

August 2018

**STREAM 4 POLICY BRIEF 2**

# **AN EMPLOYMENT GUARANTEE SCHEME OR A WORKSEEKERS GRANT**

Policy brief prepared for the Labour Caucus in the Jobs Summit Public and Social Programme, Labour Market and Anti-Corruption Interventions working group by the Institute for Economic Justice (IEJ).

**Stream: Inclusive Growth Stream, brief 2**

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*This draft policy brief is prepared for the Labour Caucus in the Jobs Summit Public sector/ labour market working group. Sections relating to financing are also relevant to the Inclusive Growth working group.*

## **Summary of proposals**

A proposal for social solidarity interventions to support the unemployed. Establishing an employment guarantee scheme or a workseekers grant, costing between R30-36 billion p/a, supported in part by the UIF surplus, and in part by the fiscus.

The proposal is to either:

1. Introduce a universal employment guarantee scheme, along the lines of India's NREGA, which would guarantee every household one hundred days of employment a year, or the equivalent income if work is not available. In the short term this would thus combine a public employment scheme with a grant, until the scheme is able to offer everybody work. The scheme would build on the existing CWP and EPWP programmes.

Or

2. Introduce a workseekers grant, to support the unemployed, and assist them to enter the

labour market. Either scheme could be partially financed by a social solidarity contribution from the UIF, which is running a large surplus, and partially from the fiscus, drawing on solidarity taxes such as the wealth tax.

## 1. THE NATURE OF THE PROBLEM

### 1.1 Deep problem of structural unemployment:

It is well established that South Africa has a deep problem of structural unemployment. Unlike economies which have a largely cyclical unemployment challenge, active labour market measures, such as retraining, have limited impact on the job prospects of the majority of unemployed, who are not absorbed even in times of economic expansion. Long term unemployment is a massive challenge.

The QLFS for the first quarter of 2018 indicates that even if one only considers the 6 million unemployed using the narrow definition (i.e. excluding discouraged workers who have given up looking for work), over 41% of workseekers had been unemployed for more than three years, and around 68%, or 4,2 million, had been unemployed for more than one year<sup>1</sup>.

It is realistic to assume then that well over 6 million South Africans can be described as long term unemployed, given that Stats SA registered a total of around 9,6 million unemployed in the second quarter of this year, using the expanded definition of unemployment including discouraged workseekers.

**1.2 Reality:** High, rising and structural unemployment: Even if we were to create jobs far faster than the current rate, we would face the continued reality of large numbers of unemployed having access to no, or very limited forms of income.

The attached table 1 shows that there has been some employment creation between 2010-2018 – about 2.4 million jobs (albeit of low quality), after the massive job loss following the global financial crisis. But this is far below the rate of job creation needed to reduce unemployment. The numbers of unemployed in this same period rose largely because job creation didn't keep pace with the growth of new entrants into the labour market. As a result, unemployment rose from 7.4 million in 2010 to a total of 9.6 million<sup>2</sup> in June 2018 – an increase of about 2.2 million people.

So even if we had created double the number of jobs from 2010-18, i.e. 4.8 million jobs instead of the 2.4 million net jobs created over this period, the absolute number of unemployed would have remained very high at the 2010 levels of over 7 million. This is a serious crisis.

### 1.3 There is virtually no social protection for the adult unemployed:

There is no social protection covering the vast majority of the adult unemployed, and social insurance schemes, mainly the UIF:

- covers less than 10% of the unemployed<sup>3</sup>
- only those who have worked previously, and contributed to the Fund and
- over the short term – benefits for a maximum of a year.

The EPWP and CWP also covers a relatively small proportion of the total unemployed.

### 1.4 Youth and adult unemployment are both at crisis

#### levels:

There is a crisis of youth unemployment with 66% of youth from age 15-24, or 2.4 million youth, being unemployed. Large numbers of these youth should be absorbed in education and training. Many proposals are being made to address the plight of unemployed youth, particularly those from 15-25. It is extremely important to address this group.

There is also a very serious challenge of adult unemployment, which must be addressed. A huge group of unemployed from ages 25-60, who are not covered by any form of social protection, or training and employment schemes. There are over 6.7 million adult unemployed between the ages of 25-54 years<sup>4</sup> – see table 2 attached.

This proposal therefore seeks to put in place a scheme which provides a safety net for the employed not currently covered by the UIF.

**1.5 We need major, high-impact interventions:** It is generally accepted that social grants have been an important intervention in combating the worst forms of poverty. But a huge gap in our system remains: no coverage of the adult unemployed. As we show above, this is a crisis.

A large-scale intervention, which will have a significant impact, is therefore needed in the short term. This can take one of two forms:

1) the extension of the right to access public works employment, or the equivalent payment in the form of a grant, to all unemployed- which we call an employment guarantee scheme.

