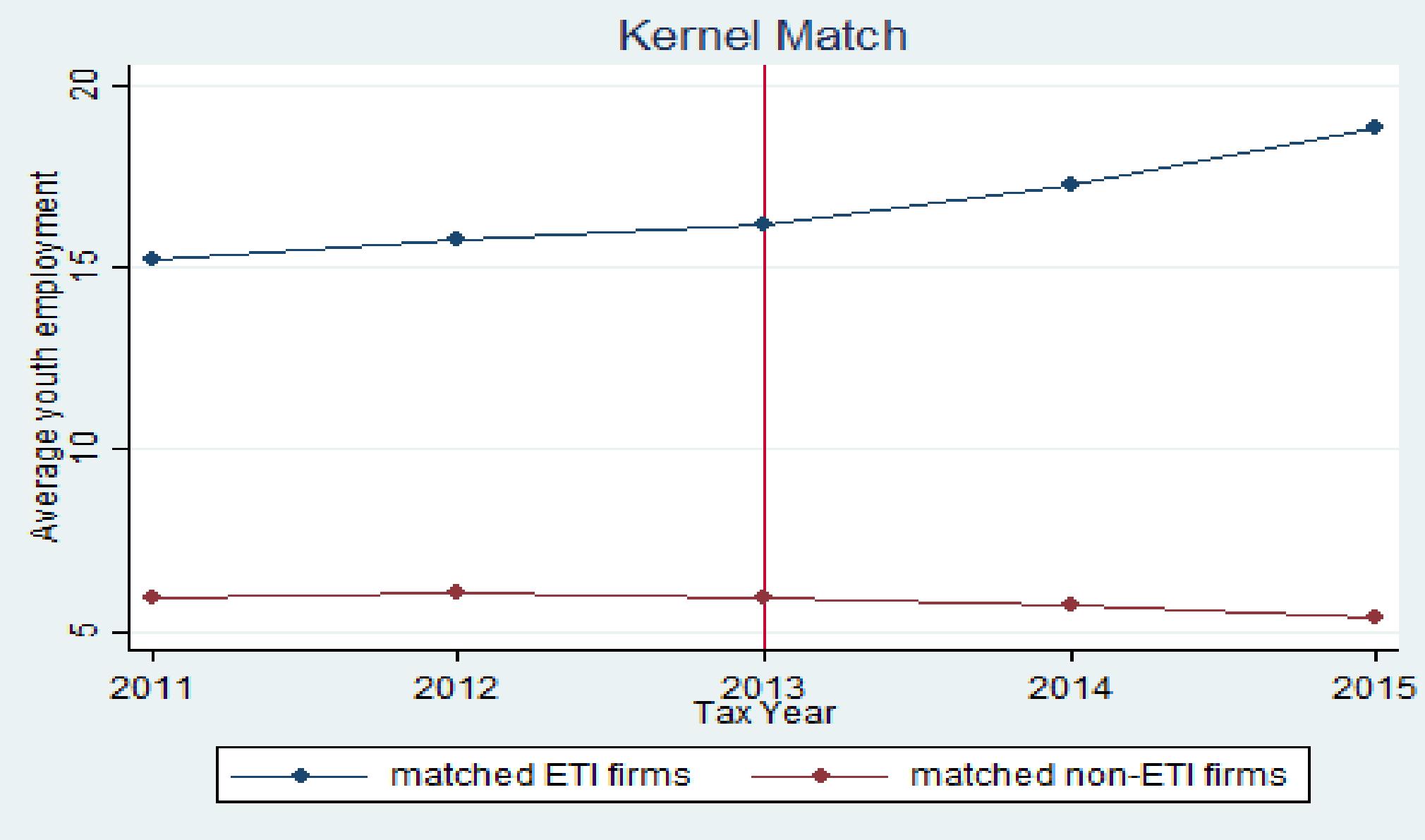


# Results from the cDiD

	Tax year 2015
Youth employment	3.902*** (0.204)
Non-youth employment	4.780*** (0.380)
Total employment	8.704*** (0.594)

Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1



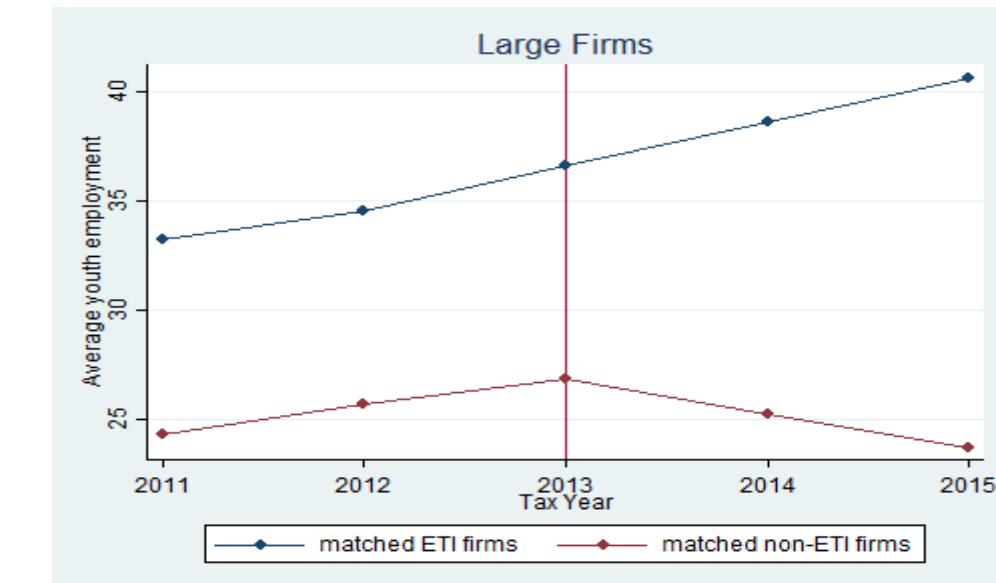
