

The effects of a youth wage subsidy on employment

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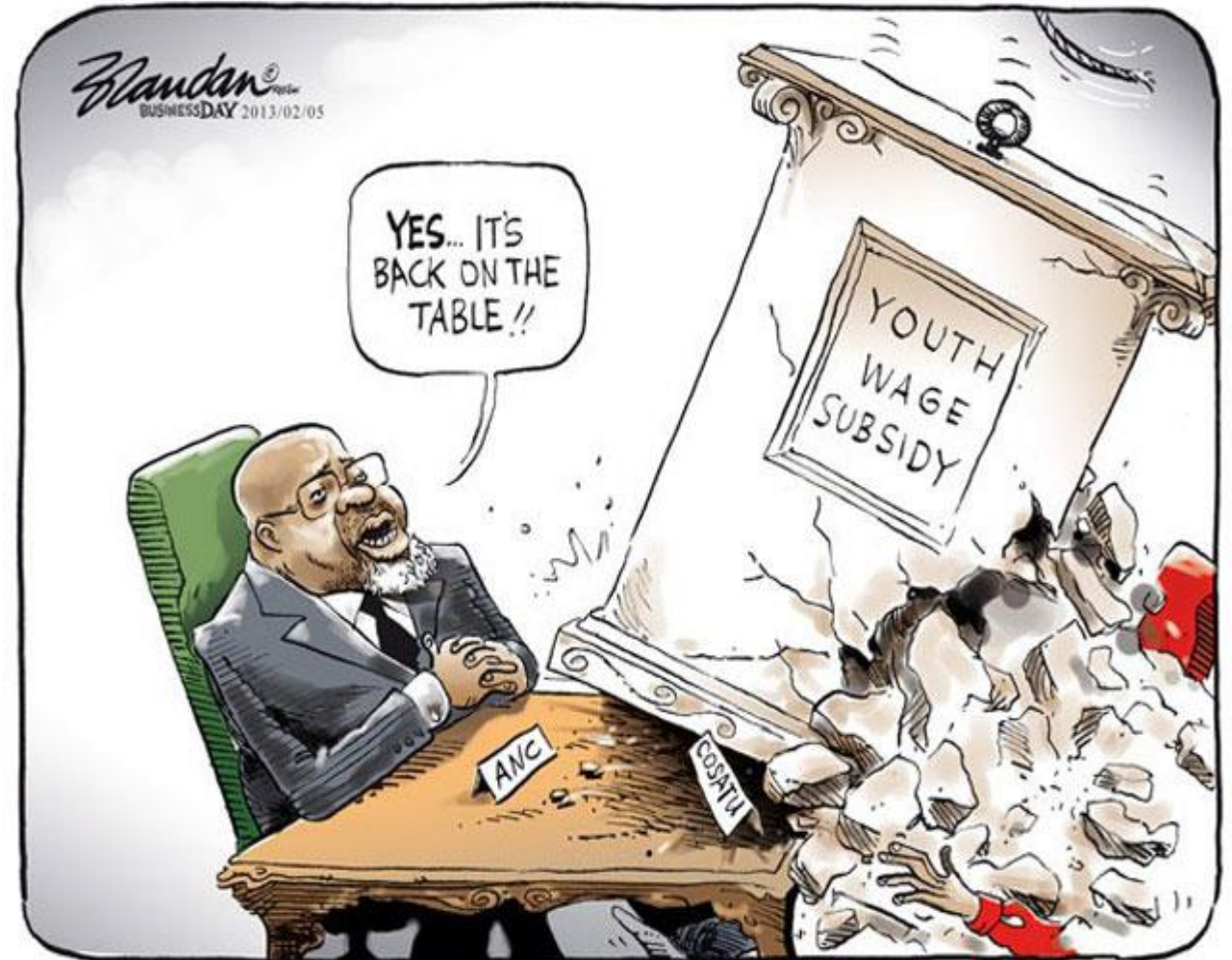
CSAE Conference

