

The Effects of the ETI on Employment at the Firm

Amina Ebrahim | Murray Leibbrandt | Vimal Ranchhod
SALDRU, School of Economics, UCT

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Details of the ETI

Eligibility

Employees

- Hired after 1 October 2013
- Between 18-29 years old
- South African citizen

Employers

- Registered for Pay-As-You-Earn (PAYE)
- No public companies
- Penalty of R30,000 for displacing a worker to hire a new one
- No debt owed to the SARS

Details of the ETI

Payment vehicle – reduction tax bill

Basis for computing subsidy – monthly earnings

Subsidy duration – 24 months, reduction after 12 months

	Monthly subsidy	
Monthly pay (ZAR)	First 12 months	Next 12 months
0 – 2000	50% of monthly pay	25% of monthly pay
2000 – 4000	R1,000	R500
4000 – 6000	$1000 - (0.5 \times (\text{monthly pay} - 4000))$	$1000 - (0.25 \times (\text{monthly pay} - 4000))$

ETI Policy evaluation

Study of the perceptions of the ETI in the Vaal triangle. Firms support the policy but the majority admit to not creating any new jobs (De Jongh et al. 2016).

Comparative analysis on the ETI with similar policies enacted in different countries. The ETI unlikely to reach its goal of due to firm lack of awareness, the short duration and absence of compulsory skills training among (Odendaal 2016).

Examine the policy 6 months and 12 after its inception. No statistically significant change in the probability of youth employment (Ranchhod and Finn 2015, 2016).

Data used

IRP5

- anonymised
- Job level tax data
- Unaudited

Company Income Tax (CIT)

- Firm level data

Unit of analysis is PAYE

- Larger firms may have many PAYE Reference Numbers

Time Period

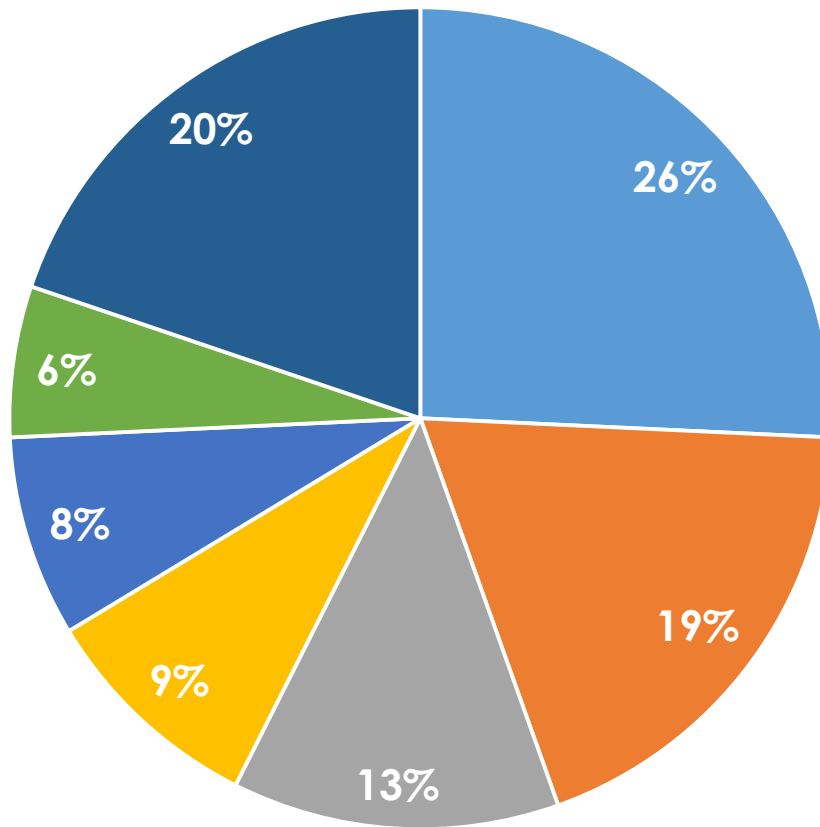
- Financial Year

Data description: *After cleaning*

	FY 2014	FY 2015
Number of ETI claims	1 65 700	898 797
Number of firms claiming ETI	14 551	34 654
Number of firm not claiming ETI	236 534	208 472
Percentage of ETI firms	6%	14%
Total number of firms	251 085	243 126