OR

2) A grant which covers the adult unemployed- which we call a workseekers grant.

These are being proposed for consideration as alternative schemes. Both are viable, and implementable in the short term, but each has its pros and cons.

## **2. PROPOSALS TO ADDRESS THE CHALLENGE AND HOW THESE COULD GENERATE JOBS**

### **2.1 The unemployment guarantee scheme:**

#### **The Indian employment guarantee**

The Indian employment guarantee scheme is known as NREGA or MGNREGA. The Law guarantees all households access to 100 days of work per year – this has been effective since 2008.

Employment must be provided within 5km of the applicant's residence, and minimum wages are to be paid. If work is not provided within 15 days of applying, applicants are entitled to an unemployment allowance.

**An employment guarantee for South Africa** The proposal is to introduce an Employment Guarantee Scheme (EGS) in South Africa along similar lines. Every household would have the right to apply and get access to 100 days of work per year on a EPWP or CWP, at the relevant minimum wage.

In the short term, while the scheme is phased in and expanded, it is anticipated that a significant portion of applicants who could not be absorbed immediately into the scheme, because of lack of state capacity to employ everybody, would receive the equivalent monetary benefit.

Considerable experience has been gained in the EPWP and CWP schemes, which could be used as building blocks for an employment guarantee scheme. Multiple challenges in these schemes should be evaluated in considering the impact of upscaling them, as well as the potential to refocus and realign them in a way which is

conducive to building an EGS. A fair deal of research has been conducted which could provide the basis for such an assessment.

**Pros of the scheme:** it allows for flexibility to absorb people as it grows, while extending income security immediately to the poorest households; it gives people access to some work experience<sup>5</sup>, and training; it builds on the experience of the EPWP and CWP. The poorest households select themselves for participation; and it is available in all localities, rural and urban; to youth; and to women; which counters people's current marginalisation on the basis of geographical location or demographics (unlike the current situation, where proximity to work opportunities, or access to child or old age grants, for example, are determinants).

**Cons of the scheme:** requires capacity which still needs to be built; administration costs would be higher than a monetary grant; and it contains significant potential for corruption.

### **2.2. The Workseekers Grant:**

A new workseekers grant would be introduced for all unemployed who don't qualify for normal UIF benefits (including those who had previously received benefits, but have been unemployed for more than a year; and those who have never worked). It would be a special grant provided to all unemployed who are not beneficiaries of the UIF normal grant.

The workseekers grant would aim to support the unemployed, raise household incomes of the poor, and assist unemployed people to enter the labour market. The workseekers grant could provide the first step towards a universal Basic Income Grant (BIG). It aims to provide the unemployed with a basic income needed to provide basic necessities and seek work.

It is called a workseekers grant because it emphasises the importance of income assistance in the unemployed's ability to seek work (which research shows is a significant barrier). But it should not be a conditional grant, as international research shows that conditionalities are both inefficient, and used to disadvantage the poor. The workseekers grant must be a right for all unemployed, just like CSG and SOAP should be, for young and old people.

The existing social grants system in South Africa is relatively well developed, despite recent challenges, and provide the basis for the introduction of a workseekers grant. Once current administrative issues are resolved, electronic payment mechanisms will make the grant relatively simple and inexpensive to administer. Further, investigations, from the Taylor Committee of Inquiry into

Social Protection, to the NDP, have recognised that the large gap which exists in the current social protection system needs to be addressed.

The workseekers grant would be a flat amount, and could be structured in different ways, depending on different financing models, and scenarios. Because of the large numbers of unemployed it would need to cover, the workseekers grant would initially need to be a relatively small grant, but the aim should be to align it to the old age pension over time. We assume here that beneficiaries would qualify for a flat amount per month (R1000) for 6 months a year, while unemployed.

**Pros of the workseekers grant:** it would be relatively easy and cheap to administer, and would make our social protection system comprehensive, something government has committed to do for many years<sup>6</sup>, and be in line with the constitutional provision on social security. It would facilitate workseeking (evidence shows the unemployed cannot afford the costs of job search) and absorption of people currently discouraged in part because of lack of access to income.

**Cons of the workseekers grant:** the workseekers grant doesn't in itself give access to work experience, unlike the employment guarantee.

### 3. COST AND FINANCING OPTIONS

Initial calculations suggest that despite having a massive impact in terms of the numbers of people they would benefit, both schemes could be affordable and sustainable, and would directly cost in the range of R30-36 billion per annum from 2019 (calculations below).

While substantial, this is not a huge amount, considering the high social and economic cost of the de facto exclusion of close to 10 million South Africans from the labour market. Indeed it is unsustainable to continue on the present trajectory, which threatens to lead to a social explosion.

Detailed financial modelling would need to be undertaken, and would depend on the choices made for the two schemes in relation to the structure, level and period of benefits, numbers of beneficiaries etc.