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

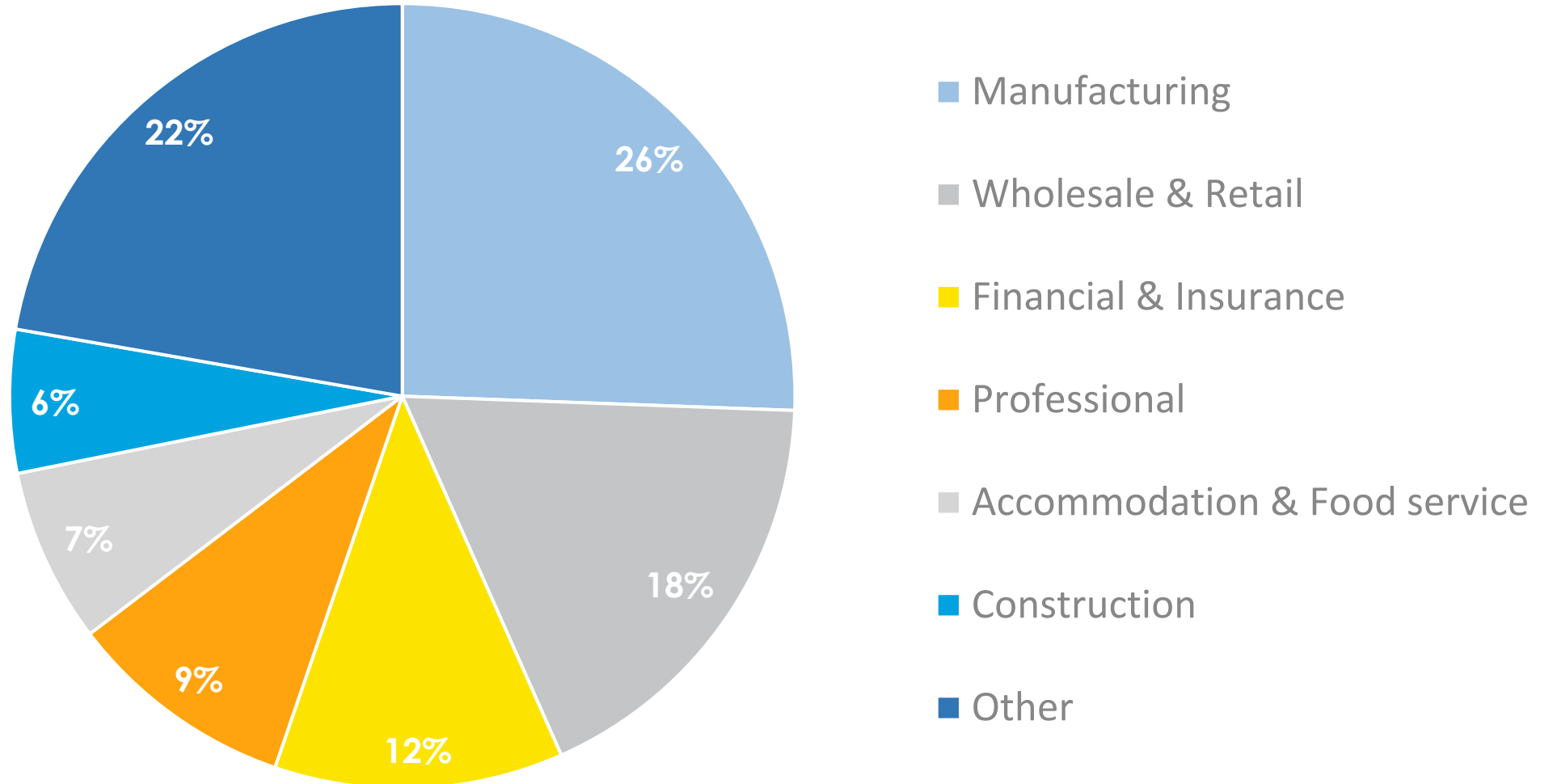
Unit of analysis is Tax Ref No

- 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

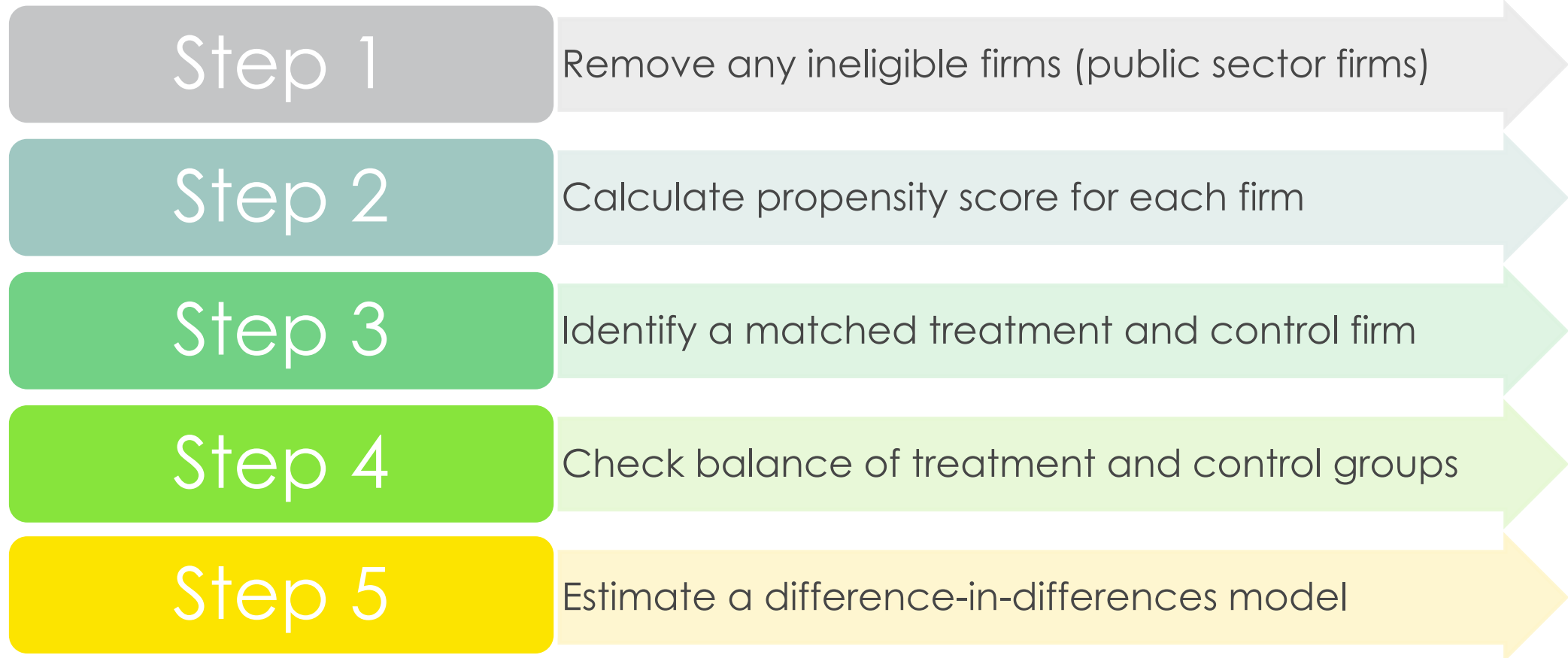


Firm size classes: ETI vs non-ETI firms

Firms size	Tax year 2015	
	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%
Total number of firms	31,845	13%

Methodology

Conditional Difference-in-Differences approach (cDiD)