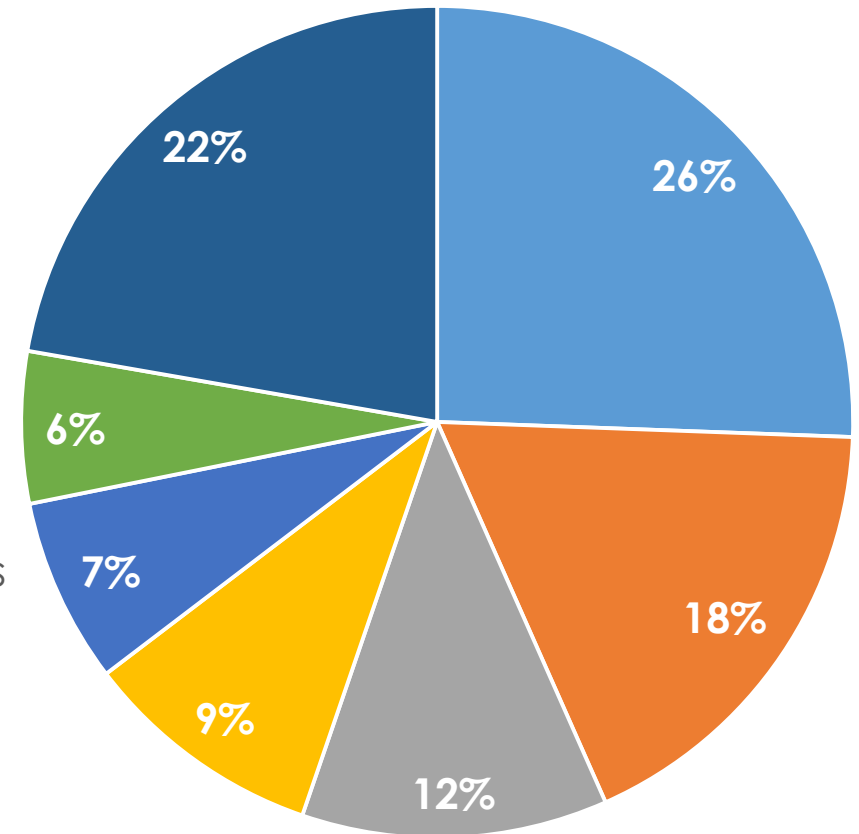
Industry distribution of ETI firms

FY 2014



- Manufacturing
- Wholesale & retail
- Financial & Insurance services
- Professional, Scientific & Technical
- Accommodation & Food service activities
- Construction
- Other

FY 2015



Firm size classes: ETI vs non-ETI firms

	Tax year 2014			Tax year 2015		
Firms size	ETI	All	Take-up	ETI	All	Take-up
0-10 Employees	2 901	159 607	2%	8 014	152 821	5%
11-50 Employees	5 428	69 603	8%	14 923	68 356	22%
51-200 Employees	4 026	16 619	24%	8 347	16 682	50%
201+ Employees	2 196	5 256	42%	3 370	5 267	64%
Total number of firms	14,551	251,085	6%	34 654	243 126	14%

Methodology

Conditional Difference-in-Differences approach (cDiD)

Step 1

- Remove any ineligible firms (public sector firms)

