

**Submission to the Parliamentary Portfolio Committee
on Labour**

Youth Unemployment

A. SME's and EMPLOYMENT

In dealing with the challenge of youth unemployment the following underlying factors must be taken into account in resolving the issue:

- 1. SME's are vitally important providers of jobs**
- 2. Legislation and regulations weigh heavily on SME's**

1. SME's are vitally important providers of jobs

1.1 SME's constitute points of entry into the labour market

Small and Medium Enterprises (including informal businesses) are vital points of entry into the labour market for both skilled and unskilled people at both the entrepreneurial and employee levels.

1.2 The unemployed are potential employers as well as employees

Policy measures that are intended to result in job creation must simultaneously treat the unemployed not only as potential employees but also as potential SME employers.

1.3 SME's are primary job creators in most economies

The SME sector (including the informal sector) in most countries is the primary job creator (see Enterprises in the European Community, Office for Official Publications of the European Communities, 1990). The EU study shows that Small and Medium Enterprises account for a very large percentage of the jobs in the following countries: Spain (91.9%); Italy (82.8%); Portugal (80.3%); Luxembourg (75.7%); Belgium (71.5); Great Britain (70.0%); Germany (64.2%); Netherlands (61.3%); France (60.9%). A further study in 2002 revealed that more than two-thirds of all jobs in the EU are provided by SME's employing 0-249 employees, 93% of them in firms employing 10 or less people.

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1.4 South Africa's SME's (as defined in Act) employ just more than 50% of the total workforce

South Africa's small firms employ slightly more than 50% of the total workforce but our data are not strictly comparable with figures from other countries because South Africa's small firms are classified differently. For instance, South African firms that employ 100 or more workers in the agricultural, retail and motor, wholesale, catering and accommodation, and finance and business services sectors are defined as large firms, as are firms in these sectors with fewer than 100 employees but with turnovers or total gross assets exceeding the minimums stipulated in the National Small Business Act, 1996.

1.5 SME's are central to solving South Africa's unemployment crisis

Whatever the comparable employment figures for South Africa may be, government policy must take into account the substantial role that SME's can play in absorbing the large number of unemployed people in the country. SME's tend to be more labour intensive, while large firms tend to be more capital intensive.

1.6 SME's are the most likely employers of the young, old, unskilled or otherwise disadvantaged

Given the right conditions small firms are the most likely to hire the young, old, unskilled or otherwise disadvantaged. They are more likely to hire people "off the street" and give them a chance to show how well they can work. However, in order to function without requiring CV's, letters of recommendation from previous employers, detailed records of previous employment, certificates of qualifications and all the other records that are standard requirements of personnel departments of large firms, small firms need to be allowed to function in an environment based on reputation for fair dealing rather than rigid statutory requirements.

The authors of this paper were both given their first jobs on this basis, which they found perfectly acceptable. Being young they did not need guarantees of lifetime employment, guaranteed pensions, membership of medical aid schemes and other benefits that are important to more mature employees. As is the case with most young people the most important aspect of getting a job was to gain experience – to learn skills on the job that could later be leveraged into higher incomes with the same or other employers. Learning skills on the job can be so valuable to a young unskilled person that it is considered worth working for very little or perhaps for no remuneration at all.

Government should create conditions that allow young people to take responsibility for their own lives, to decide for themselves what employment conditions and wages they find acceptable. They should be given the right to determine their own destiny. If they were allowed to do so, thousands of young people who are currently unemployed would be working.

2. Legislation and regulations weigh heavily on SME's

2.1 Complying with legislation is a great burden on SME's

Government can facilitate the creation of a great number of additional jobs in South Africa by making the regulatory environment more conducive to employment. A more entrepreneurial and business-friendly regulatory framework would allow for the creation of many more jobs while lifting the economic growth rate, potentially to the 6.1% per annum growth rate posited by government's Growth, Employment and Redistribution (GEAR) policy document. The GEAR target and even higher growth is possible but this will not happen if the regulatory burden on SME's is not lifted.