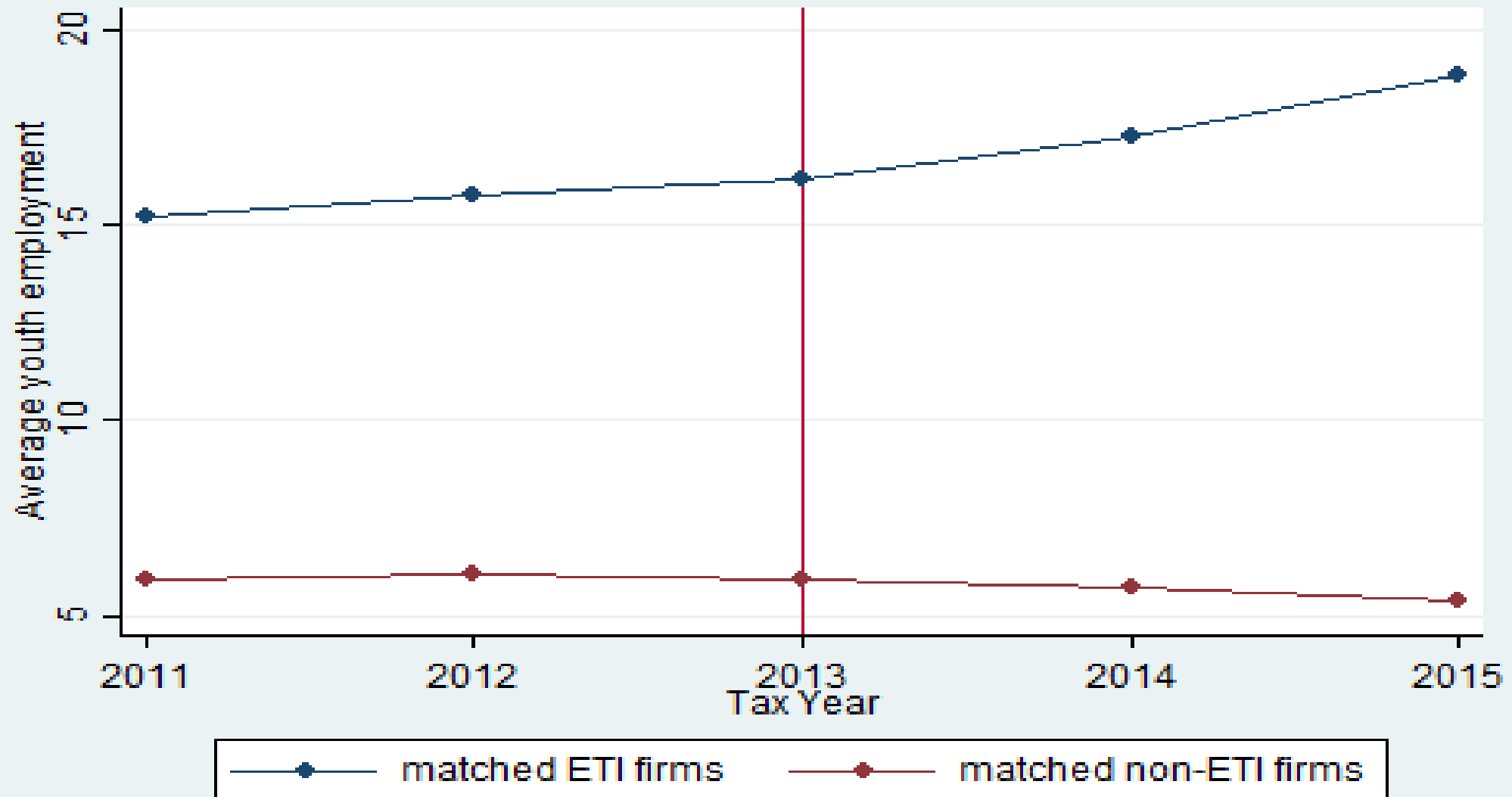


Results from the cDiD

	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

