

Estimating the Impact of the Employment Tax Incentive

“Growth and Development Policy: New Data, New Approaches, and New Evidence”
30 November – 1 December 2016, Pretoria, South Africa.

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Background

The ETI was introduced on 1st January 2014
We had to answer two questions:

- Did the ETI create jobs for the youth that would not have been created otherwise?
- Did the ETI result in negative impacts (e.g. displacement, job churn, wage suppression)?

SARS Dataset

Employer-employee data over time (IRP5 PAYE dataset)
Collapsed dataset so each row represented firm, with employment levels.

Methodology

The first-differences approach:

Exploits within-firm employment growth rates of ETI-eligible and non-eligible groups
Growth path of the firm acts as its own counter-factual

After differencing, we estimate:

$$\Delta e_{it} = \alpha \Delta x_{it} + \delta \Delta ETI_{it} + \Delta \varepsilon_{it}$$

e_{it} = firm growth rates

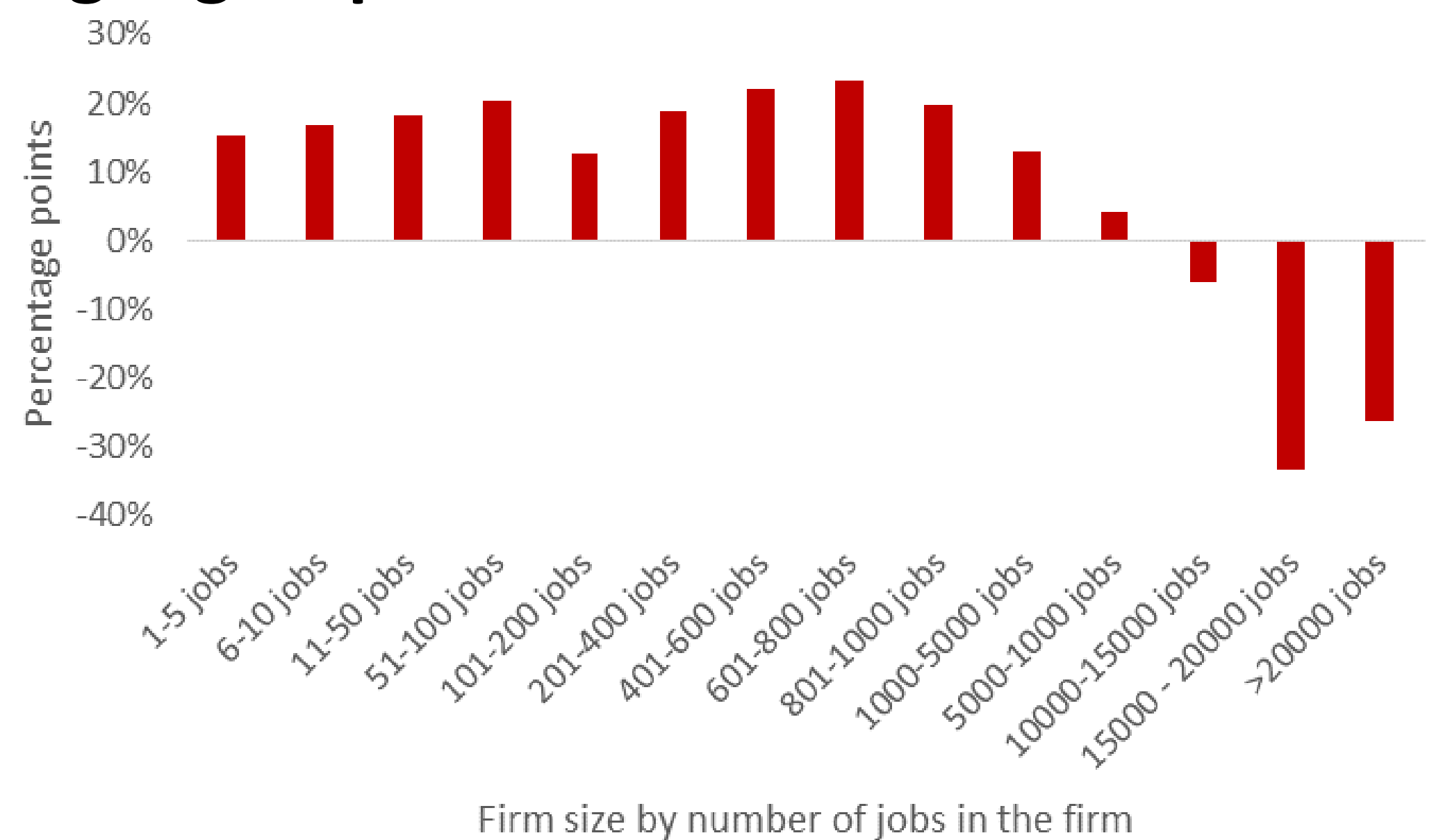
ETI_{it} = ETI claiming firm

δ = average impact of switching in or out of the ETI on within-firm employment growth rates.

