

# Perceptions of local businesses on the Employment Tax Incentive Act

## The case of the Vaal Triangle region

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### ABSTRACT

*South Africa is facing the reality of extremely high youth unemployment rates. The problem poses a threat to the country's economic development and future labour force projections. In response, the South African government has promulgated the Employment Tax Incentive Act, 2013 (Act 26 of 2013), a targeted employer-side supply wage subsidy which requires a significant degree of public-private sector co-operation. The purpose of this study is to determine perceptions of local businesses regarding youth unemployment and the aforementioned act to determine its feasibility as an appropriate tool to address this problem. A qualitative research approach was used to collect data. A total of 13 in-depth interviews were conducted with business representatives in the Vaal Triangle region, Gauteng. Results of the study indicate that 92 percent of the interviewed business representatives support the act. However, its effectiveness in contributing to the employment of the youth is impeded by supply side issues of the said crisis that make businesses reluctant to hire young people. Strict labour policies and laws also induce difficulties restricting its implementation.*

### INTRODUCTION

The reality of unemployment has become part of life for many South Africans; the problem holds especially significant relevance for the youth population. The National Treasury

(2011:5) describes the youth unemployment situation as reaching a critical stage. According to the International Labor Organization (ILO 2013:7), more than 50 percent of individuals between the ages of 15 and 24 find themselves unemployed in South Africa. This percentage is double that of the national overall unemployment rate of 25 percent (Statistics South Africa (StatsSA) 2015:12). The country has the fourth highest youth unemployment rate in the world (World Bank 2014), a situation which poses a major threat to the country's future economic prosperity and also hampers its ability to lay the foundation on which a thriving and productive labour force could be built.

In an effort to raise employment levels amongst the youth, government has signalled its intent by initiating various policies and programmes that investigate the creation of private sector jobs (National Planning Commission (NPC) 2013:120). One such is the Employment Tax Incentive Act, 2013 (Act 26 of 2013), a targeted wage subsidy aimed at lowering the employment cost of young workers through tax incentives to employers that make the youth more attractive for employment purposes (Ranchhod & Finn 2014:2). The subsidy symbolises a partnership between the public and private sector that is needed to address the labour market inefficiencies for young people. This aspect of the Act encouraged the need for this study. The purpose of the study, therefore, is to determine the perceptions of local businesses regarding the causes of youth unemployment and their perceptions on the Employment Tax Incentive Act, 2013 in order to determine its feasibility as an appropriate tool to combat the given issue.

## LITERATURE REVIEW

Globally, young people are finding it increasingly difficult to obtain employment (Bell & Blanchflower 2010:3). This phenomenon has manifested itself in many regions, contributing to immense socio-economic problems of both developed and developing nations. Arguably the most educated generation is failing to secure financial freedom. South Africa is ranked fourth worst globally regarding youth unemployment according to 2013 data released by the World Bank (2014) which identifies a huge problem in that half of the youth between the ages of 15 and 24 years are excluded from economic activity. This age group struggles to acquire the necessary skills and experience to be able to find work (National Treasury 2013:2). The ILO also indicates that 50 percent of those between the ages of 15-24 (the more preferred age grouping for youths) find themselves unemployed (ILO 2013:8). South Africa is also ranked the 2<sup>nd</sup> worst country globally regarding youth unemployment in 2015, only trailing Spain, if G20 members were to be considered for the first quarter of 2015 (Organisation for Economic Co-operation and Development (OECD), 2015). Table 1 indicates the unemployment rankings putting South Africa at the forefront of the global youth unemployment problem. The country's ranking amongst the G20 members is of great concern as these countries represent two-thirds of the world's population and 85 percent of the global gross domestic product (GDP).