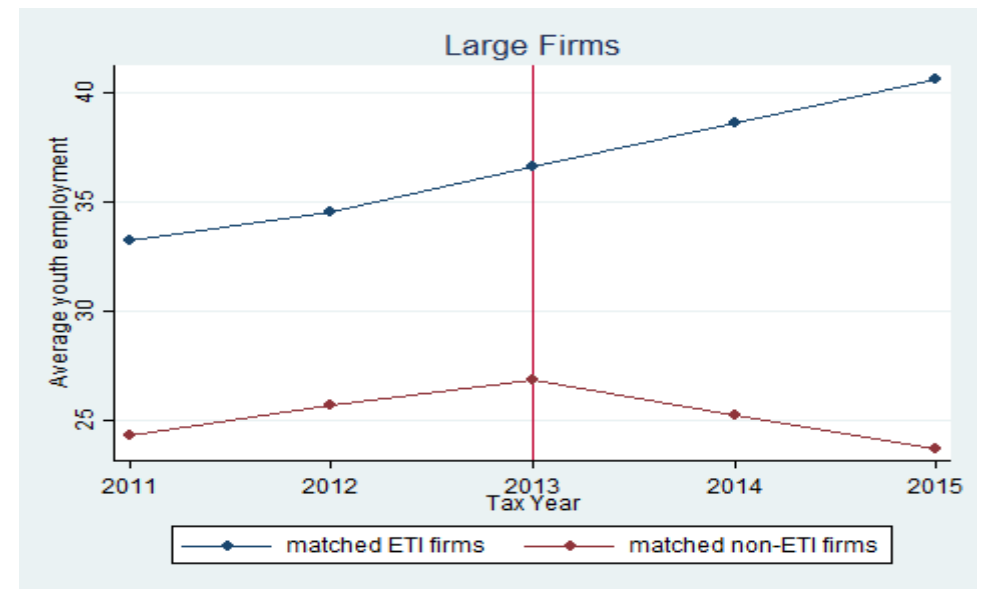
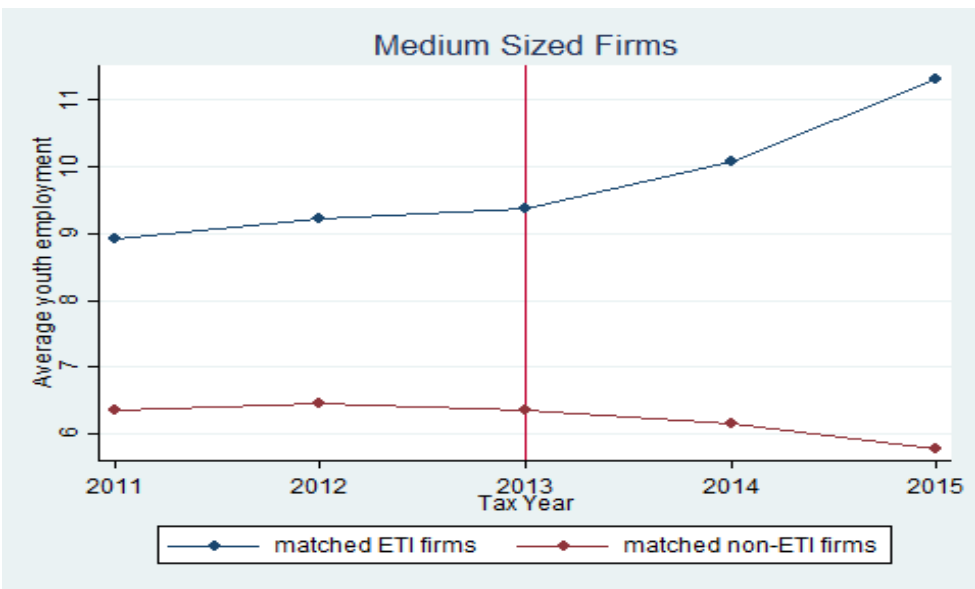
