

Youth wage subsidy

Can it solve job creation?

Government has mooted a youth wage subsidy as a means of attacking unemployment. **Oupa Bodibe** and **Kimani Ndungu** believe this is too simple. They give ideas on how to approach job creation and argue that any substantial employment strategy needs a multipronged approach.

The Minister of Finance placed the issue of a wage subsidy for young job seekers on the table in his recent budget speech. A wage subsidy involves financial assistance to employers to encourage them to employ more young workers such as through tax rebates, or co-sharing the wage responsibility with the employer. This is not a new proposal as it was tabled by his predecessor in one of his budget speeches. As expected the response to this proposal has been highly polarised.

At the one extreme, Cosatu (Congress of South African Trade Unions) has rejected the proposal as smacking of a two-tier labour market system. That is, a labour market comprised of a segment protected by labour legislation and another layer that faces the unregulated might of the employer.

Objectively speaking, South Africa already has a two-tier labour market due to the proliferation of non-standard forms of employment like sub-contracting, casual work and labour broking. The emergence of these forms of employment has created a layer of workers that cannot enjoy the rights enshrined in the Constitution and labour legislation.

What Cosatu fears is that a wage subsidy may have the effect of displacing full-time workers. A rational employer would rather choose this new source of cheap labour instead of being hobbled with expensive full-time workers. To boot this will be at the expense of the tax payer who, as the finance minister pointed out, will foot the bill through the SARS payroll tax platform.

At the other end of the spectrum is the view popular within the business lobby and elements of the mainstream media. This group has welcomed the minister's proposal as they see it as an effective means of drawing young people into employment.

At the core of this approach is a belief that labour laws and the institution of collective bargaining have raised the price of labour to the extent of blocking young workers from gaining a foothold in

the labour market. In essence that workers have priced themselves out of jobs and that an intervention which supports youth employment is urgently needed.

The intention to support youth employment is a noble one but the means may cause more damage than is warranted. This view is based on our understanding of labour market trends post 1994.

Employment or unemployment can be explained as a supply-side (economic growth is created by lowering barriers for people to supply or produce goods and services, such as adjusting income tax) or a demand-side (growth happens by stimulating consumers to spend more) problem. An alternative route is to seek a holistic approach that appreciates the supply-side and demand-side constraints to labour absorption.

FACTS ABOUT UNEMPLOYMENT

Firstly we review the fact and experience of unemployment for young people. Statistics SA (Stats SA) data on the labour market is clear that South Africa faces a crisis of youth unemployment. Almost three quarters of the unemployed are people between the ages of 15 and 34 years. Youth unemployment is especially acute between ages 15 and 24 years which incorporates new entrants into the labour market. Nearly a third of all unemployed people in our labour market are in this age category.

Furthermore, a gender breakdown shows that it is typically young African women who are worst affected by unemployment. Data shows that by September 2007,

African women between the ages of 15 and 34 made up two thirds of all unemployed women in South Africa. This trend has probably become worse due to the recent economic recession.

Another sobering fact is that many of the unemployed youth reach the age of 30 without a job which raises a bigger sociological question of the quality of human beings that this society is creating for the future. One of the key contributions of employment or income-generating activity is that it provides structure and discipline for the employed. Unemployment is a very destructive experience as it erodes a person's self worth and wastes the country's massive investment in education.

LABOUR MARKET AND WAGES

If we turn to the issue of wages, facts defy the popular belief of an expensive, highly paid South African workforce. Figures supplied by Stats SA show that by the end of 2007, over 50% of workers in the labour market were earning R2 500 or less per month (unfortunately Stats SA does not publish these figures anymore).

On the other hand, collective bargaining covers only about a third of workers in the economy and this, coupled with the majority of workers earning starvation wages, questions the popular view that ordinary workers are overpaid.

Interestingly, findings published two years ago by the Development Policy Research Unit on the impact of collective bargaining on wages showed that it is only the public sector that has a significant pay advantage associated with bargaining council membership. No such association was found for the private sector where collective bargaining has largely declined.

Of course it will be argued that compared to Chinese and other

workers, South African workers, for example in clothing, are better paid. The question is whether we are comparing apples with apples.

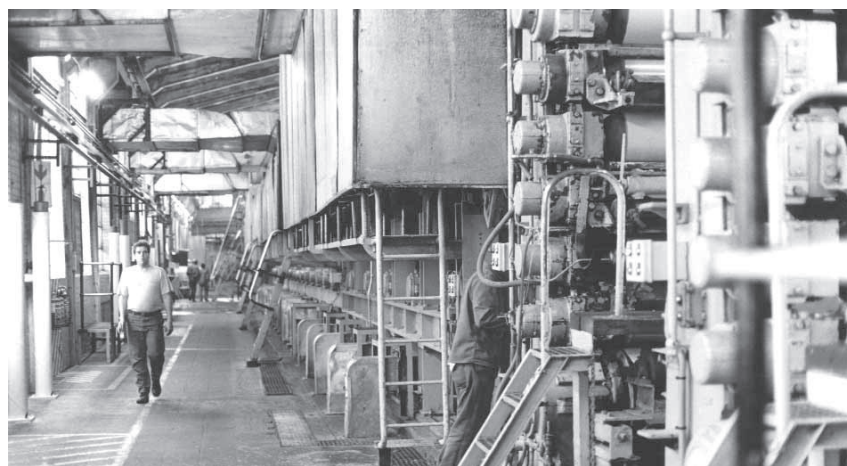
It is a well known fact that China manages its foreign exchange very carefully whereas South Africa has a managed-floating exchange rate system. This means Chinese wages are likely to be understated when compared with South Africa.

