Two Policies to Alleviate Unemployment in South Africa

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# Rates by Age

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Participation</th>
<th>Employment</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Men</strong></td>
<td></td>
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<tr>
<td>16-64</td>
<td>74.71</td>
<td>50.17</td>
<td>32.85</td>
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<tr>
<td>16-19</td>
<td>21.58</td>
<td>6.60</td>
<td>69.40</td>
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<tr>
<td>20-24</td>
<td>68.63</td>
<td>27.22</td>
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<td>92.83</td>
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<td>50-64</td>
<td>70.76</td>
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<td><strong>Women</strong></td>
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<tr>
<td>16-64</td>
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<td>33.82</td>
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<td>16-19</td>
<td>20.06</td>
<td>3.76</td>
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<td>44.34</td>
<td>35.41</td>
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</table>
Key Messages in the Data

- Participation rates are low but have risen—especially for women.
- Employment rates are low.
- Unemployment rates are high and have risen over time.
- Unemployment is a problem for those with a Matric or less.
- Unemployment is especially a problem for the young.
- The trick seems to be getting into the formal workforce.
Costs of Unemployment

- Costs of unemployment include:
  - Unemployed South Africans represent lost economic output today.
    - If employment rose to average level in 6 comparator countries, per capita income would increase 48%!
  - Workers not employed today are not gaining experience and skills for future productivity.
  - Social ills that accompany loss of hope
    - Crime
    - Disengagement with political process
    - Lack of investment in self
Proposal # 1: A Targeted Wage Subsidy

- A targeted wage subsidy to facilitate school-to-work transition.
  - Targeted population is recent school leavers.
  - The subsidy is accompanied by a very short probationary period during which dismissal is "at will." After this probationary period, standard regulations apply.
What is a targeted wage subsidy?

- What is a wage subsidy?
- The opposite of a wage tax. A wage tax:
  - Raises the cost of labor to the firm.
  - Discourages employment in the formal sector.
  - Raises revenue for the Treasury.
  - Encourages investment in labor-saving capital.
- A wage subsidy turns all these effects around.
- A *targeted* wage subsidy does so for a subset of the labor force.
The Economic Argument for a Targeted Wage Subsidy: The Logic

- Something is preventing young school leavers from entering the labor market.
  - Unemployment in 2005 was over 50% with the narrow defn.
  - For those 10 years older, the rate had about halved.
- Once in the formal sector, workers tend to stay there.
- Need to get that first job.
The Economic Argument for a Targeted Wage Subsidy: What’s broken?

Market imperfections include:

- Firms won’t invest enough in training and workers cannot finance their own training.
- Costs of unemployment are not borne just by the individual.
- Wages are too high and, at these wages, firms prefer experienced workers.
- Great uncertainty about worker quality.
- Dismissal is costly and this discourages firms and workers from “dating” before “marriage.”

That each of these imperfections is a nation-wide problem argues for a national wage subsidy across all sectors.
Caveats Re: A Targeted Wage Subsidy

- Abuse of the probationary period.
- Substitution with non-targeted workers.
- Stigmatize targeted population.
- Induce students to leave school.
- Cause inflation
- Fraud
Implementation issues

- Eligibility: The Subsidy Account for *all* upon turning 18. This is a policy for South Africa’s children.
- Expiration: None.
- Level: R5000.
  - Half average annual income conditional on Matric and employment.
  - 50 percent subsidy rate cap.
  - Experiment and evaluate!
- Probationary Period: 10 weeks.
- Cost: About R 3.75 Billion/year at 75 percent take-up rate.
The Argument for Immigration Reform

- South Africa has a shortage of highly skilled workers.
- South Africa is likely to be able to attract the best from SADC and other African countries.
  - Prior to 1994, most immigration came from Europe.
  - Since 1994, more than half comes from Africa.
- “Brain Gain”
- Skilled and Less-skilled workers are *complements*. 
Immigration Reform: Implementation Issues

- Educational qualifications.
- Permanent and temporary workers.
Related Policy Responses

- BEE—Black Economic Empowerment
  - Not an employment policy
- Industrial Policy
  - Want a policy that uses less-skilled workers intensively.
- A better education system
  - Have to deal with the labor market you have, not the one you want (in near term.)
- Public Works Program
Conclusions

- These policies *will* alleviate unemployment.
- A targeted wage subsidy is both more ambitious and more effective.
- Delay is costly.
- There are costs to these policies.
- And there are costs to doing nothing.