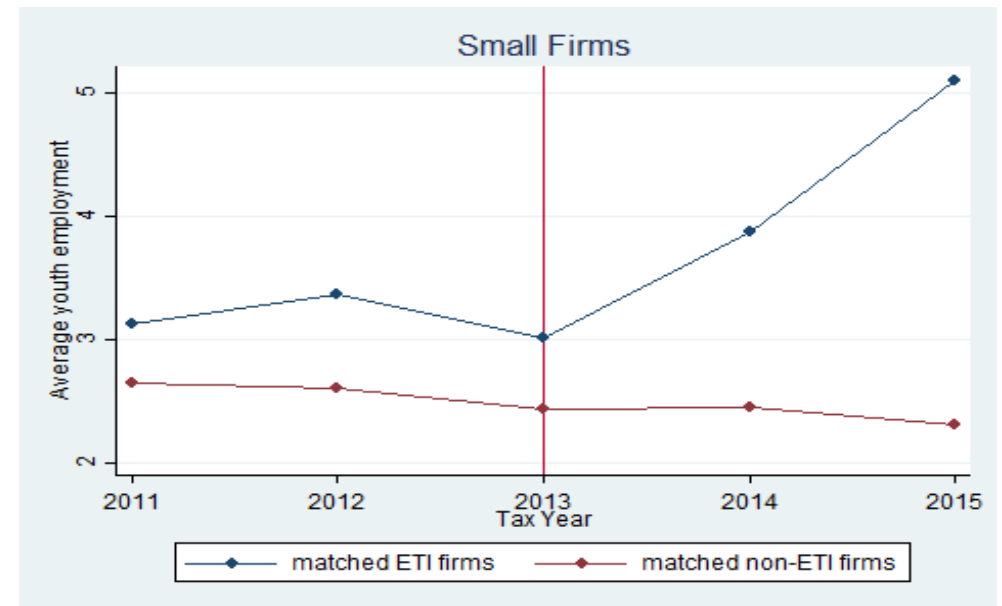
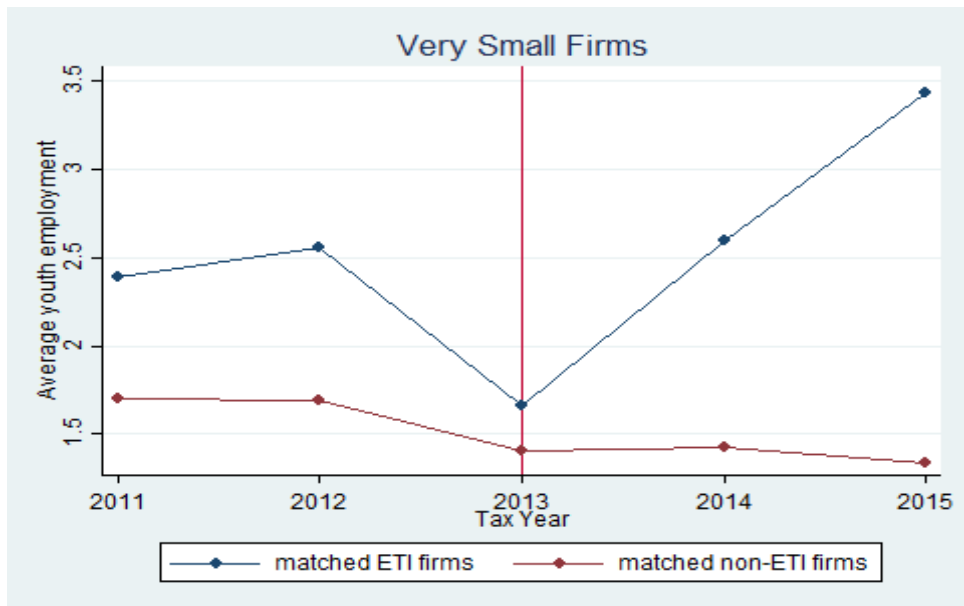
Kernel Match