Step 2

- Calculate propensity score

Step 3

- Identify a matched treatment and control firm

Step 4

- Check balance of Treatment and Control group

Step 5

- Estimate a difference-in-differences model

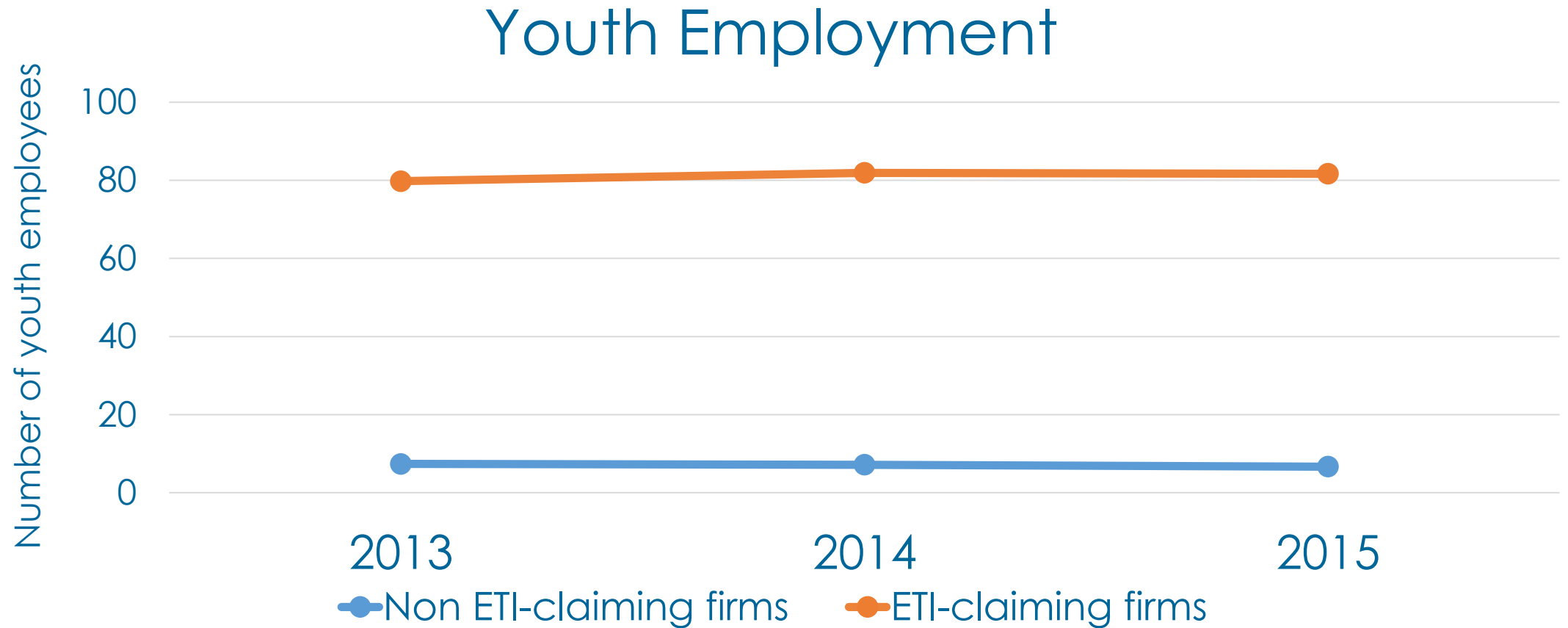
Key variables used for cDiD

Categorical/Dummy variables	Continuous variables
Firm size	Firm assets
Firm industry	Firm sales
Firm location	Firm debt
Labour broker status	Mean employee age
	Firm age
	Firm employment rate

Results from the cDiD

	Tax year 2013/14	Tax year 2014/15
Youth employment	2.360 (2.819)	2.582 (2.785)
Non-youth employment	8.283 (6.115)	12.57** (6.274)
Total employment	9.817 (8.516)	14.34* (8.642)
Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1		