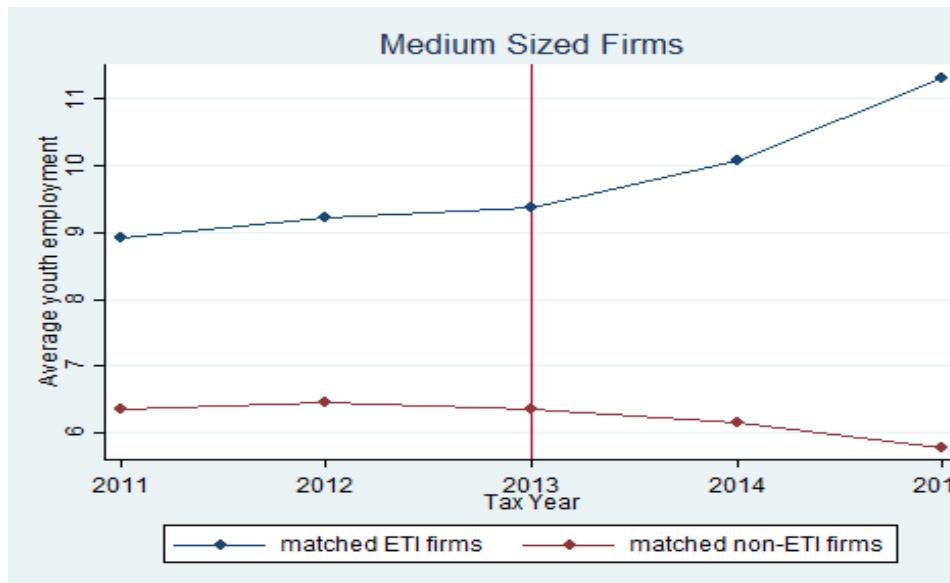
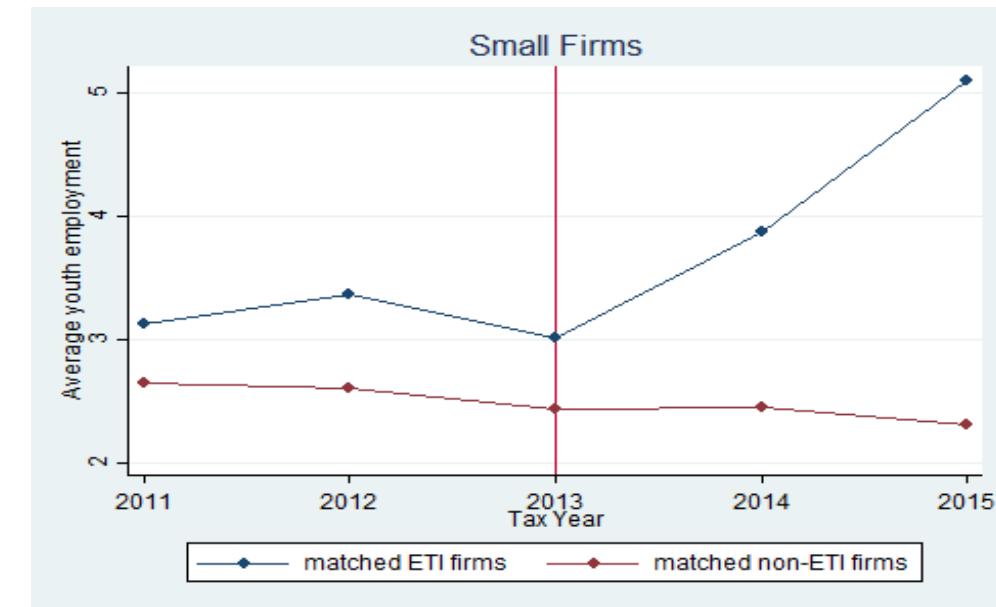
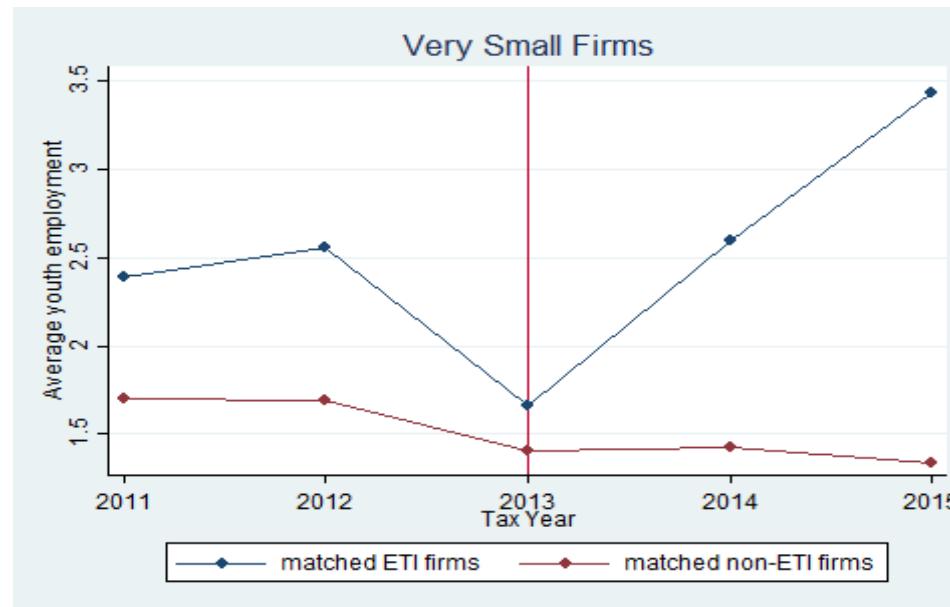


