

SOUTH AFRICA

TOBIAS REINAUER

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## The Youth Wage Subsidy

FIGHTING YOUTH UNEMPLOYMENT IN SOUTH AFRICA

**In May 2012 demonstrations in Johannesburg for the implementation of the youth wage subsidy resulted in brutal street fights between members of the Democratic Alliance (DA) and members of the Congress of South African Trade Unions (Cosatu). This has been the peak of the conflict that was sparked by President Jacob Zuma's announcement to implement such a subsidy to address the pressing issue of youth unemployment in South Africa**

"Together we can do more to build infrastructure and fight youth unemployment, poverty, and inequality" is the theme under which South Africa celebrates this year's Youth Month. Acknowledging the importance of this particular part of the population is pivotal since the youth – those between 14 and 34 years of age – constitute more than 40 percent of the South African population.<sup>1</sup> It is also the most rapidly increasing age group with an average growth rate of 1.27 percent over the past seven years as compared to 1.12 percent for the total population.<sup>2</sup> Such demographic constellations potentially provide great opportunities for societies or nations as an increase in human capital optimally can trigger economic growth and human development if combined with the corresponding policy measures and market situations. This, however, is hardly the case in South

Africa. The country has suffered from high unemployment rates of about 25 percent, of which about 70 percent are constituted by the youth, with black African and Coloured being most severely affected.<sup>3</sup> Reasons for such high levels of unemployment are a mismatch in population and job market growth as well as a lack of skills for the particular demands of the economy.<sup>4</sup>

Countries facing similar problems, such as Turkey and Chile, have implemented youth wage subsidies as policy measures to motivate the employment of the younger parts of society. Proposals of doing the same in South Africa, however, have encountered much controversy. Since February 2010, when President Zuma in his *State of the Nation Address* announced intentions to introduce a youth wage subsidy by April 2012, members of the Congress of South African Trade Unions have vehemently opposed such plans. Contrarily, the Democratic Alliance stands in favour of the implementation of such a policy and consequently started a pilot programme in the DA governed province of the Western Cape. When on May 15 the DA organized a march in Johannesburg to demonstrate for an implementation of the policy on a national basis, the depth of the divide between the opposing parties became evident in violent escalations. In order to get a better understanding of what exactly the controversy about the youth wage subsidy consists of, the different views of the stakeholders, particularly the DA, the youth itself, the African National Congress

<sup>1</sup> National Youth Development Agency, *The Integrated Youth Development Strategy of South Africa 2012-2016* [2011]

<sup>2</sup> *ibid*

<sup>3</sup> *ibid*

<sup>4</sup> *ibid*

Konrad-Adenauer-Stiftung e.V.

## SOUTH AFRICA

TOBIAS REINAUER

June 2012

<http://www.kas.de/suedafrika/>

(ANC) as well as Cosatu, need to be analysed.

### Providing incentives for employers

-The position of the DA-

In a statement on the high youth unemployment rate and the fact that the ANC has yet to implement the youth wage subsidy as announced by President Zuma, the DA stated that *"the scale of this crisis is so overwhelming that (...) [South Africa] cannot waste a minute in setting out to tackle it."*<sup>5</sup> The DA regards the proposed subsidy as an effective measure to counter youth unemployment. Therefore the party lobbies for an introduction of the subsidy on a national basis. Pointing at the pilot programme the DA has been running in the province of the Western Cape, Premier Helen Zille proudly states that out of the 2,000 young people who have been put on the programme, 70 percent have found permanent employment at their companies.<sup>6</sup> The provincial policy pays the young and newly employed a monthly amount of R1,200, which their employers can choose to top up. By offering this service, the government enables inexperienced first-time job seekers to get a hold in the economy. The DA claims that managers in South Africa usually have to face high costs of training when employing young workers and run the risk of wasting time and money on individuals who after some time turn out to be unsuitable to acquire a particular set of working skills. By taking over some of the costs involved, the government provides incentives for the employer to take that risk and to prevent first-time job seekers from getting stuck in unemployment. The longer the young stay without work, the harder it gets for them to enter the job market and the longer they are dependent on governmental grant sys-

tems which according to Zille *"traps them into poverty."*<sup>7</sup>

Being convinced of the effectiveness of this subsidy, the DA has heavily criticised Cosatu's opposition to it by claiming that the unions are not willing to compromise and that their argumentation is not backed by convincing evidence. The DA claims that by means of the great influence Cosatu as a partner in the ruling triparty alliance has on the ANC and President Zuma, they hinder the necessary progressive policy measures needed in South Africa to tackle the pressing issue of youth unemployment.<sup>8</sup> The DA furthermore claims that Zuma has failed to show leadership and ought to allocate the R5m of available funds to the programme immediately.<sup>9</sup> They refer to estimates of the National Treasury which alleges that 423,000 jobs could be subsidised in the first three years of implementation.<sup>10</sup> Lastly, the DA claims that the programme has the advantage of decreasing costs of employment without requiring any changes in South African labour law since wage levels and conditions of employment remain unchanged.<sup>11</sup>

