

# Employment subsidies for school leavers?

**Second Economy Workshop**  
Oct 1, 2008

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# Background

- Very high unemployment amongst school leavers, including matriculants – less than a 50/50 chance of being employed by age 24
- Main long term solution is to improve education and raise growth rate
- There is also evidence of poor labour market matching, that could possibly be addressed more rapidly. Some part of the school leaver UE problem could be addressed this way
- Are there immediate solutions that could raise the employability of school leavers, thereby reducing the probability of long term unemployment?

# This project on youth employment subsidies

- This project seeks to identify scalable policy interventions with a meaningful impact on the employability of school leavers.
- Any meaningful intervention that might have aggregate impact will be costly, likely in the billions of rand.
- Therefore important to identify and design any intervention carefully:
  - Which target group?
  - What problem is being addressed
  - What is the current institutional and policy environment?
  - Intervention(s) identified should address the problem, and have reasonable probability of having a meaningful impact.

# Background papers: *identifying the problem to be addressed and the institutional context*

- Paper 1 – Explaining youth unemployment in SA
  - Hypotheses and evidence
- Paper 2 – Mechanisms needed to support the transition from school to work
  - Including review of capabilities needed and existing institutional arrangements to support this transition
- Paper 3 – Matching employment subsidies to the problem identified
- Paper 4 – Project overview and recommendations for pilot

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# Why are youth more likely to be unemployed?

- Demand - side problem? ie not enough jobs being created annually
- “Supply-side” problem? ie there could be jobs, but something is going wrong in matching
  - ✓ Lack appropriate skills and work related capabilities
  - ✓ Concerns regarding communication, mathematical and core skill capabilities
  - ✓ Lack job search capability/lack networks
  - ✓ Lack mobility (ie don't have money to look, so stick close to home)
  - ✓ Lack of direction – often young people hop across learnerships in different learning areas simply to earn stipend
  - ✓ Mismatch of expectations (so reports that even where young people find employment they become disillusioned and leave)

# Purpose of employment subsidies aimed at expanding labour demand

- Encourage firms to employ more workers from a segment of the labour force that is disadvantaged (youth, long term unemployed, etc), usually by manipulating the relative price of this segment.
- Influence technology choice and encourage more labour intensive methods, possibly through the manipulation of the price of labour relative to capital.
- Encourage or enable the entry/expansion of investments in sectors or activities that are inherently more labour intensive.
- Enhance the competitiveness of firms, enabling the sustainability and possibly even the expansion of employment, even where the production process has become more capital intensive.

**Aimed at the firm** makes a difference

# Purpose of employment subsidies aimed at improving supply

- Subsidise employment where wages are disincentive to work (eg EITC in USA) – covers portion of the wage
- Subsidise employment – covering costs of going to work (eg transport, child care, etc)
- Subsidise job search
- Support strengthening of capabilities, whether technical or general skills
  - this could include a range of subsidy or grant mechanisms as well as other direct interventions – this includes improving access to the NSF funds as well as increased funding through Discretionary Grants

