Reconstruction and recovery: What has changed?

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Input to TIPS Forum 2021

3 August 2021

The problem

- SA amongst hardest hit in the world
  - illness and deaths
  - economic downturn/job losses
- Yet the economic policy discourse seems almost unchanged
  - Partially because the crisis is still evolving, partially because of confirmation bias
  - In a deeply unequal democracy, long-standing policy contestation means long-standing positions, and it's easier just to repeat them

- This paper outlines four new developments, shaped in part by SA's pre-existing co-morbidities
  - Deepening inequality and risk aversion around structural mechanisms reproducing it
  - Reinforced mining dependency
  - Impact on the budget
  - Prospects for high-risk industries (hospitality, entertainment, tourism)
- There are others – please use the chat line to identify what's important

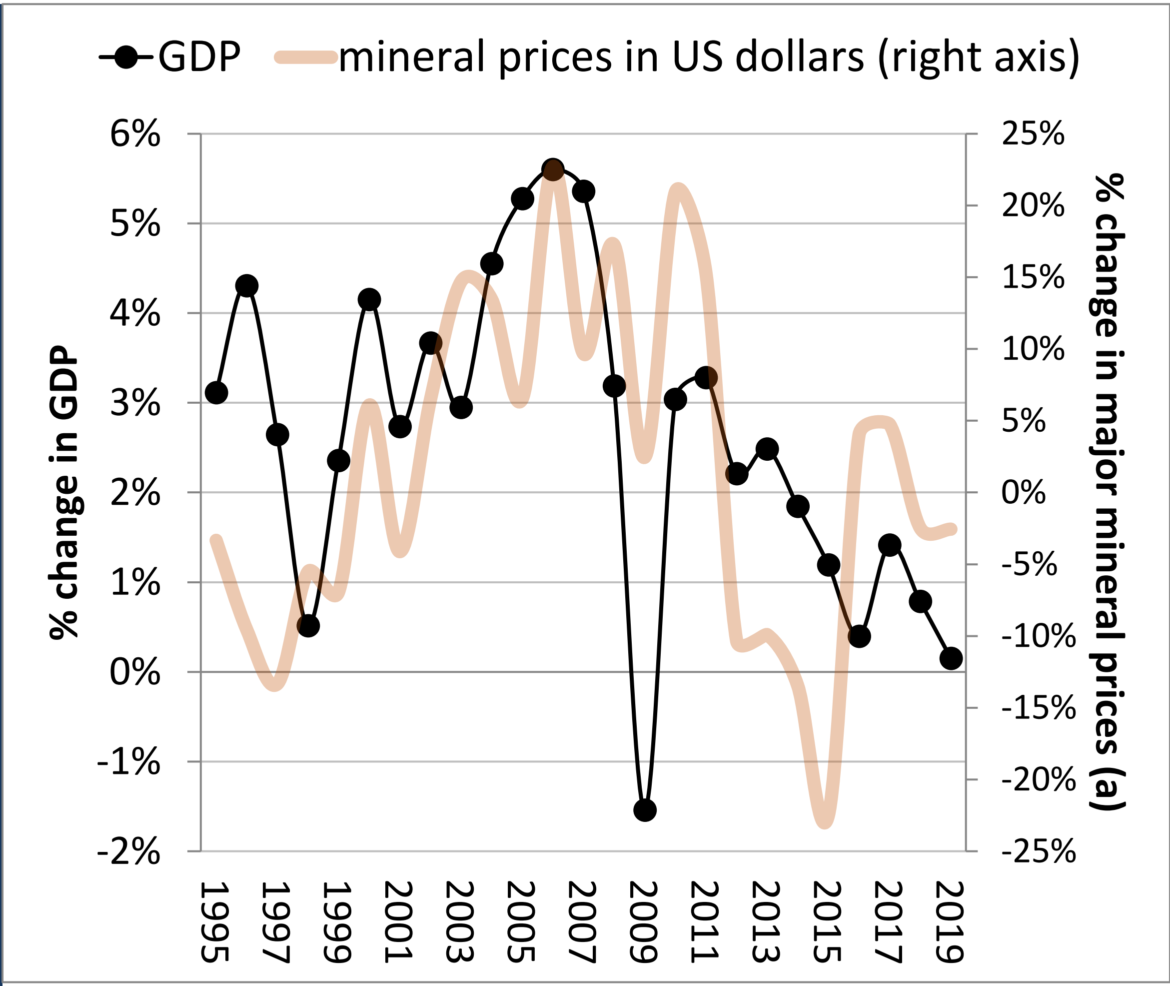
Inequality

- Reinforced by
  - Asset bubble and deficit spending
  - Net job losses only for lower level workers – none for formal managers and professionals
  - Slower recovery in employment than the GDP
  - Education losses
  - Closure of 10% of formal small businesses, disproportionately black owned
  - Vaccination programme and unequal healthcare
- Means recovery slowed by protest and policy contestation - in a deeply unequal democracy, that's a feature, not a bug

