

MEMORANDUM

A memorandum of support for a youth wage subsidy as proposed by Finance Minister Pravin Gordhan

Presented to the South African National Assembly at the Office of the Speaker on Thursday 25 November 2010 by the DA Youth National Management Committee on behalf of the Democratic Alliance Youth.

The South African Parliament

Represented by:

Honourable Max Sisulu
Speaker of the National Assembly

Democratic Alliance Youth

Represented by:

Makashule Gana
Federal Youth Leader

Mbali Ntuli
Federal Youth Chair

Hlanganani Gumbi
Federal Training and Development Chair

Rihan Kleyn
Federal Media and Publicity Chair

MEMORANDUM OF SUPPORT

1. FIRST PRINCIPLES

- i. The DA Youth is concerned about the levels of unemployment among young South Africans. The most recent Quarterly Labour Force Survey indicates that 72% of unemployed people are aged 15 – 34. That equates to 3.1 million unemployed young South Africans. In addition to this, research by the HSRC indicates that fewer than 50% of current matriculants will hold jobs before they turn 24.
- ii. The high cost of hiring labour in South Africa is one of the key reasons why so many young South Africans find themselves unemployed.
- iii. Most organisations are averse to employing individuals with no previous working experience without sufficient incentive to do so.
- iv. Many young South Africans are inadequately equipped by the education system to enter the job market on their own merits without additional assistance from the state in the form of an incentive to employers.
- v. The SETA system has not resulted in the necessary skills transfer to workers.

2. WHY THE DA YOUTH SUPPORTS A YOUTH WAGE SUBSIDY

- i. The DA Youth supports the subsidy of wages of young entrants to the market in order to lower the effective cost of employment and create hundreds of thousands of jobs without an adjustment of wages or conditions of employment.
- ii. The DA Youth believes that a youth wage subsidy acts as an incentive for on-the-job training. Firms are rewarded for hiring, and they reward themselves by ensuring that those hired are also adequately skilled. The system acts as a powerful remedy to unemployment, by prioritising labour-intensive production and by getting the market to take care of providing skills, rather than the state.
- iii. Pravin Gordhan agrees that if implemented correctly, a youth wage subsidy has the potential to create about 500 000 jobs by 2013.
- iv. A youth wage subsidy constitutes a significant and necessary departure from the failing SETA-based approach.

- v. This subsidy will build up a new generation of workers to replace those exiting the market, preventing a massive skills shortage when the current generation does leave.
- vi. A youth wage subsidy is a means by which we can get some of our 3.1 million unemployed youth skilled and into the economy in order to take advantage of the 'demographic dividend' potentially facing South Africa – namely a rise in the rate of economic growth due to a rising share of working age people in a population.
- vii. A rise in the number of working South Africans will result in the much need growth of South Africa's tax base.
- viii. If May's GDP growth numbers continue we could afford a youth wage subsidy without cutting core expenditure, raising tax or expanding the deficit further. If we wanted to cut from other areas we could look at the now over R1bn wasteful expenditure bill, the R4.6bn spent on pointless district municipalities or the R2bn surplus once the SETA's are scrapped and replaced with direct re-imburement of training cost

3. ACTION STEPS

- i. The DA Youth urges the Minister to renew his commitment to complete an investigation into youth wage subsidies and table a report on the matter for discussion.
- ii. To make provision for a youth wage subsidy in his 2011 budget announcement.