The current generation of youths are facing difficulties in the process of being employed (World Economic Forum (WEF), 2014:7). The causes have been covered by many researchers (Blanchflower & Freeman 1999; O'Higgins 2001; Ryan 2001) with the focus on both the macro-economic and micro-economic roots of the problem. According



**Table 1: Highest youth unemployment rates globally and amongst G20 members**

Global youth unemployment rates 2013 (15 – 24 years)			Youth unemployment rate amongst G20 members 2015 (15 – 24 years)		
Rank	Country	Unemployment rate (%)	Rank	Country	Unemployment rate (%)
1	Bosnia and Herzegovina	60.4	1	Spain	50.5
2	Greece	58.4	<b>2</b>	<b>South Africa</b>	<b>49.5</b>
3	Spain	57.3	3	Italy	42.0
<b>4</b>	<b>South Africa</b>	<b>53.6</b>	4	Saudi Arabia*	30.6
5	Macedonia, FYR	52.2	5	France	24.9
6	Croatia	51.5	6	European Union	20.9
7	Libya	51.2	7	Turkey	18.5
8	Serbia	48.9	8	Argentina*	18.0
9	Mauritania	42.9	9	Indonesia**	17.1
10	Swaziland	42.4	10	United Kingdom	15.5

\* 2013 estimates \*\* 2014 estimates

Source: OECD (2014); OECD (2015) World Bank (2014).

to Mlatsheni and Ropsabé (2002:9) the main macro-economic reasons for the high level of youth unemployment can be attributed to the requirements for skills and experience by firms and their absence in young people, the geographic locality of young individuals and, ultimately, the number of youthful work seekers in the market. Their limited experience also constitutes another cause of the high levels of unemployment as young people are more prone to be dismissed by firms during economic downturns, a situation which Choudhry, Marelli and Signorelli (2013:65) refer to as cyclical unemployment.

The micro-economic determinants of youth unemployment explain the situation from another perspective, differentiating between various theories:

- the human capital theory (Mincer 1974) refers to the different levels of education and training as elements impacting on productivities, with greater investment in these areas increasing chances of employment;
- Mc Call's (1970) job search theory interprets youth unemployment by examining the various strategies of young people to identify jobs based on their partialities and reservations, especially concerning the entry level wages; and
- job matching theory (Mortensen & Pissarides 1994), which examines the prospects of young jobless workers regarding how well they are matched with their employers, based on working perceptions and efforts required. The greater the match the more likely the employment and *vice-a-versa*.

The causes, both micro- and macroeconomic, play a significant role in the number of young people finding it difficult to obtain jobs in the South African labour market. National Treasury

(2011:9) highlights some of the shortcomings present in the labour market, especially referring to the reluctance of business owners to appoint young people owing to their lack of skills, mainly the result of an ineffective education system. The other main contributing factor is that firms believe that entry level wages to young workers, in comparison to the risk they pose, are too high (Nattras & Walker 2005:501).

Young people are essentially more susceptible to market inefficiencies that result in a loss of employment (Orszag & Snower 1999:197). These result in long term effects that hamper the development of a young labour force. Such effects are explained by Mroz and Savage (2006:260) as human capital levels that are far below the optimal rates, and decreased earnings for young labourers. Furthermore, a reduction in the employment of young individuals also results in lesser involvement of the younger labour force in future.

The instigating factors of the problem have primarily been dealt with by the use of two mechanisms. The first of these takes the form of supply side initiatives implemented by government that aim to improve the skills and quality of the targeted group through various public programmes (Ranchhod & Finn 2014). The second, which is commonly used, focuses on the demand for young labourers. The ideology behind the use of these demand-side mechanisms is to reduce the employment cost of the young workers, mainly through the use of wage subsidies (Bell, Blundell & Van Reenen 1999:356).

Wage subsidies have regularly been referred to as an effective tool in addressing high levels of unemployment (Huttunen, Pirttila & Uusitalo 2013). They are essentially directed towards an increase in the hiring of targeted or disadvantaged groups by decreasing a firm's labour costs (Edwards & Pauw 2006). These subsidies not only contribute directly to an increase in employment but also have indirect impacts, leading to higher household income levels and corresponding consumption patterns. Such subsidies play a pivotal role in labour markets, serving as effective and flexible instruments which induce greater wage equality among workers (Bucher 2010). Katz (1996) distinguishes between two types:

- general wage subsidies, applied to all workers within the labour market without applying any prerequisites to individuals; and
- targeted or categorical subsidies which are aimed at the hiring of specific groups of labourers based on their demographic or geographic positions.