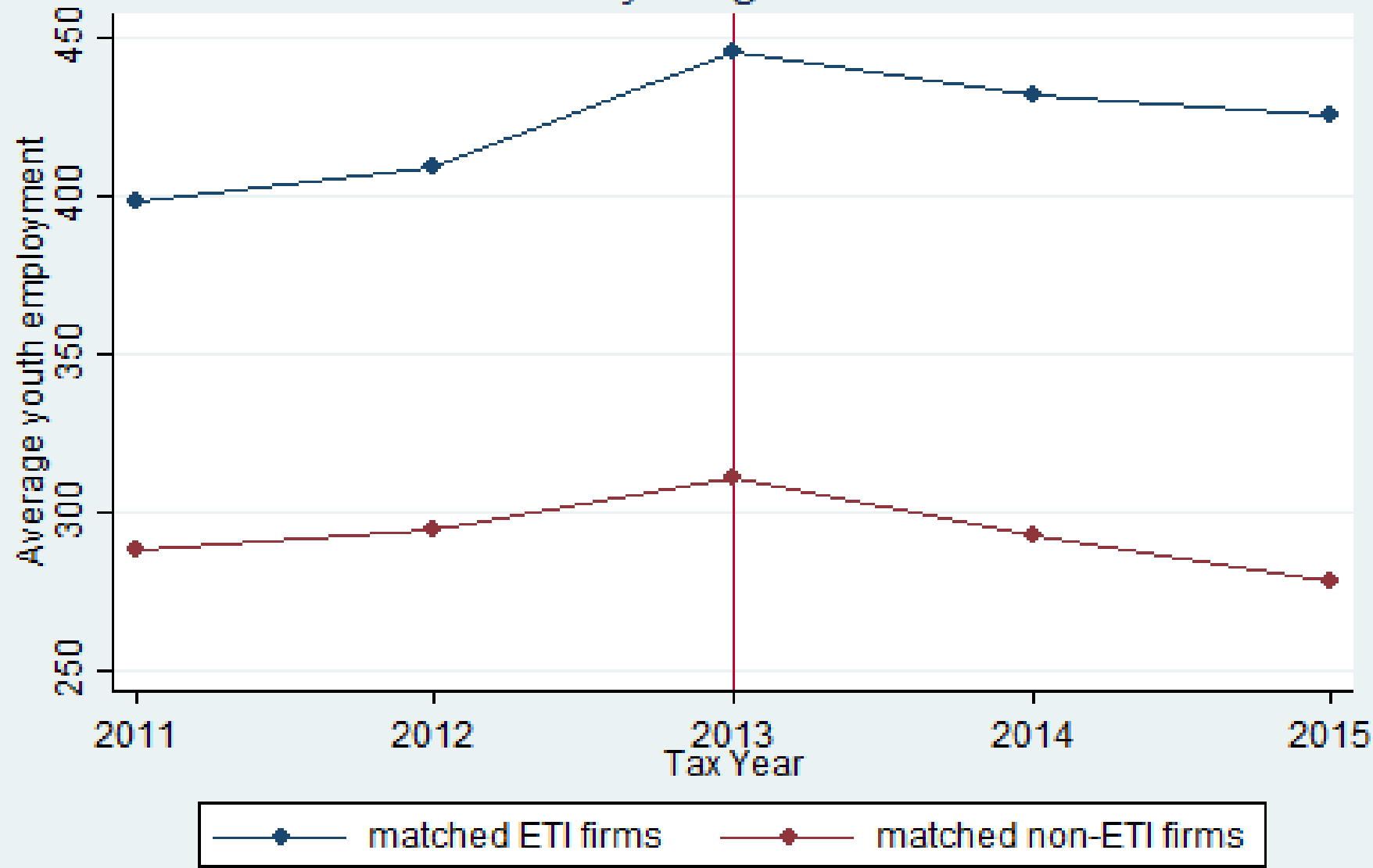
Matching within firm size: cDiD results

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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