Could be given to firms, work seekers or institutions

# Basic Principles: what we are looking for

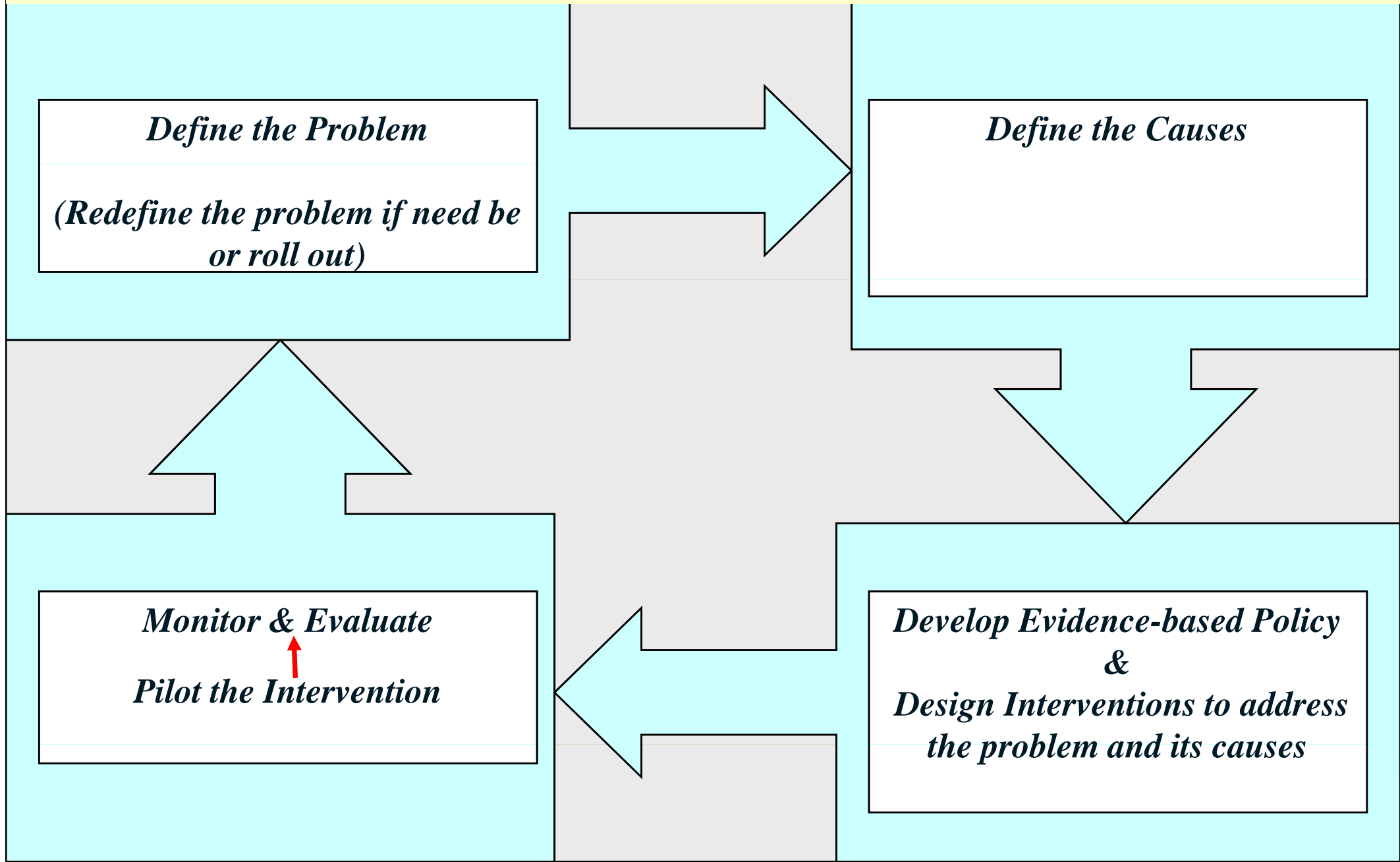
- Any framework for supporting youth to access the labour market must:
  - Be simple to administer
  - Build on and reinforce existing initiatives (example existing NGOs and placement agencies, funding mechanisms such as the NSF)
  - Create incentives to overcome system weaknesses (individual, service providers and employers)
  - Facilitate seamless integration of services
  - Have appropriate systems to manage information and use this information to improve quality and scope
  - Take into account international experience and create local lessons
  - Overcome the disjuncture between youth development and labour market oriented interventions



# What is a Demonstration Project?

1. It is a *well-designed, evidence-based* intervention that has a good chance of producing the chosen outcomes;
2. There is a sound understanding of why it is likely to work;
3. It must be designed in such a way that the effectiveness of the intervention can be *tested in comparison* with an alternative;
4. It adds to what we know about *what works* in a particular field.
5. It helps to prevent wasting money on interventions that are not proven.