Edwards and Pauw (2006:714) suggest that the latter are especially effective when employment for low-skilled or inexperienced workers is low and labour demand is focused more towards skilled workers. These subsidies assist low-skilled workers by providing them with more opportunities of gaining experience and training, making them more employable. When subsidies are targeted towards these demographic groups they are usually associated with lower costs and greater significant social impacts in the economy (Robalino & Banerji 2009). The Centre for Development and Enterprise (CDE) (2011:3), opines that there are benefits in introducing these subsidies. This could possibly ensure that the youth's skills are improved and lead to increased productivity levels.

Aside from these positive implications it is important to consider that if mismanaged, wage subsidies may also have some negative effects. The Centre for International and Comparative Labour and Social Security Law (CICLASS) (2007:25) asserts that mismanagement could lead to deadweight loss, substitution effects and even displacement effects. Such an example is described by Levinsohn, Rankin, Roberts and Schoer (2014:13) in cases where jobs are being



subsidised which could have been established without the wage subsidy, leaving room for inefficiency and ultimately having the opposite effect by inducing greater unemployment.

## THE EMPLOYMENT TAX INCENTIVE ACT, 2013

Signalling its response to the persistent, demanding youth unemployment challenge, the South African government promulgated the Employment Tax Incentive Act, 2013 on the 1<sup>st</sup> of January 2014. Ranchhod and Finn (2014:2) refer to the Act as direct interference by government in the labour market aimed at reducing the employers’ cost in hiring young individuals between the ages of 18 and 29 years. Presented as a cost sharing mechanism between the private and public sectors, the Act forms part of the actions set out by the National Youth Employment Accord, which aims to address the ongoing youth unemployment problem in South Africa (Davis Tax Committee (DTC) 2014:3).

The Act aims to create 178 000 new jobs in three years with an estimated cost to government of R5 billion in tax expenses (National Treasury 2011:40). This represents only 0,2 percent of government’s total budget, a figure which Meyer (2013:66) believes will prove to be inadequate, only funding the employment of 55 000 youths over a two year period. The wage subsidy makes it more cost effective and less expensive for firms to hire young labourers (Levinsohn *et al.* 2014:7). It acts as a so called rebate or tax-break on the amount of tax a company is obliged to pay on the salary of those youths who qualify.

Table 2 shows a hypothetical example for an employer which has appointed five employees aged between 18 and 29 and the total amount of employment tax incentives (ETI) that can be claimed at the end of each month. The calculation for each incentive follows a sliding scale procedure, with the amount of the rebate decreasing as wages increase (Van der Zwan 2014).

A firm employing young workers, earning wages between R2 000 and R4 000 per month, will receive a tax rebate of R1 000 per month. For those aged between 18 and 29 earning

**Table 2: Monthly employment tax incentive to be claimed (Hypothetical example)**

Employee	Monthly Remuneration	First 12 months Amount ETI to be claimed		Next 12 months Amount ETI to be claimed	
1	R2 000	R2 000 x 50%	R1 000	R2 000 x 25%	R500
2	R3 500	Fixed deductible amount for remuneration R2 001 – R400	R1 000	Fixed deductible amount for remuneration R2 001 – R400	R500
3	R4 500	$R1000 - [50\% \times (R450 - R4\ 000)]$	R 750	$R1\ 000 - [25\% \times (R450 - R\ 4\ 000)]$	R375
4	R5 000	$R\ 1000 - [50\% \times (R5\ 000 - R\ 4\ 000)]$	R 500	$R\ 1000 - [25\% \times (R5\ 000 - R\ 4\ 000)]$	R250
5	R6 500	Does not Qualify			
<b>Total Tax rebate</b>		<b>R3 250</b>		<b>R1 625</b>	

Source: National Treasury (2013).

above R4 000 in monthly wages, the subsidy decreases. It is important to note that for any wage level above R6 000 per month the ETI does not apply and no rebates will be received (Development Policy Research Unit (DPRU), 2014:5). There is, however, no maximum number of these qualifying employees that an employer may hire. Firms stand to gain from the subsidy for an initial period of two years per employee, although rebates decrease by half in the second year of employment. The aim of the Act is ultimately to reduce the cost of hiring young labourers with a low skills set and experience level while also providing quality employment opportunities for disadvantaged individuals in special economic zones without bringing about a reduction in the wage rate, a process that typically describes a temporary wage subsidy (DTC 2014:37).