2.2 Reduced regulatory compliance costs could bring spectacular growth

In order to rapidly absorb the unemployed into the labour market, South Africa needs spectacular growth in the order of 7.2% per annum for an extended period, which is the growth level required to double the country's GDP every ten years. Other countries, such as South Korea and China, have averaged higher growth rates for decades and there is no reason why South Africa should not do the same. However, the full wealth-creation and job-creation potential of all firms, but especially small firms, must be utilised to make this possible.

2.3 In a low-tax, low-regulation environment small firms don't need a special dispensation

No special dispensation for small business is required in a low-tax, low-regulation environment. But when taxes are high and regulations onerous, small firms need special treatment to reduce the competitive disadvantage that they otherwise suffer because of their higher regulatory compliance costs per worker. The compliance cost per worker has been shown to average as much as 60% more for small firms than for large firms. The reason is that in a big company the costs are spread over a larger number of workers. The average cost then constitutes a much greater percentage of the wages of employees of small firms and is particularly high in the case of low-wage workers.

2.4 An example of the effects of compliance costs on SME's

If the average compliance cost per worker is R1,000 for a small firm and it hires one worker at R1,000 per month and another at R10,000 per month, the compliance cost is 100% of the monthly wage for the first worker and only 10% for the second, creating a substantial disincentive against the hiring of low-paid workers. Based on a 60% higher cost for small firms, the comparable compliance costs for a large firm in respect of workers earning the same wages would be 62.5% and 6.25% of the monthly wages respectively.

2.5 Remove the regulatory bias against small firms

The bias against small firms caused by high regulatory costs should be removed or reduced, either by reducing such costs for all firms or by exempting small firms from some of the laws and regulations. Small firms in some instances become the victims of laws and regulations that are specifically intended to regulate the activities of large companies. Identifying and exempting small firms from such 'all-

encompassing' regulatory requirements should be a relatively simple matter, and instituting measures to ensure that small firms are not accidentally ensnared by future legislation should also be easily accomplished.

Recent reports have suggested that exempting small firms from statutory requirements under the labour laws would be unconstitutional, presumably because the law is required to treat everyone equally. However, imposing the same statutory requirements on large and small firms currently results in unequal treatment by the law. Legal scholars will consequently need to apply their minds to how the current inequality of treatment by the law can be removed constitutionally.

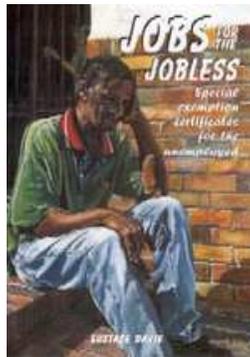
2.6 Unemployment must be drastically reduced if South Africa wishes to be considered to be a humane society

By reducing regulation on small firms in tandem with the granting of a special dispensation to the unemployed, government can bring about the most rapid possible reduction in unemployment. It will allow unemployed people and small employers to 'find' each other quickly, without barriers to employment intervening in the process. Small firms are primary job generators; all that is needed is for jobs and workers to be left to find a match with each other as fast as possible. No other policy proposal has the potential to reduce unemployment as rapidly and permanently as the policies proposed in this submission.

B. Granting exemptions to the unemployed

Jobs for the Jobless

Special Exemption Certificates for the Unemployed



Executive Summary

Jobs for the Jobless puts forward a workable and practical proposal for addressing unemployment – the most formidable problem facing South Africa.

This booklet, launched by the Free Market Foundation in June 2004, is intended to make politically possible what has long been economically desirable: to substantially reduce the level of unemployment in South Africa. The proposed exemption certificates would be particularly valuable to young people. Many of them have family support that would allow them to concentrate on gaining skills early in their working lives rather than being overly

concerned about the level of their earnings. Once they have skills they can bargain with employers for higher wages.

The proposal

- Issue to every unemployed person who has been unemployed for 6 months or more, on application, a Special Exemption (SPEX) Certificate valid for a minimum period of 2 years, exempting the jobless person from the labour laws.
- Allow the SPEX Certificate holder to work for any small firm with 200 or fewer employees on whatever basis or conditions they agree upon.
- The SPEX Certificate holder and the employer must enter into a basic, simple written employment contract and government must not set minimum conditions for such contracts.

