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Design and implementation issues in the Jobs Fund and a youth wage subsidy

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As part of perpetual policy experimentation and search for that elusive 'silver bullet' to deal with unemployment, the South African government recently introduced the Jobs Fund and continues to mull over the idea of youth wage subsidies - vehemently opposed by trade unions. The success of these programs is highly dependent on effective design and administration. This article evaluates program design features against a number of factors.

Introduction

The official (narrow) unemployment rate in South Africa continues to float around the 25% mark, failing to respond to a handful of policy interventions introduced over the past decade. As part of perpetual experimentation and search for that elusive 'silver bullet', the South African government recently introduced the Jobs Fund and continues to mull over the idea of youth wage subsidies – which are vehemently opposed by trade unions. Both these programmes are part of an Active Labour Market Policy (AMLMP) package that seeks to intervene temporarily in the labour market to help the unemployed, including the work-shy, to find work. The questions are how such policies should be implemented to be successful and whether the South African initiatives are properly designed (Rakabe 2012).

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The general nature and objectives of ALMPs

Active labour market policies (ALMPs) can take many forms and shapes, depending on each country's unique conditions. However, they are broadly understood to involve making the receipt of benefits conditional upon the benefit recipients' having demonstrated that they have actively searched for jobs and/or their willingness to work or take steps to improve their employability. The underlying rationale is that of social inclusion (Etherington, 2005) and the widely held notion that helping the unemployed get back to work is far more appropriate than providing them with social assistance (OECD, 1996).

An ALMP also can be used to achieve specific objectives, such as moderating the effect of cyclical downturn on labour markets, reducing structural imbalances and improving the functioning of the labour market. Other aims may include increasing productivity, protecting disadvantaged or vulnerable workers, supporting susceptible employers and industries, as well as alleviating the moral hazard associated with unemployment insurance (Boone and Van Ours, 2004). The fundamental goal is to help people of working age back into the labour market and not necessarily directly to increase the number of available jobs (Daguerre and Etherington 2009). As such, the success of an ALMP is measured against the subsequent improvement in labour market outcomes. This includes an increased take-up of workers into regular employment, an improvement in wages and labour productivity, as well as a reduction of the duration of claims on unemployment benefits/insurance (Calmfors, 1994).

The Jobs Fund and youth wage subsidy in South Africa

For South Africa, the Jobs Fund and the proposed youth wage subsidies have been introduced in anticipation of the prospects of major direct job creation. These programmes were kick-started with announcements (in 2010) of generous budget allocations of R9 billion and R5 billion over three years, indicating the importance attached to job creation by the government. The Jobs Fund is intended to have created 150 000 jobs when it lapses in 2013; while the youth wage subsidy is projected to create in excess of 463 000 jobs. Although ambitious, the projections on the youth wage subsidy are not far off from estimates of Pauw (2002), who found similar employment effects for a 10 percent wage subsidy for semi- and

unskilled workers in South Africa, i.e. a total of 324 000 jobs at a cost of R9 billion. Pauw (2002) further shows that wage subsidies tend to be effective when they target industries that are responsive to changes in real wages and have lower average wages – these characteristics reduce the per capita cost of the subsidy and the cost per job created.

A first assessment

The analytical rigour of such job creation estimates, as well as the emphasis on ambitious job targets (which reduce programmes to number chasing exercises), both tend to assume that policies are all but self-executing. The performance of ALMPs depends on how well the programmes are designed, to ensure the maximum impact on labour market outcomes. Key strategic design features that require considerable attention include the proper targeting of recipients (participant eligibility), time limits on benefit recipiency, wage levels, geographical focus, attaining a correct mix of programmes within the ALMP envelope and the relationship between the ALMP and other policies. Proper design should help to avoid the unintended consequences inherently associated with ALMPs, such as substitution, displacement and deadweight effects.

Targeting within ALMP programmes has many dimensions as it encompasses individual participants, geographic location and industrial or sectoral focus. A review of international programmes reveals that activation programmes commonly are targeted at a strictly defined cohort of the population with the lowest socio-economic attributes. Likely candidates are people who have been on public assistance programmes for extended periods and those with no schooling, a poor work history (the hard-to-place) and the lowest family income.