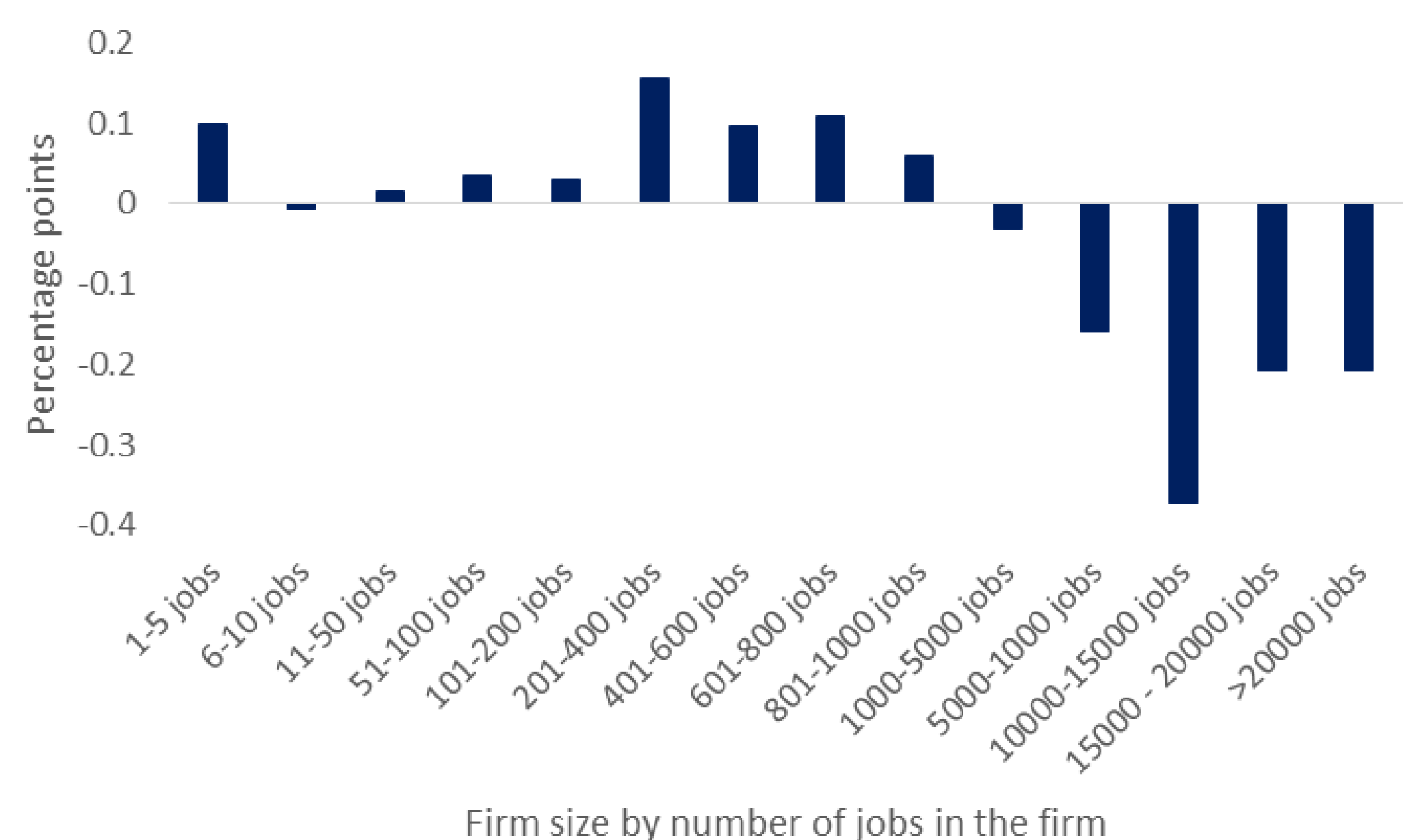
Estimated for both the target group (18 to 29 year olds earning <R6500/month) & displacement group (30 to 35 year olds earning <R6500/month)

Selected Results

Percentage point impact on job growth of target group in non labour broker firms



Percentage point impact on job growth of displacement group in non labour broker firms



Policy Conclusions

There was employment growth in target group, with limited evidence of displacement.

No evidence of wage suppression, and improvement in (decrease in) exit rates