The Act provides much needed assistance in defusing the so called *ticking time bomb* (News24 2012) of youth unemployment. The assistance not only takes the form of making young people less expensive or less risky to hire, but also ensures that young unemployed individuals failing to secure jobs, receive adequate opportunities for well-regulated formal employment (National Treasury 2011:7). Allowing these individuals to occupy even the simplest of jobs actively contributes to the improvement of skills, experience and the prospect of future work opportunities. Since its inception in 2014, the Act has shown some success, initiating 270 000 claims by 29 000 businesses country wide from the Employment Tax Incentive (ETI) system during the year (Marrian 2015). It is a result that has exceeded its initial performance expectations, shedding light on its job creating ability. It ultimately has the potential to foster a spirited approach in young people's efforts to secure employment by providing them with greater self-assurance regarding the probability of quality formal employment.

Many concerns have been raised concerning the implementation of the Act; the Congress of South African Trade Unions (COSATU) led the charge. In a formal statement made to the press in October of 2013 COSATU expressed its view on the matter:

*The form and structure of the proposals are likely to have serious adverse implications for both subsidised and unsubsidised workers (COSATU 2013).*

COSATU's criticisms highlight the potential displacement effects the Act may impose on older non-subsidised workers, ultimately replacing them with qualifying young individuals. Another important concern that was raised was that wage subsidies could make significant contributions to damaging processes known as destructive churning (Hudson 2015:3), continually replacing employees who qualified for the subsidy, but are at the end of their two-year granting period, with newly qualifying employees. Further concerns raised pertain to the actual number of small and medium enterprises that actually use the tax system and, even if registered for use, the degree of technical difficulty they face in accurately administering such a relatively new process.

## RESEARCH METHODOLOGY

The study was conducted in the Midvaal and Emfuleni local municipal areas, part of the region known as the *Vaal Triangle*. This area is part of the Sedibeng District Municipality which is situated approximately 50 km South of Johannesburg in the province of Gauteng.



Emfuleni Local Municipality consists of two main cities, Vereeniging and Vanderbijlpark, while Midvaal Local Municipality comprises various smaller towns with the focus predominantly on the town of Meyerton (Local Government Handbook 2012:53).

The area is characterised as one of the largest manufacturing and industrial hubs in the country, hosting many large industrial corporations such as Sasol Industries and ArcelorMittal (Botha 2014:3). The respondent sample included human resource managers, payroll managers and local business owners from these areas.

The study followed a qualitative approach using a purposive sampling technique. Participants were selected on the criteria of being involved in the employment of workers from the areas. An interview schedule was compiled and was subjected to ethical clearance before interviews took place. The interview schedule included 13 questions which comprised questions pertaining to the demographics of the business, the area's youth unemployment levels and the Employment Tax Incentive Act, 2013. The questionnaire was standardised to ensure all participants were asked the same questions during the interviews. Kolb (2012:84) emphasises the importance of the interviewing process as it permits the researcher to determine the perceptions of the interviewees. The primary researcher followed a non-evaluative stance to ensure responses were not leading and without any external bias influences being imposed on respondents.

Respondents were contacted prior to the interview and the background of the research was explained. Interview locations were chosen for the convenience of the respondent. This allowed for a calm and open environment within which the respondent had a sense of familiarity and to ensure no interruptions occurred. All interviews were recorded, subject to the respondent's permission to ensure ethical objectives were adhered to. Interviews were recorded and analysed, which ensured that no information was missed or misunderstood. The researcher interviewed respondents from both municipal areas until theoretical saturation occurred, referring to the point where additional information failed to bring any new insights to questions posed (Bowen 2008:6).