Why the exemption certificate is necessary

- South Africa's labour laws provide a high level of job security for those that **already have jobs**.
- An unintended consequence of the laws is that they stop people from selling their labour on less favourable terms than the law allows, but which they may find acceptable.
- The main obstacles to employment are the laws and regulations relating to dismissals and minimum wages.
- The labour unions oppose changes to the labour laws intended to facilitate the employment of the currently jobless as this would threaten the job security of their members.

An alternative approach

- **Leave the current labour laws intact** so as not to disturb the relationship between government and the labour unions.
- **Exempt the unemployed**, on application, from the labour laws – **not employers**.
- **Give the unemployed the choice of deciding their own destiny** – deciding what wages and conditions of employment are acceptable to them – with government, the labour unions, or anyone else, free to advise them – advise but not dictate to them what they may or may not do.

The purpose of the conditions

- The 6-month waiting period is suggested as a measure to prevent employers from circumventing the labour laws by firing their workers and re-hiring them once they have obtained SPEX Certificates.
- A 2-year validity period for SPEX Certificates is essential to allow unemployed people to find jobs, change jobs, build up track records and consolidate their positions in jobs.
- The basic, simple employment contract is necessary to provide certainty as to the terms of the agreement.

Small firms provide most jobs to the unskilled

- Many of the labour laws are intended to regulate matters between big business and big labour – small firms and the unemployed are unintended casualties.
- Complying with labour regulations costs a small firm on average 60% per worker more than it costs a large firm because large firms spread the costs over larger numbers of workers.
- When compliance costs are high firms tend to hire fewer more expensive skilled workers and to mechanise.

- Removing the regulatory compliance-cost bias faced by small firms facilitates job creation.
- Small firms provide on-the-job training to the unskilled.
- Given the right conditions, small firms hire more high-risk employees such as the unskilled, young, old, handicapped or otherwise disadvantaged than large firms.

This is not exploitation

- If what is being offered to the unemployed person is better than their next best option it cannot be called exploitation.
- Only the individual can decide whether she/he is being exploited. The comparison to be made is between inadequate wages and conditions of employment and no job at all – not with an ideal situation but with reality.
- If 3 million of the unemployed can earn just R5,000 per annum it will mean R15 billion in the hands of South Africa’s poorest people – if the annual average is R10,000 the total becomes R30 billion.
- In the final analysis, the law must stop preventing unemployed people from deciding that poorly paid jobs and poor working conditions, if that is all they can find, are better than no jobs at all.

Implementation of the Special Exemption Certificate Proposal

- The *Jobs for the Jobless* proposal will allow government to create opportunities for the unemployed without reducing the job security of the already employed.
- The firms employing the SPEX Certificate holders will finance the jobs and tax money will be required only for issuing the certificates.
- Current laws will remain intact except for minor changes necessary to implement the Special Exemption Certificates.
- Small firms will be able to take on workers with SPEX Certificates without fear of falling foul of the labour laws and without having to become labour law experts.
- Increased employment will raise economic growth.
- Poverty will decline.

Conclusion

This proposal is submitted in the hope that it can be utilised to improve the lives and alleviate the poverty of the millions of people who want to work but cannot, for reasons they do not understand and that are beyond their control.

The Special Exemption (SPEX) Certificates described in this submission are the result of a great deal of thought and numerous discussions with unemployed people. The proposal recognises the realities of the current labour dispensation and accepts that labour unions have a right to protect their members with every instrument available to them, including the statutes that are biased in their favour, even if this has unfortunate consequences for the unemployed. That is their job. Levelling the playing field so as to provide the unemployed, especially the young unemployed, with a fairer dispensation is the responsibility of Parliament.

Special exemption (SPEX) certificates for the young unemployed would reduce unemployment considerably without reducing job security for existing workers. They would also provide a major boost to the economy.

Young people with jobs are young people with hope for the future, with self-respect and independence. Young people without jobs, desperately looking for and not finding jobs, are

crushed and stunted souls, their beings disintegrating at the very time when they should be growing into proud and confident citizens of our great country.

Mass unemployment will destroy the fabric of South African society if it is allowed to continue. A new dispensation must be created and implemented as soon as possible to save our nation from the negative results of the shattering of the hopes and dreams of our young people.

Government and Parliament have the power to sweep away the deterrents that are preventing our young people from getting jobs. The sooner those powers are used the better it will be for our youth.

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