### Finding a job made easier

-The position of the Youth-

The South African youth themselves have expressed wide approval of the proposed wage subsidy.<sup>12</sup> This has been found in a small, yet, with regards to ethnic proportionalities, representative cell phone survey run by TNS South Africa and FSMS among 538 individuals between 16 -20<sup>th</sup> May 2012. While 411 of the survey participants were blacks, 127 were of other race groups. There were virtually no differences in the number of males and females interviewed

<sup>7</sup> ibid

<sup>8</sup> Ibid supra note 5

<sup>9</sup> ibid

<sup>10</sup> ibid supra note 5

<sup>11</sup> ibid

<sup>12</sup> Fin24, *Youth Support Wage Subsidy – Survey* [2012, May 23], Retrieved 11.06.2012 from <http://www.fin24.com/Economy/Youth-support-wage-subsidy-survey-20120523>

<sup>5</sup> Lindiwe Mazibuko & Tim Harris, *The Wage Subsidy Policy Deadlock and South Africa's Youth Unemployment Crisis* [2011]

<sup>6</sup> Jonathan Haller (Producer), 15 Years of the South African Constitution [2012, May 21], *Radio CCFM 107.5*, Retrieved 11.06.2012 from <http://www.kas.de/suedafrika/en/>

Konrad-Adenauer-Stiftung e.V.

SOUTH AFRICA

TOBIAS REINAUER

June 2012

<http://www.kas.de/suedafrika/>

and variances across the numerous language groups could be ignored as they were not significant.

The results indicated that 77 percent of the addressed youth support the idea of a youth wage subsidy, while 11 percent oppose it and 12 percent respond that they would not know. Those in favour of the policy think that it would make it easier to find jobs, that it would help the economy grow, and that it would effectively address the problem of youth unemployment. Moreover, most of the respondents – 44 percent – state that they disagree with the position of Cosatu. Despite the fact that the popularity of the subsidy among the age group of 31 years and older is weaker than among the group of those between 16 and 24 years of age, there is still overall support, with 66 percent and 80 % of the respective groups approving of it. Some also express concern that the subsidy would put older workers at risk of losing their jobs. However, this is only mentioned by 19 percent of the respondents, whereas 37 percent indicate that they would not know, and 43 percent think that this it is not the case.

#### **Subsidy is only one of many strategies**

The position of the ANC-

In a response to an inquiry by the DA as to why the ANC has yet failed to implement the youth wage subsidy as proclaimed by President Zuma in his 2010 State of the Nation Address, the ANC claims that it has already been active in fighting youth unemployment in South Africa with a variety of other policy measures.<sup>13</sup> Among those are, for instance, efforts to create incentives for more investment, infrastructure building programmes, and the improvement of access to and quality of basic and higher edu-

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<sup>13</sup> South Africa, National Assembly, *Question for Written Reply Question No. 606* [2012, March 9], Pretoria, HI: Jacob Zuma, Retrieved 11.06.2012 from <http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71656?oid=298967&sn=Detail&pid=71656>

cation.<sup>14</sup> According to the party, the youth wage subsidy only presents one of many strategies.

The ANC furthermore states that valid concerns have been raised with respect to the programme as requested by the DA. National government fears that there is a high risk of misuse since providing employers with funds when choosing young over old workers is likely to end up in the latter being unrightfully put out of work.<sup>15</sup> Nevertheless, the Cabinet does not entirely abandon the idea of introducing the programme on a national basis.<sup>16</sup> Yet, it claims that certain compromises need to be made in order to make it implementable. Firstly, the age group of those eligible to the subsidy needs to be revised as providing this service for too many individuals will cause problems with the available budget. While the DA suggests making the programme available for first-time job seekers between the ages of 14 to 34, the ANC wants to reduce the upper limit to 30 years of age.<sup>17</sup> Similarly, the period during which employers can arbitrarily dismiss newly employed workers needs to be reconsidered.<sup>18</sup> The subsidy also should merely be paid for a period of two years and should not exceed a maximum amount of R12,000.<sup>19</sup> Furthermore, the ANC states that there needs to be a limit to the number of workers being subsidized by the programme to the total number of workers at a particular firm, such that, for example, there can only be one incentivized worker per five normally employed workers.<sup>20</sup> Lastly, the government proposes that the subsidy should be made available to those whose salaries are below the personal income tax threshold.<sup>21</sup> According to the ANC, the policy, in any case,

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<sup>14</sup> *ibid*

<sup>15</sup> Sam Mkokeli, Zuma backs Youth Wage but Cosatu stands firm, *Business Day* [2012, May 17], Retrieved 11.06.2012 from <http://www.businessday.co.za/articles/Content.aspx?id=171929>

<sup>16</sup> *Ibid supra* note 13

<sup>17</sup> *ibid*

<sup>18</sup> *ibid*

<sup>19</sup> *ibid supra* note 15

<sup>20</sup> *ibid supra* note 13

<sup>21</sup> *ibid supra* note 15

Konrad-Adenauer-Stiftung e.V.