#### 3.1 Scenario 1 – costs of an Employment Guarantee Scheme:

Assuming 3 million of the poorest households (as identified in the census) apply for the scheme, qualifying

for 100 days work at R100 p/d = 3 million x 100 x R100 = R30 billion p/a

To this would have to be added the costs of administering the Employment Guarantee Scheme. This cost would be lower for those receiving the EGS as a cash grant, who would probably constitute the majority in the initial years, as capacity is built up to offer work in areas where people live.

#### 3.2 Scenario 2 – costs of a Workseekers Grant:

Assuming that 6 million unemployed (excluding those over 60, and those benefiting from UIF already) apply for the grant, and that they receive R1000 p/m for six months, the cost of the Grant would be 6 million x 6 x R1000 = 36 billion p/a

Administration costs would be relatively low for the Workseekers Grant.

The economic benefits of over R30 billion being spent in poor communities, and fiscal impact of increased revenue, still need to be modelled. But it is clear that either scheme would constitute a significant fiscal stimulus, which is solidly in line with the idea of a stimulus package announced by the President, as it would overwhelmingly benefit poor communities.

#### 3.3 Sources of funding I:

##### Unemployment Insurance Fund

It is proposed that the UIF contributes R15 billion p/a as a contribution to one of these schemes for the unemployed, to be reviewed after 5 years. This could be done without jeopardising the benefits of UIF contributors, or the stability of the fund.

The UIF surplus should be devoted to directly assisting the unemployed, contrary to various other proposals which want to use the surplus for other purposes.

The UIF is currently running a surplus of at least R138 billion<sup>7</sup>. The 2017 UIF report states that reserves (net assets) in 2016/17 were R133.3 billion, and total assets managed by the PIC were R138,95 billion, indicating that in 2017/18 the surplus will certainly be over R140 billion.

While there has been a recent extension of benefits, this is counteracted by the extension of the UIF to public servants, which boosts the fund because: public servants are relatively higher paid; and they are relatively stable compared to the private sector (and therefore contribute far more than they withdraw). According to the 2017 UIF report the investments of the fund surplus generate

significant returns – R9.19 billion in 2016/17; and the annual contributions (R18.2 billion) outstripped benefit payments (R8.4 billion) by R 10 billion in 2016/17. This represents close to R20 billion, which would more than cover the proposed R 15 billion contribution of the UIF to the scheme.

A contribution from the Fund would be a social solidarity contribution from workers and employers to the unemployed, as all employed workers, and all employers contribute 1% of workers pay to the UIF. There would be a positive feedback loop as more unemployed are absorbed in the labour market.

The majority of low income workers would benefit from the rise in income in working poor households, which would create a significant boost together with the national minimum wage; and their communities more broadly would benefit from rising income and purchasing power ploughed into local economies.

Clearly detailed studies would be needed, but available evidence suggests that a contribution of around R15 billion p/a from the UIF should be sustainable, and would make a major contribution to the establishment of whichever scheme is selected.

This UIF contribution should be seen as a crisis intervention, and should be reviewed after five years, in the context of the impact of other measures to grow the economy, redistribute income, and create jobs.

### **3.4 Sources of funding II:**

#### **The fiscus and solidarity taxes**

A set of solidarity taxes combined with the UIF contribution could comfortably cover the employment guarantee scheme or the workseekers grant, as well other critical jobs programmes which should be considered by the Jobs Summit.

Despite claims of limited fiscal space, there is significant untaxed wealth in South Africa, and therefore space exists for social solidarity taxes, such as a wealth tax, which has now been firmly placed on the national agenda.

These solidarity taxes could include the following- the additional revenue they could generate is indicated in the ranges drawn from various scenarios<sup>8</sup>- contained in brackets :

- Personal Income Tax bracket for super rich (between R27-47 billion)
- Wealth tax (between R32-130 billion)
- Restructuring of Corporate Income Tax (between R4-

43 billion)

- Cutting tax breaks for the wealthy (dependent on how much the tax breaks are cut)

A proposal which should be considered is to use these taxes to create a ringfenced solidarity fund, which could solely be used to benefit the working poor and unemployed, such as these proposed schemes for the unemployed, a properly funded national health system etc. The consolidated set of proposals for the Job Summit should look at a comprehensive package which could be financed by such a Solidarity Fund. Others in control of large volumes of capital such as the PIC should be requested to make a contribution to such a solidarity fund.

More details on proposals for tax restructuring will be contained in a separate Policy Brief on taxation.

## **4. JOBS IMPACT**

In the event an employment guarantee scheme (EGS) is agreed, there would be a direct impact on employment, and an indirect impact. It is anticipated that in the short term, only some households would be provided with employment, as the employment programme would be upscaled over time, so the scale of employment would depend on how rapidly the EGS is rolled out.