Another factor often ignored is that workers in China (at least in big centres like Shanghai) benefit

economy. There are many activities that require literacy and numeracy to function effectively in a job. The quality of education aside, many young people seeking employment have at least 11 years of education yet the economy does not effectively absorb them.

ADDRESSING DYSFUNCTIONAL LABOUR MARKET

At the height of employment creation between 2005 and 2007 when the economy was creating on



One reason why we are not creating jobs is the high capital intensity of mining, manufacturing and service industries.

from a substantial social wage in the form of efficient public transport. South African workers finance most of the social wage (education, transport, health) from their pockets. It is important that such factors are taken into account when comparing South African workers to workers elsewhere.

Still, South Africa has a small pocket of highly paid skilled workers due to the past policies of job-reservation and favourable investment in education for whites. Our economy is paying highly for these workers.

But skill alone does not explain why new job entrants are not absorbed in certain sectors of the

average 500 000 jobs per year; it was surprising that the labour market still had a shockingly high number of unemployed graduates. Official figures showed that by September 2007, there was a total of 196 000 graduates with degrees in fields such as health and social sciences (17 000), engineering (24 000), physical and mathematical sciences (25 000) and business and commerce (66 000) who could not find work.

Two reasons may help explain this contradiction. One, that employers are reluctant to employ graduates who do not have the required experience or two, that our labour market is simply

dysfunctional. The latter is closer to the truth.

To address the problem of youth unemployment, we need to give careful thought to a range of interventions and not simply a single mechanism such as a wage subsidy. The starting point should be our education system where we should rethink the inadequate investment in critical subjects like mathematics and science. A vast improvement is needed in this area including the provision of sufficient numbers of teachers and equipment in our schools.

At the higher education level, emphasis should be less on formal degree qualifications and more on practical, skills oriented, vocational training. It does our economy no good to have hundreds of thousands of young graduates with advanced theoretical knowledge and no idea of how to repair a broken boiler.

As the Minister of Higher Education remarked sombrely at Cosatu's education and skills conference in July last year, we are one of the few countries where the tertiary education system is larger than the middle-level polytechnics and college system. In other words we have a top-heavy education system that places a lot of capital on theoretical learning at the expense of skills acquisition and experiential training.

Between matric and enrolment in college or university, we should introduce a national youth service where young people are placed in activities such as public infrastructure development. This could easily be done within the framework of the Expanded Public Works Programme.

There is also the question of how we manage the transition of young people from the education system to the world of work. The Sector Education and Training Authorities

(Setas) were meant to play this role by equipping entrants into the labour market with workplace skills. With few exceptions however, the performance of Setas has been dismal. Placing these institutions under the Ministry of Labour was a big mistake which shows that we did not know what we wanted to do with these bodies.

Also, having 27 Setas in an economy divided into ten broad sectors was a serious waste of resources. Current proposals on restructuring these bodies is a welcome development but this should extend to their rationalisation in order to limit duplication of functions, eliminate turf battles and ensure coherent policy implementation.

Another challenge is to minimise the job search cost for young people, perhaps through one-stop shop labour centres. Evidence suggests that the cost of finding a job is very high for new job seekers. To start with, a job seeker must find information about available jobs. The primary media is newspaper advertisements or word of mouth. Hereafter, the job seeker must be able to prepare and send a job application, at cost. If invited for an interview the prospective worker must travel to the workplace.

WHY ECONOMY NOT CREATING JOBS?

Finally, we must ask the hard question why the economy is not creating mass sustainable jobs able to drastically reduce unemployment.

Part of the reason, is the poor performance of our manufacturing sector which has a high labour absorptive capacity.

Another reason is the high capital intensity bias of many of the high-end manufacturing, mining and services industries which do not

create jobs to any significant degree. These enterprises are machinery and technology intensive which limits employment or causes redundancies.

At the same time we should learn from sectors that have managed to absorb new job seekers, for example retail, security services, restaurants, personal and community care.

In addition, we should analyse the failure of structures like the Setas, which despite massive tax incentives have not created enough learnership opportunities to absorb the bulk of new entrants into the labour market.

IN SUMMARY

We have attempted in this analysis to argue for a much broader and well-thought out process of stimulating employment creation for the youth. A youth wage subsidy, while appealing to government and employers, is a simplistic way of responding to what is obviously a set of complex, structural problems in our labour market. It will only serve to deepen our two-tier labour market at the expense of workers and government.

Ultimately, South Africa requires a comprehensive and integrated employment creation strategy that identifies sectors with high job creation potential in both the private and public sector. The newly unveiled Industrial Action Plan is a step in that direction but it must be complemented by raising employment creation as a priority for all government entities. LB

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