Aggregate youth employment: ETI versus non-ETI firms

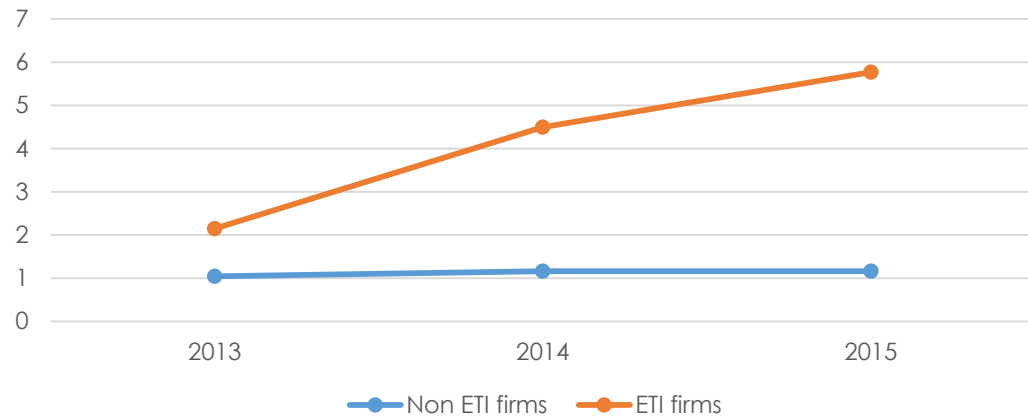


Matching within firm size: cDiD results

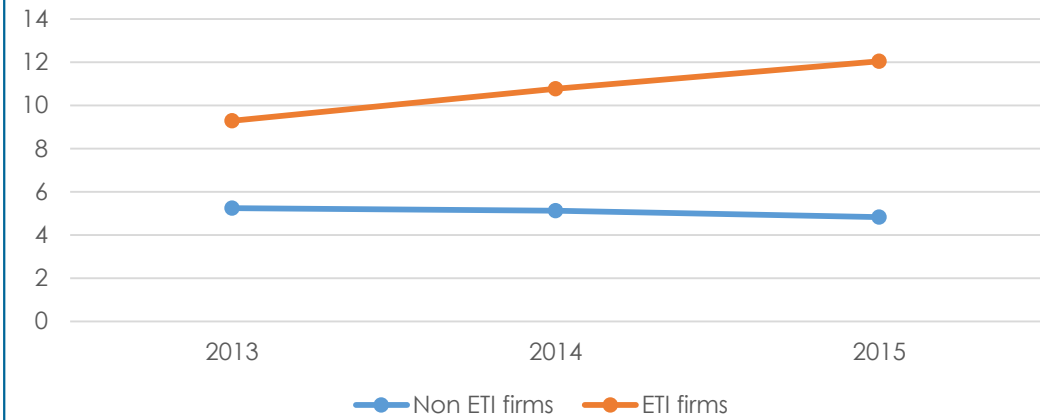
Firm size	Youth employment FY 2014	Youth employment FY 2015
0 – 10 employees	2.227*** (0.248)	2.857*** (0.254)
11 – 50 employees	1.587*** (0.150)	3.170*** (0.169)
51 – 200 employees	4.621*** (0.916)	7.516*** (1.044)
201+ employees	13.07 (53.96)	25.16 (53.32)

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

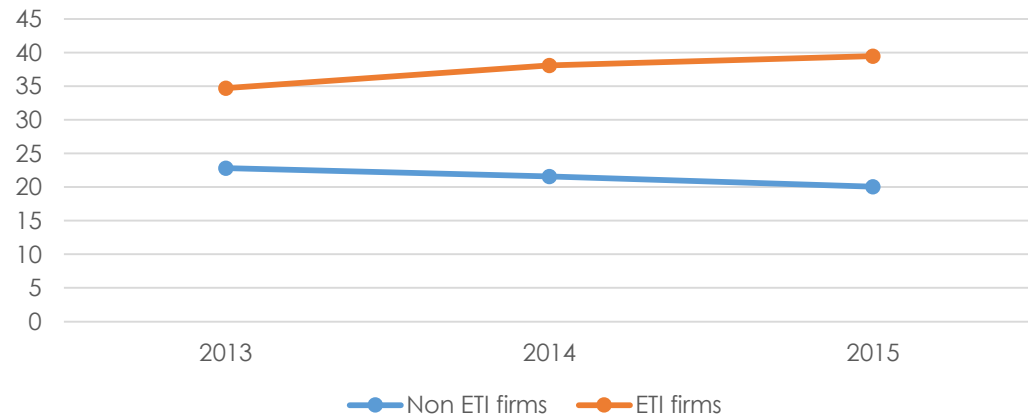
Youth Employment
0-10 Employees



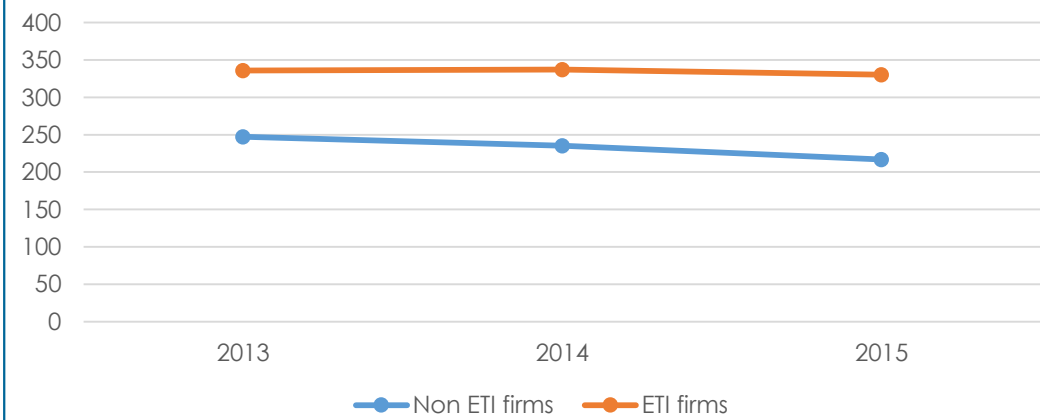
Youth Employment
11-50 Employees



Youth Employment
51-200 Employees



Youth Employment
>200 Employees



Cost per job created

	FY 2014	FY 2015
Estimated number of jobs <u>created</u>	34,822	63,028
Estimated cost (in rands)	97,668,416	1,229,142,572
Cost per job created (in rands)	2,805	19,502

Conclusion

We see *no significant change* in the **overall demand** for youth labour

We find that firms with 200 or less employees do see an **increase** in labour demand for youth.

BUT we also see an increase in the employment of non-youth and cannot attribute this to the policy alone as firms have *greater hiring rates* for **youth** and **non-youth**.

Further work

As the 2016 tax data is made available there should be further examination of the *deadweight loss, displacement effects* and the *employment of youth* once the subsidy ends.