The recorded recordings of interviews were analysed following a content analysis procedure. Once recordings were completed and the point of theoretical saturation was reached, the primary researcher transcribed the recordings. This allowed for further reading and the identification of specific categories. These were then assigned titles; various themes were identified. The latter were discussed in full, forming part of the results and discussion.

## RESULTS

This section objectively records the key findings from the qualitative responses of the participant sample. It exhibited the following characteristics as indicated in Table 3.

Table 3 indicates that of the 13 respondents that were interviewed, six (46%) were situated in the Emfuleni Local Municipality and seven (54%) in the Midvaal one. Both male and female representatives were interviewed. In addition to this, ten (77%) of the businesses implemented the Employment Tax Incentive Act whereas three (23%) did not. The analysis of the qualitative data saw the emergence of various themes on both the subjects of youth unemployment and the Employment Tax Incentive Act. Table 4 indicates those pertaining to youth unemployment in the study area.



**Table 3: Characteristics of qualitative interview sample**

Category	Option	N=13
Number of respondents	Emfuleni Local Municipality	6
	Midvaal Local Municipality	7
Gender	Male	4
	Female	9
Years of employment/ownership of business	0 – 10 years	4
	11 – 20 years	2
	21 years and over	7
Implementation of the Employment Tax Incentive Act (ETI)	Yes	10
	No	3

Table 5 reports the four main themes that emerged during the qualitative interviews pertaining to the Employment Tax Incentive Act for businesses in the given region.

## DISCUSSION AND INTERPRETATION OF RESULTS

### Youth unemployment

#### *Reasons for youth unemployment*

Answering the question what they thought the reasons were for this situation, the participants acknowledged issues relating to both the supply and demand for the particular labour group. The reasons highlighted included young people’s lack of working experience and skills and an ineffective education system’s inability to provide them with such skills. These particular issues emphasise the occurrence of the supply and demand mismatches that are created in the market due to the heterogeneity of firms and labourers (Thisse & Zenou 2000:419). From the 13 respondents, nine believed that young people’s high wage expectations are also a contributing factor. This finding was also reported by Levinsohn and Pugatch (2010:26), focusing on the role wage expectation play in youth unemployment. Other explanations are that youths lack a sense of achievement, the general inertia among them and the absence of a sense of loyalty to their employers which make businesses reluctant to employ them.

#### *Lack of government support*

All except one of the respondents believed that government is doing little if anything to address the ongoing imbalances in the youth labour market. Respondents unanimously agreed that partnership formation is required between the private and public sector to effectively create jobs for young people. They reiterated, however, that it is impossible to do so when government is failing to provide assistance.





**Table 4: Identified themes on youth unemployment from interviews**

Theme	Operational definition	Excerpts from interviews (number of respondent)
Reasons for youth unemployment	This theme takes into account the reasons why young people find it difficult to obtain employment opportunities	<p><i>"lack of experience, businesses are involved in very demanding environments and don't have time to train employees to do the job" (2)</i></p> <p><i>"perception amongst young people that if they are done studying they should walk into high paying positions and not willing to start at the bottom" (1)</i></p> <p><i>"the youth are 100% unemployable, there is no hunger for achievement in the workplace and they have no job loyalty"(6)</i></p> <p><i>"much of the young people today are lazy and are not willing to get their hands dirty" (12)</i></p> <p><i>"the biggest, biggest problem lies with schooling and education" (10)</i></p>
Lack of government support	This theme relates to the amount of support government is offering local businesses to have young people employed	<p><i>"I think they can do more, there is nothing major" (3)</i></p> <p><i>"no, if they did provide enough support it wouldn't be a problem" (4)</i></p> <p><i>"no, no they don't really provide us with any assistance" (7)</i></p> <p><i>"the responsibility lies with both the public and private sector" (1)</i></p>
Policy initiatives aimed at youth employment	This theme relates to the different initiatives, if any, that are implemented by the business and are aimed at employing young people	<p><i>"we look at our apprenticeships to the employment of young individuals" (13)</i></p> <p><i>"we began to work with technical colleges from last year, interviewing their best students" (4)</i></p> <p><i>"no, no not really"(5)</i></p> <p><i>"on our maintenance side we do have apprenticeships in place"(7)</i></p> <p><i>"no we don't have anything like that in place"(5)</i></p> <p><i>"No, no I don't think so" (8)</i></p>