# The Policy & Intervention Cycle



# Matrix of interventions

Easy to implement

Communication, technology and work preparedness programmes to ensure general work-readiness skills in place

Counseling and job search assistance programmes

Enhanced role for placement centres in career guidance, training and placement (incl placement and training vouchers)

Encourage youth to participate in voluntary activities to gain experience

PWPs targeting youth

Increased vocational training and learnerships; subsidise training costs (including tax and grants for workplace learning programmes)

High impact

Low impact

Employment subsidies

Wage subsidies

Transport subsidies

Reduced probationary period and flexible hiring and firing

Literacy and numeracy programmes to ensure general work-readiness skills in place

Provision of credit and mentorship programmes to encourage entrepreneurship

Relocation subsidies

Difficult to implement

These are guestimates. We know little about what might work.

# Link between the cause, the policy choice, and potential success of implementation

- Questions:
  - What do we believe is the cause of high youth unemployment?
    - What is the effect of that particular cause?
      - To what extent is this specific to youth?
        - What interventions might address the cause?
          - Would these interventions be high or low impact?
          - How easy or difficult to implement?
- See word doc

## This project:

# *identify high impact intervention to address supply side problem*

- Focuses on supply side
- Focus on *graduate* matriculants from poor households
  - More than ½ of school-leaver LM entrants (ie about 270,000 pa in total)
  - Identifiable group
  - Motivated group
  - Could lead to scalable programme
  - If successful, could act as signal to younger scholars to finish their education.
- Recognise wide availability of services, and continuous innovation – public and private
- Deep matching problem means that these services need to be widened, deepened or? Searching for small interventions (in admin terms) that could deepen impact on supply side problem

# Potential interventions

- **Labour market information**
  - Provide information to group
- **An employment subsidy**
  - employment voucher (eg Harvard)
  - job search subsidy and/or
  - education voucher
- **Work preparedness package**
  - Eg subsidy to placement agencies and educational institutions to offer basic package that gets learners ready for job-related training (eg workplace requirements, english comprehension, communication, drivers licence etc)
  - This would reduce the cost associated with on-the-job training and with placements, which would be helpful since limited returns on low skill labour
- **Life skills ‘start-up pack’**
  - Subsidy to support the development of Individual Development Plans and Goals
  - General wellness support and training
- **Easing access to NSF and SETA related grants**

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# Recommendations for pilot

- This would lead to the development of a small number of potential interventions based on what is already happening – min input/max impact
- These are like “laboratory” experiments
- These would be tested in one or max 2 communities
- Results shared to identify potential high impact/affordable/scalable intervention

# What is a demo or pilot?

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# What is a Demonstration Project?

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# Standards of Evidence for Intervention Research (1)

## Efficacy Trials (the highest standard)

Ask: Does the intervention work under *ideal* circumstances?

Must have:

- Rigorous design & sampling;
- Random assignment to intervention and comparison conditions;
- Rigorous standard implementation;
- Valid outcome measures;
- Impact maintained after 6 months;
- Replication in at least two trials.

Few and far between in social policy field!

# Standards of Evidence for Intervention Research (2)

## Effectiveness Trials

Ask: Does the intervention work *in the real world*?

- Meets all standards of efficacy trials;
- Implementation is done according to a manual;
- Good idea of why it should work;
- Clear statement of who will benefit;
- Includes measures of intervention exposure;
- Two high quality studies done.

Also: Not too many in the social policy field!

# What are some design options?

1. *Social Policy Experiments* (Efficacy and Effectiveness Trials)  
Provide the best causal evidence.
2. *Quasi-Experimental Design* studies (less confident causal evidence but rival explanations are not plausible.
3. *Quasi-Experimental studies* lacking controls and baselines  
more limited causal evidence.
4. *Natural experiments* (evaluator lacks control over the intervention and who receives it). **(Most common)**

***Option 2 should be a minimum goal for Demonstrations***

# Social Policy Experiments (SPE)

- *Random allocation* is central to an SPE.
- E.g. Participants (or schools; clinics; neighbourhoods) are randomly assigned either to a **programme group** or to a **comparison group**:
  - The **programme** group receives the new programme or policy;
  - The **comparison** group gets either an existing programme or policy, no programme or policy, or another form of intervention.
- Key advantages:
  - Randomisation ensures that there are *no systematic differences* between the programme and control groups (no selection or historical biases).
  - Differences in outcomes are due to programme alone!

# The Policy & Intervention Cycle