The universal targeting approach that seem to characterise the South African Jobs Fund and the proposed youth wage subsidy may potentially result in high deadweight losses as eventual programme outcomes may not be different from what would have occurred in their absence, e.g. the hiring of graduates (Betcherman, 1999; Boone, 2004).

Another aspect is whether the ALMP programmes have a national or local focus. National programmes tend to be concerned with pure employment effects on the labour market;

while localised programmes are able to capture spatial market imperfections and other local economic development benefits. ALMP programmes such as support for entrepreneurs and training perform better when undertaken at local level to respond to unique economic conditions (Freshwater, 2008). However, public employment services may require a network of facilities, institutions and employers with extensive geographic coverage to generate and disseminate accurate and timely labour market information across a vast space (Betcherman et al 2009).

A substantial body of literature suggests that small-scale, high-quality programmes are more desirable than the large-scale, low-quality programmes which often manifest in nation-wide ALMP programmes (Finn and Simmonds 2003; Employment Policy Institute, 1993; OECD 1994). In the South African case, both the youth wage subsidy and the Jobs Fund have a national orientation despite the latter having elements of entrepreneurial support.

In addition, based on proposals for the two programmes, neither of them is targeted at any specific sector of the economy nor geographic area where incidents of unemployment are high. Instead, the programmes are available across all sectors and regions on a competitive basis. While this design feature is defensible especially from administrative considerations, it is important for programmes to recognise industrial and geographic peculiarities, especially in South Africa where the economy is highly polarised geographically. The selection of candidate regions and sectors for South Africa should be fairly straight-forward in that various economic policy documents already recognise the spatial economic disparities and the priority sectors of the economy.

The level at which the subsidy rate is set has implications for sectoral targeting and the attainment of the requisite job creation outcomes. A lower subsidy rate invariably attracts low-skilled, low-paid workers who may not fall within sectors or skill categories which are important for the country's long-term growth. It is common cause that South Africa experiences critical shortages in medium to highly skilled categories, such as technicians and artisans especially in the mining, manufacturing, ICT, engineering and chemical sectors. The average minimum wages in these sectors and skills categories is higher than the cut-off maximum wage (R60 000 p.a.) for workers eligible for the subsidy (Guma, 2011). As such, the

outcome of the youth wage subsidy may be the temporary employment of the youth in sectors which are not part of the New Growth Path (priority sectors) or that have limited future job prospects, e.g. the clothing and textile, and retail sectors.

International experience

Elsewhere around the globe, the evidence regarding the performance of the ALMP is mixed. There are conflicting estimates regarding what the actual impact of the activation of programmes has been, perhaps because the programmes are pro-cyclical and depend on a number of external factors. Due to these ambiguities, countries such as the UK, the USA and Australia have abandoned some conventional ALMP programmes in favour of conditional social assistance or 'Work for the Dole' type of programmes (where unemployment benefit recipients are mutually obligated to undertake unpaid community work) (Howard and Buultjens, 2004; Tanweer 2011). On the whole, the extensive literature on the topic shows that where positive results have realised, their impact is low to moderate. The most cost-effective results transpire from programmes which provide job search assistance and support for business start-ups to the unemployed. Training is only effective for some groups of unemployed, and employment subsidies tend to lead to a small net job creation but may have positive longer-term effects on skill levels and work motivation (OECD 1996; Daguerre and Etherington 2009; Bertchman et al 1999; Freshwater, 2008).

Conclusion

Despite erring mostly on the side of caution, this article does not argue against the use of activation programmes. I recognise that numerous social and economic policy objectives can be achieved through ALMPs, especially relating to integrating the marginalised and at-risk groups. The key issue is to learn from past experiences and orientate programmes along the lines that appear to work: focusing the programmes on a specific problem, making the programme more localised and adopting an integrated and coordinated approach. The ultimate shape and size of South Africa's Jobs Fund and youth wage subsidy should be underpinned by the nature of our unemployment and the underlying economic conditions across space.

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