- Main policy response:
  - Talk about reconstruction
  - Actually undertake recovery (infrastructure and regulatory changes) plus relief payments
- Relief mostly through special grant plus TERS
  - Neither luxurious
  - SRD at R350 or 60% of food poverty line
  - TERS average of R3500 a month
- Virtually nothing to address the structural roots of deep inequality in SA, which the pandemic is reinforcing
  - Ownership (small businesses, financial, land, housing)
  - Work organisation and payscales
  - Education
  - Infrastructure
  - Historic labour-sending regions
- Why?
  - Difficult to promote collective action in pandemic
  - Individual grants are easier to administer and faster
  - Risk that displace longer-term structural programmes
- What would an effective and realistic reconstruction programme look like?

Mining dependency

- Mining value chain (including refineries) at 13% of GDP and 6% of employment in 2019
- But generates around half of SA exports
  - Sole advanced exports outside of the mining VC: assembled autos, tourism
  - Other advanced exports depend on mining: construction services, capital goods, financial services
- Also major source of foreign indirect and direct investment (JSE, loans, FDI)
- In effect, main way SA articulates with global economy
- Diversification largely within mining, not away from it
- Never fully closed in pandemic, and amongst first to re-open despite high risks underground
- Prices now above 2011 levels, boosting tax revenue and export surplus



Policy implications

- Mining is like an abusive employer: sometimes they're charming, which makes it hard to quit
- Increasingly coordinated cycles overall, with fluctuations in demand for individual products (e.g. coal declining, other green economy metals rising)
- What we learned in 2011:
  - ➢ Slower growth and job creation, with job losses in mining
    - Sharp fall in annual pay increases and bonuses fuelling Marikana strikes
    - Divestment by international companies
    - Regional impacts depending on degree of dependency (contrast GT with mining towns)
  - ➢ Stranded infrastructure programmes
  - ➢ Rising debt
  - ➢ Rapid depreciation
- Much bigger impact than most expected

- Questions:
  - ➢ Is the price upswing likely to last?
  - ➢ What should SA do to prepare for downturn?
  - ➢ How to build resilience during the upswing? (upstream linkages, managing revenues, diversification strategies in mine regions, SLPs, disincentivising short-term capital inflows)