The balance of beneficiaries (who could not be absorbed immediately) would receive an equivalent payment of 100 days work, as a grant, if they could not be accommodated within an agreed time (e.g. a month).

The employment impact of a workseekers grant (WSG) would be more indirect, and relate to the stimulatory economic impact of the grant, and assisting unemployed, particularly long term unemployed access the labour market, afford transport to seek work etc.

Either scheme would stimulate economic activity, including when the economy is facing contractionary pressures, providing a demand stimulus<sup>9</sup>; would promote local consumption and the development of local economies; raise incomes of poor households, and supplement wages of low income workers; and enable workseeking.

Those on the employment guarantee scheme would receive some training which, if well designed, could assist with work experience.

## **5. CONSTITUENCY PARTICIPATION IN IMPLEMENTATION**

All constituencies would benefit from either scheme, are committed to comprehensive social protection, and therefore should be prepared to play a role in their implementation. Relevant government departments would need to play a lead role in implementing the employment guarantee scheme (e.g. DSD, DPW, NT) or the workseekers grant (e.g. DOL, DSD, NT). Social partners would play a key role in popularising these schemes and ensuring effective take-up.

Because of their proposed financing, which draws on support from the UIF, and the fiscus, social partners, particularly business and labour, would need to agree on a financing model in relation to drawing on a ringfenced portion of the UIF; and an engagement with government on the balance to be drawn from the fiscus. Both sets of contributions should be seen as social solidarity contributions from the social partners towards the unemployed; as well as broader society, in the case of the fiscal contribution.

Appropriate legislation would also need to be crafted.

## **6. RISK MITIGATION**

A serious political discussion is needed amongst social partners, and all South Africans, on the scale of the unemployment challenge, and its threat to society; and the need for all social partners to make contributions to addressing the challenge. Government, particularly the Presidency, also needs to lead on expediting implementation of solutions, and ensure the full co-operation of government departments.

## APPENDICES: AN EMPLOYMENT GUARANTEE SCHEME OR A WORKSEEKERS GRANT

Table 1 New jobs plus rising unemployment

	Jan-Mar 2010	Jan-Mar 2013	Jan-Mar 2018
	Thousand	Thousand	Thousand
Population 15-64 yrs	32,732	34,558	37,678
Labour Force	<b>18,410</b>	<b>19,420</b>	<b>22,358</b>
Employed	<b>13,797</b>	<b>14,558</b>	<b>16,378</b>
Formal sector (Non-agricultural)	9,695	10,242	11,355
Informal sector (Non-agricultural)	2,148	2,334	2,901
Agriculture	683	764	847
Private households	1,271	1,219	1,275
Unemployed	<b>4,612</b>	<b>4,862</b>	<b>5,980</b>
Discouraged work-seekers	1,890	2,401	2,787
Rates (%)			
Unemployment rate	<b>25.1</b>	<b>25.0</b>	<b>26.7</b>

Source: QLFS

Table 2 Unemployment rate by age

	Jan-Mar 2010	Jan-Mar 2013	Jan-Mar 2018
15-24 years			
Unemployed	2,304,000	2,528,000	2,408,000
Unemployment rate	63.9	67.4	65.7
25-34 years			
Unemployed	2,828,000	3,087,000	3,661,000
Unemployment rate	38.7	40.0	42.8
35-44 years			
Unemployed	1,403,000	1,610,000	2,027,000
Unemployment rate	25.3	26.2	28.2
45-54 years			
Unemployed	681,000	795,000	1,091,000
Unemployment rate	19.7	21.2	23.8
55-64 years			
Unemployed	173,000	213,000	293,000
Unemployment rate	13.6	14.8	15.6

### Labour Force Characteristics by Age

Source: QLFS

1. Stats SA regards unemployment for more than a year as long term unemployment.
2. Using the expanded definition of unemployment, including discouraged workers who have given up actively looking for work.
3. According to the latest report of the Unemployment Insurance Fund for 2017, there were 675 000 beneficiaries in 2016/17, which represents around 7,5% of the unemployed.
4. In quarter 1, 2018. The Brief will be updated to reflect figures from the 2nd quarter. [see QLFS 2nd Q p 41
5. Although the evidence suggests that the experience and training received under the EPWP programmes needs major improvement.
6. This commitment has been made in a number of documents starting with the White Paper on Social Security, the Taylor Committee on social protection, and culminating in the NDP.
7. Figure cited at the Jobs Colloquium by Neva Magketla.
8. The detail of these calculations is contained in tax scenarios presented to the Parliamentary Finance Committee by the Institute for Economic Justice
9. Modelling conducted on the impact of the national minimum wage clearly suggests the positive impacts of rising income in providing a demand side economic stimulus.