# Matching within firm size: cDiD results

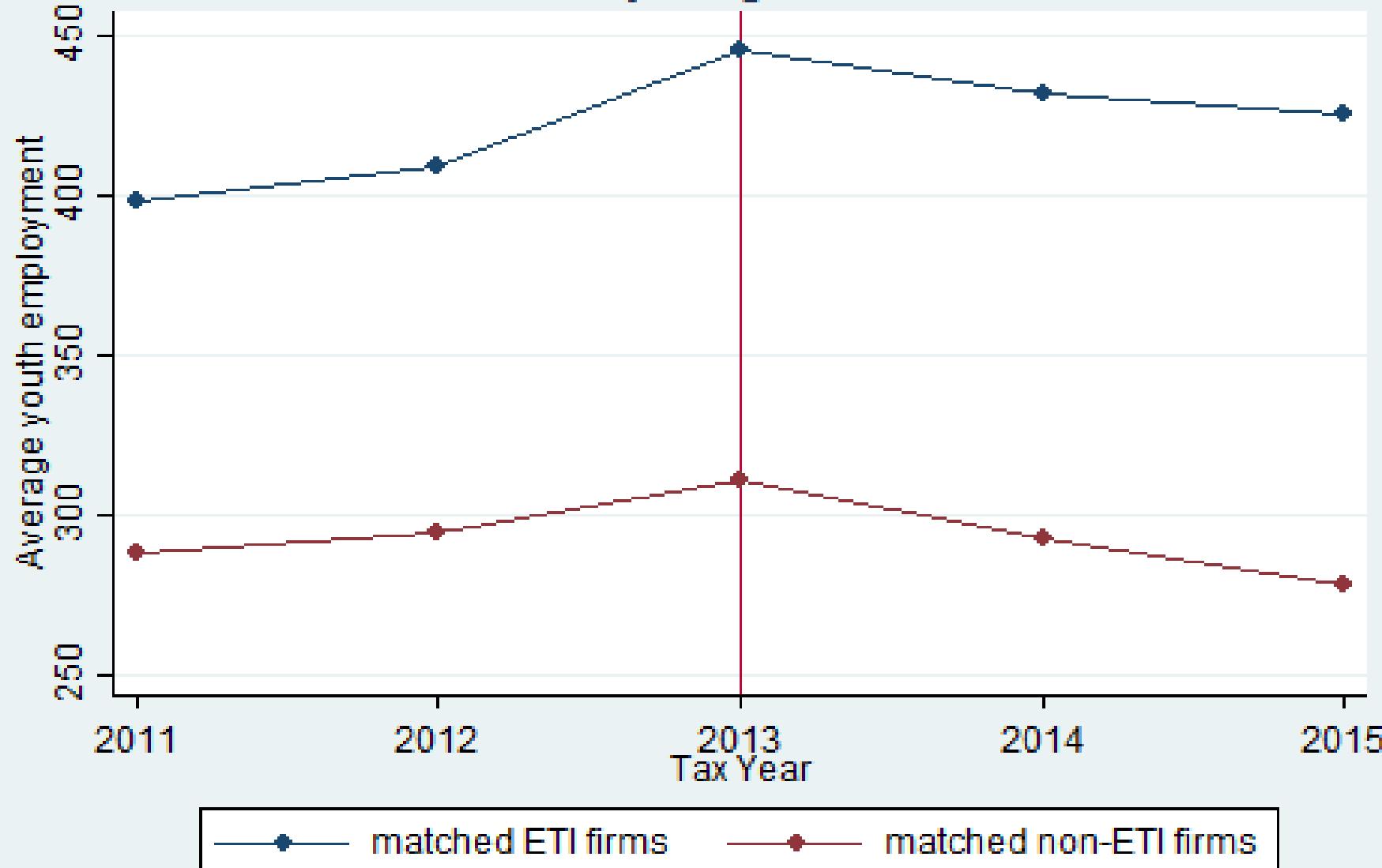
Firm size	Youth employment FY 2015
0 – 5 employees	1.766*** (0.067)
6 – 10 employees	2.226*** (0.183)
11-50 employees	2.511*** (0.125)
51 – 200 employees	7.428*** (1.034)
201+ employees	19.71 (56.7)

Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1





## Very Large Firms



# Conclusion

We see a *significant change* in the **overall demand** for youth labour

We find that firms with more than 200 do not display a significant increase in labour demand for youth.

Similar to results in other studies we see an increase in the overall and non youth labour at firms that claim the ETI.



# Current and further work

As the 2016, 2017 and 2018 tax data is now available we hope update this analysis and separately track youth before, during and after the policy to see if there has been any effect on their income

Examine ***displacement effects***, firing of non-youth or non-eligible workers to claim the tax incentive





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**[www.wider.unu.edu](http://www.wider.unu.edu)**  
Helsinki, Finland