**Table 5: Identified themes on the Employment Tax Incentive Act**

Theme	Operational definition	Excerpts from interviews (number of respondent)
Support of the act	This theme relates to the level of the respondent's support for the Employment Tax Incentive Act	<p><i>"I think it is an outstanding initiative, businesses will get discount on employee taxes"(6)</i></p> <p><i>"Yes it will work if it is implemented correctly" (8)</i></p> <p><i>"It is, like I said, we get money back from SARS" (9)</i></p> <p><i>"it will contribute greatly to the agricultural sector, seasonal employment and unskilled labour employment" (1)</i></p> <p><i>"provides young people with the opportunity to improve experience and way of life" (2)</i></p>
Inability to create jobs	This theme pertains to the issues surrounding the Employment Tax Incentive Act in creating employment opportunities for the youth	<p><i>"it's not only the financial benefit, we as company require high skills and experience" (4)</i></p> <p><i>"we are not creating vacancies but if a vacancy opens we will look to employ young people" (9)</i></p> <p><i>"rewards received is not the deciding factor, the work that must be done is more important"(6)</i></p> <p><i>"no, after the implementation of the act we did not employ more young workers" (12)</i></p>
Negative issues of the act	This theme takes into account the possible negative elements associated with the act	<p><i>"government can raise the remuneration amounts" (2)</i></p> <p><i>"it is a bit contrary to certain industries and the bargaining council's rules and regulations" (12)</i></p> <p><i>"my problem is that I don't qualify for the tax incentives due to certain prescriptions from the bargaining council"(10)</i></p>
Hindrances to implementation	This theme refers to the issues pertaining to the hindrances faced in the implementation of the act	<p><i>"there has to be trust in the system and the implementation" (1)</i></p> <p><i>"I think the size of the business plays a huge role" (4)</i></p> <p><i>"the employability of the young people, there is no hunger"(6)</i></p> <p><i>"we didn't actually know about it" (12)</i></p> <p><i>"I think they should market it better" (10)</i></p>

## ***Policy initiatives aimed at youth employment***

This theme pertains to the various policy initiatives (other than the Employment Tax Incentive Act) which businesses implement and which aim at employing young labourers. Data obtained revealed that seven of the 13 respondents primarily looked at post-secondary training initiatives to assist in the target group's possible employment. These private sector initiated apprenticeships play crucial roles in the employment of the youth as they stimulate the acquirement of skills and aid young people in their transition from their educational base to the possibility of being employed (OECD 2014:8). Many of the respondents also acknowledged that they did not know of any policies that are in place to assist in the prospect of employment.

## **Employment Tax Incentive Act, 2013**

### ***Support of the Act***

In conducting the qualitative interviews it was found that 92 percent of the respondents were in support of the Act. This notion conforms to the findings of similar studies by Rankin and Schoër (2011), and Mtembu and Govendor (2015), where most of the businesses interviewed were in favour of a wage subsidy. Respondents emphasised the subsidy's ability to provide young people with opportunities for employment, experience, skills development and in some ways a resource for a better quality of life as motives for their backing. Other reasons included the improvement in the affordability of hiring young workers through tax breaks and the potential of these for improving employment in, especially, sectors requiring low levels of skills.

### ***Ability to create jobs***

When asked the question whether, after the implementation of the Act, they did employ more young workers, eight of the 10 participants that implemented the Act indicated that no new jobs were created for the targeted group. The main reasons for their decision were that they were more concerned with the level of productivity that workers offer than the incentives they would receive. One respondent voiced their opinion, stating that:

*it doesn't just revolve around the financial benefit, in our industry we require a certain amount of skills because we pride ourselves on manufacturing excellence (respondent 3).*

### ***Concerns concerning the Act***

Some concerns that came to light during the qualitative interviews pertained to the amount of money or incentives businesses are receiving and the various labour policies and regulations that pose a hurdle for the Act's implementation. These, although implemented to assist workers, distort the effective labour market outcomes, inducing higher reservation wages and reducing the demand for workers by setting particular wage floors (Deakin, Malmberg & Sarkar 2014:3). All of the manufacturing businesses that were interviewed agreed that the Act's remuneration structure is contrary to their respective prescribed minimum wage level and that this issue, in particular, is preventing them from making use of the subsidy and targeting the employment of young people between the ages of 18 and 29 years.