## SOUTH AFRICA

TOBIAS REINAUER

June 2012

<http://www.kas.de/suedafrika/>

needs to be closely monitored and evaluated by means of the tax system in order to prevent fraud and to establish its effectiveness in practice.<sup>22</sup> Since South African labour law prohibits the retrenchment of older workers, the youth wage subsidy can only be granted if it creates jobs on top of already existing ones.<sup>23</sup>

### Subsidy opens the door for misuse

-The position of Cosatu-

Cosatu heavily opposes the demands of the DA to implement the youth wage subsidy on a national basis. The union leadership states that the presented proposals are heavily biased and that the mere aim of the DA is to attract voters by "*appearing to be concerned about the huge sea of black youth unemployed.*"<sup>24</sup> In fact, so the leadership of Cosatu claims further, the DA has a high disregard for the safety and concerns of black people in general, which has become evident in their promotion of "*black on black violence*" during the protest March in Johannesburg last month.<sup>25</sup>

Cosatu further assumes that "*unpatriotic South African employers will use the subsidy to line their pockets.*"<sup>26</sup> According to the unions, the policy suffers a high risk of being misused by employers to gain personal benefit. Zwelinzima Jim, who currently leads the National Union of Metal Workers of South Africa (NUMSA), the second biggest affiliate of Cosatu, suggests that if implemented, the subsidy will turn the youth into

<sup>22</sup> *ibid supra* note 13

<sup>23</sup> *ibid supra* note 15

<sup>24</sup> Tony Ehrenreich, *Youth Wage Subsidy Launch in Western Cape* [2012, May 21], Retrieved 11.06.2012 from <http://www.cosatu.org.za/docs/pr/2012/pr0521c.html>

<sup>25</sup> *ibid*

<sup>26</sup> Cedrc Gina, *Why Cosatu's Opposed to Youth Wage Subsidy*, *Politics Web* [2012, May 27] Retrieved 11.06.2012 from <http://www.politicsweb.co.za/politicsweb/view/politic-sweb/en/page71654?oid=301620&sn=Detail&pid=71654>

slaves of their employers. They will first exploit the young employees for two years and then get rid of them.<sup>27</sup> This also presents a risk for older workers as they are likely to become replaced by younger ones. As such, the proposed subsidy does not address youth unemployment, but rather contributes to a widening of the gap between rich and poor.<sup>28</sup>

The trade unions also claim that youth unemployment in South Africa has reached such a scale that the proposal of a R5m subsidy is insufficient and shortsighted. In order to effectively tackle this problem, broader government interventions at the macroeconomic level are needed. Suggested examples of such are a massive skills revolution for young people, the reopening of nursing colleges, the filling of all further education and training facilities, and the adoption of a manufacturing biased industrial strategy.<sup>29</sup>

### Government may not fail the Youth

Looking at the different positions the parties have taken to the debate, it becomes clear that a consensus on the issue of youth unemployment is not in sight. The fact that nearly half of all South Africans between 14 and 34 years of age are currently without a job, however, calls for unified, decisive, and progressive action.<sup>30</sup> The longer youth unemployment levels remain as high as they are now, the longer opportunities of economic growth and human development are wasted. Instead of mutually accusing each other of party politicking, it is time that all parties involved in the debate come together and discuss a common Way Forward. If the current climate of hostility, which has expressed itself in the violent escalations of the demonstrations in Johannesburg, does not soon change, the different positions will

<sup>27</sup> Siphon Khumalo, *Numsa Backs Call for Nationalisation* [2012, June 4]. Cape Times

<sup>28</sup> *ibid supra* note 24

<sup>29</sup> *ibid supra* note 26

<sup>30</sup> *ibid supra* note 1

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**SOUTH AFRICA**

TOBIAS REINAUER

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**<http://www.kas.de/suedafrika/>**

harden even further. The government in consultation with the youth and other stakeholders, such as the business sector, SETAS and civil society groups will have to develop a plan of action that addresses the problem of youth unemployment. Since a silver bullet is not available to solve this complex and multilayered problem, the action plan needs to include a variety of measures and strategies. Should the government fail to do so, the youth will turn to the streets and protest against a future which does not offer them sufficient opportunities. To have nothing to lose is perhaps the biggest threat to democracy and political stability in today's South Africa.