Communication and Marketing Department
Isebe loThungelwano neNtengiso
Kommunikasie en Bemarkingsdepartement

Private Bag X3, Rondebosch 7701, South Africa
Welgelegen House, Chapel Road Extension, Rosebank, Cape Town
Tel: +27 (0) 21 650 5427/5428/5674 Fax: +27 (0) 21 650 5628

www.uct.ac.za

8 June 2023

COVID-19 TERS policy saved at least two million jobs

Research, however, shows this had some unintended results

The COVID-19 Temporary Employer-Employee Relief Scheme (TERS) saved at least two million jobs at the onset of the pandemic, but not without several unintended consequences, according to new research.

The TERS was a wage subsidy – a predominant policy used by governments worldwide to save jobs threatened by the pandemic. By subsidising worker incomes and firm liquidity, these policies broadly seek to help employers retain workers and avoid the potentially costly process of hiring and training new workers as economic activity recovers. They also help workers avoid adverse labour market 'scarring effects' associated with periods of unemployment.

In a paper titled "Wage Subsidies and Job Retention in a Developing Country: Evidence from South Africa", researchers discussed how, in a country characterised by extreme unemployment, the TERS was arguably South Africa's most important labour-market intervention during the pandemic. The policy subsidised the incomes of workers who remained employed but had suffered income loss as a result of a full or partial closure of their employers' operations. Subsidy amounts primarily depended on a worker's usual wage and any employer payments to them, but the policy ensured a take-home pay of at least R3 500 (the minimum wage) with a maximum subsidy of R6 730 per month.

Timothy Köhler, a junior research fellow at the Development Policy Research Unit and PhD candidate in the School of Economics at the University of Cape Town, said: "Importantly, the policy ensured that higher-wage workers received larger subsidies in absolute terms, but that lower-wage workers received larger subsidies in relative terms (the share of their usual wage subsidised)."

At its termination, the research found that nearly six million unique workers (equivalent to approximately 70% of the formal, private sector employed population in 2020) had benefited from the policy at a cost of R64 billion.

The researchers' previous work found evidence of a strong, positive association between TERS receipt and job retention – the probability of remaining employed. While this suggested the policy was effective, their method allowed them to establish only a correlational relationship ("*Are TERS recipients more likely to remain employed?*") and not a causal one ("*Does TERS receipt itself increase the probability of remaining employed?*"). Hence, the key question "*Did the TERS save jobs?*" has, until now, remained unanswered because adequate empirical evidence has yet to exist.

In their new paper, the researchers were able to isolate the causal effects of the TERS on job retention at the onset of the pandemic, but only during April and May 2020, due to data limitations. Using an econometric method applied to a nationally representative sample of formal private-sector employees (who represent the majority of workers in the country), they found evidence of a strong, positive effect of the TERS policy on job retention in the short term.

Their analysis showed the TERS increased the probability of remaining employed by nearly 16 percentage points during April and May 2020. "This effect is not only positive but is also economically meaningful," explained Köhler. "It implied that 33% of TERS recipients would have lost their jobs had they not received the subsidy, and this translates into at least two million jobs being saved over the period. This result suggests that the extent of job loss at the pandemic's onset would have been much more severe without the policy."

The research also found that job-saving effects favoured higher-wage workers. "While effects were large and positive regardless of the size of a recipient's wage or subsidy in absolute or relative terms, the effects were marginally regressively distributed," said Köhler. "This was not necessarily good news from an income inequality perspective, considering that job loss at the pandemic's onset was already concentrated on lower-wage workers in South Africa."

However, the other side of the coin is that their findings suggest that 67% of recipients during this period were 'inframarginal' – that is, they would have remained employed anyway. The team also discussed how this was likely because the policy initially prioritised rapid disbursement of relief over accurately targeting those most affected or in need.

"Although the policy did not help the inframarginal remain employed, these funds were not necessarily wasted as they still provided workers with an important source of income support. We also show that this outcome was not unique to South Africa, but was apparent in several more developed countries such as the US, Canada, and Australia," said Köhler.

Combining their result with expenditure data, the authors calculated that the average job saved cost is just under R13 200 per month in nominal terms. Given that this cost is large relative to the median wage of eligible workers (R5 315) and the median TERS subsidy amount (R3 500), said Köhler, it appears that expenditure on the TERS exceeded the wage costs of jobs supported by it. "However, this high cost compares favourably to similar policies in more developed countries. For instance, the cost-per-job saved by a similar policy in the US is approximately 3.5 times the median wage," he added.

Köhler concluded: "The research provided evidence that wage subsidies can save a significant number of jobs during periods of crisis in a developing country, which aligns with the developed country consensus. However, there are consequences for foregoing careful targeting."

The research was supported by the United Nations University World Institute for Development Economics Research as part of a project on social protection and taxation in times of crisis in the developing world.

ENDS

Issued by: UCT Communication and Marketing Department

Ridovhona Mbulaheni
Media Liaison Assistant
Communication and Marketing Department
University of Cape Town
Rondebosch
Tel: (021) 650 2333
Cell: (064) 905 3807
Email: ridovhona.mbulaheni@uct.ac.za
Website: www.uct.ac.za