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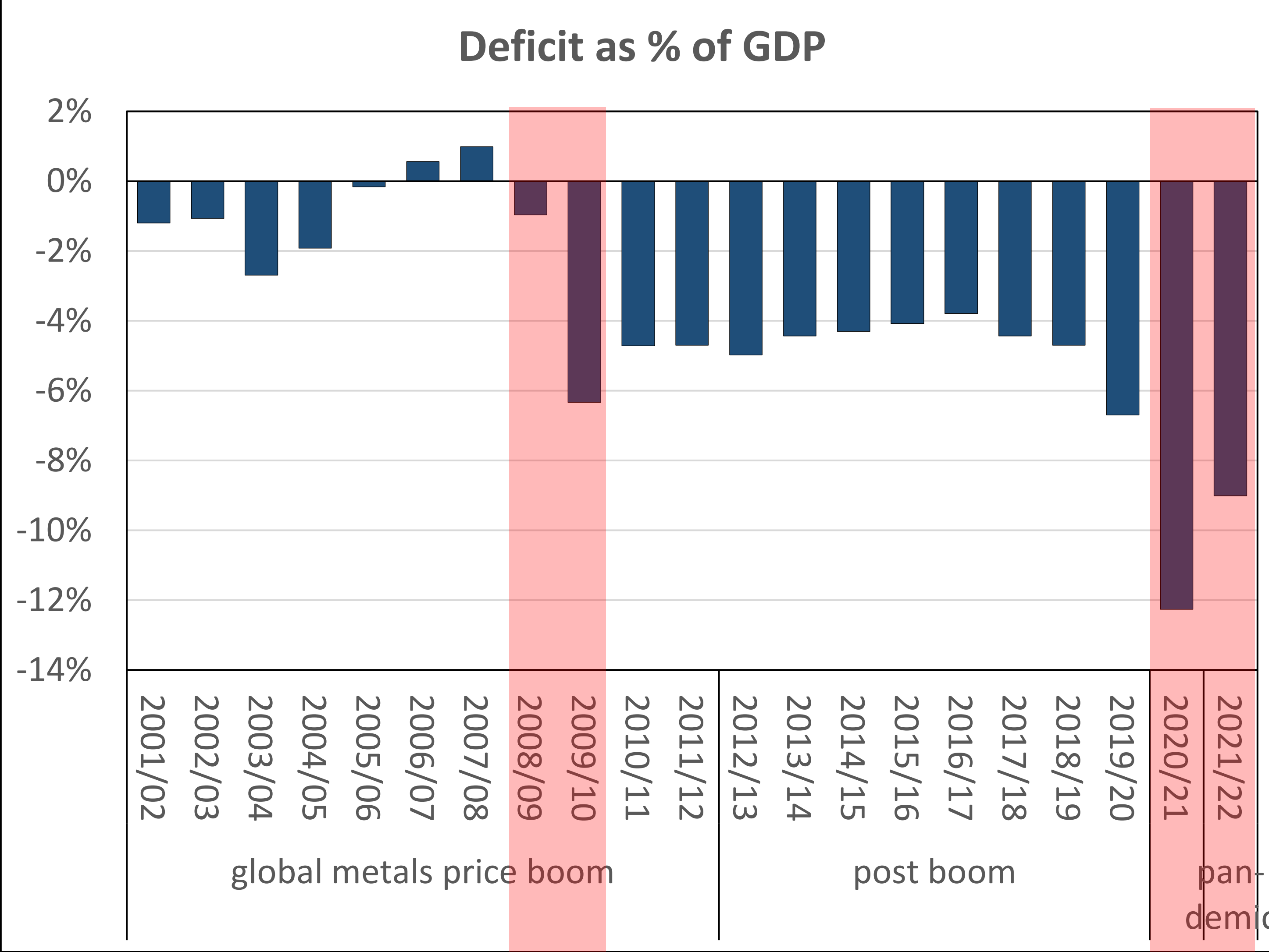
The fiscal deficit

- Deficit jumped to 12% as state
  - maintained spending
  - Revenues fell
- One of the world's biggest increases in the deficit
- Mining upswing means higher than expected tax revenues
- Using for relief rather than to pay down debt
- Due to huge public and political pressure – again, a feature, not a bug



Policy responses

- Deficits always on a continuum
- Risks and costs as well as benefits whatever we do
- But the stakes are higher now
- How to manage hard realities:
  - institutional capacity of the state
  - Push back from well off against higher taxes and other measures to promote equality

- Cons:
  - Developing economies do not have much clout on global financial markets – we are not the US or the UK
    - Escalating interest costs
    - Aggravated if monetary policy tightens globally, especially in the US
  - High deficits ultimately worsen wealth inequality unless spending helps low-income groups also accumulate assets (e.g. small business support, infrastructure and housing, land, human capital)
  - Funds can be raised through temporary solidarity taxes and redirecting financial investments (social security and retirement funds as well as other financial savings)
  - Deficit stimulus addresses low demand but problem is largely due pandemic impacts on supply and demand for high-risk services
- Pros:
  - Reconstruction and relief are expensive – the costs of doing nothing are higher (as we just experienced)
  - Need to address inequalities through redistribution as precondition for economic recovery
  - Higher taxation would be pro-cyclical even if progressive
  - Cannot touch financial savings because of potential backlash from owners, including formal workers in pension funds
  - The pandemic generated higher employment and lower earnings, so a Keynesian stimulus would help

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High-risk industries

- Businesses that require social gatherings are high risk for contagion
  - ➢ Hospitality, entertainment
  - ➢ Tourism needs both – and for overseas, long-haul flights
  - ➢ Alcohol fuels risky gatherings
- Not coming back any time soon even if not restricted
- In 2019, around 3% of GDP and 4% of employment; 350 000 in catering and accommodation, according to StatsSA
  - ➢ Lobbies invariably exaggerate impacts of their industries
  - ➢ But huge cost to economy and society if allow to operate on old models before widespread vaccination
- Downturn disproportionately affects small businesses, workers (largely women and young), and some regions – notably WC

- Response so far only very limited relief to workers and even less for businesses
- Options:
  - ➢ Support new business models that require new technologies (internet, delivery services, ventilation/out door service) but often fewer jobs
  - ➢ Support move into other activities – industrial policy, ALM
- Who should bear the costs of transition?

Some questions

- How have your policy ideas evolved as a result of the pandemic?
- What would be the priorities for a strategy for reconstruction?
- How do the conditions for a deficit-led stimulus differ between the US and South Africa?

Re a leboha!