### ***Hindrances to implementation***

In response to the question regarding what they believed could be hindering the Act's implementation in business practices, respondents identified certain barriers which could contribute to businesses' reluctance to make use thereof. One of the main issues included the trade-off businesses faced in the employment costs of inexperienced young workers and the incentives they would receive, signalling that the cost far exceeds the incentives offered. Other issues indicated pertained to the lack of marketing of the act, the size of the business and its labour force and the reluctance of businesses to trust public sector initiated programmes.

## **PRACTICAL IMPLICATIONS AND RECOMMENDATIONS**

The aim of the study was to determine the perceptions of local businesses on the Employment Tax Incentive Act, 2013. On paper, the Act seems to be a sound initiative, stimulating the demand for young workers, lowering their employment costs and effectively providing them with opportunities to grow and develop in the workplace (National Treasury 2011:7). However, particular practical implications come to light in the study's findings that prove otherwise:

- The act's remuneration structure contradicts the manufacturing sector's minimum wage level, preventing the creation of jobs in the industry.
- The subsidy's aim to create demand for workers fails to account for supply side issues such as a lack of skills, experience, productivity and the high reservation wages.
- The Act's inability to create jobs as costs of hiring young workers are too high, contributing to the deadweight loss of subsidising jobs that already exist.
- The high degree of trust that is required for the successful implementation of the Act where government support of the private sector is found to be absent.

Recommendations to address these implications call for effective and clear public-private sector communication and teamwork with respect to policy and employment initiative formation. For the Employment Tax Incentive Act, 2013 government should investigate the restructuring of the system that may include:

- an increase in the time period of the act to at least 10 years and the abolition of the sliding scale procedure, holding incentives constant over a three year period per worker which will reduce deadweight losses currently incurred;
- improvement of qualifying wage levels up to R10 000 as businesses are constrained by minimum wage levels; and
- qualifying employees receiving access to specific skills development initiatives directed towards entrepreneurship and technical skills improvement provided by a Sector Education and Training Agency (SETA) for the duration of the qualification, causing greater integration between the demand and supply factors.

The Act displays a major potential in making positive inroads into the youth unemployment problem and as such requires more support from national, regional and municipalities. Government needs to allocate higher budget amounts towards the programme through



national agencies like the South African Social Services Agency (SASSA) and the National Youth Development Agency (NYDA) that will allow for the funding of more jobs. Targeting implementation through major labour intensive sectors such as agriculture, manufacturing and tourism also provide an opportunity to increase the intake of more qualifying employees. These sectors all provide significant employment probabilities in view of the Act, but are regulated by restrictive labour laws. Relaxation of these, with respect to the implementation of the Act, may lead to a more effective employment environment and additional young people entering the labour market. The initiative ultimately provides a solid base for inducing greater demand for young workers but requires an equivalent partnership from the private sector. Government, therefore, needs to ensure clear and widespread marketing of the Act and its successes to the sector, and evaluate its performance consistently.

## CONCLUSION

The youth unemployment problem in South Africa is one that can be attributed to many complex factors. It poses an unnerving challenge for all market participants which can only be dealt with if there is harmony in the efforts of not only private and public sectors but also the youths themselves. Policy initiatives such as that of the Employment Tax Incentive Act, 2013 if constructed correctly, might offer some short term relief in the labour market, inducing greater demand for young labourers, but must not be viewed as the long term remedy for youth employment. The Act, however, must form part of and play an encouraging role for a prospective and wider policy landscape that could assist the youth overcome labour market inefficiencies.

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