



SOUTH AFRICA'S ECONOMIC RESPONSE TO COVID-19

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A close-up photograph of a person's hand holding a large pile of coins. The hand is cupped, and the coins are piled high in the center. The coins appear to be of various denominations, including some with '100' visible. Another hand is visible on the right side of the frame, holding a green cloth. The background is dark and out of focus.

Economic underpinnings

Orthodoxy in economic policy making

Neoclassical economics:

- limited fiscal deficit, trade openness, minimal state intervention, private investment, making the market mechanism work, “getting prices right” (i.e., wages, goods and services, interest rates, exchange rates)
- Neoliberalism: stabilisation, liberalisation, privatisation, and rationalisation
 - State led -> market led
 - Structural Adjustment programs and Stabilization programs
 - Debt sustainability and growth: Revised Minimum Standard Model (RMSM) focus on investment
 - Polak Model - integrating monetary, income and balance of payments analysis.

Homo-economicus

- Neoclassical economics – Robinson Crusoe
 - The rational, self interested, independent and has no responsibilities towards anyone
 - focuses on productive labour and ignores reproductive labour.
 - public sphere consists of the market and production whereas the private sphere consists of family and household work (unless outsourced)

The moralization of austerity

“Austerity has been used to legitimise a desire to shrink the (social welfare) role of the state, deregulate labour markets, emphasise private markets as the drivers of growth, and enable a reconfiguration in the interests of capital, particularly finance capital”

Debt: (excessive) government debt undermines business confidence, is an integrational cost transfer, and crowds out savings or private-sector spending.



South Africa's context

Economic policy since 1996

“stable” macroeconomic environment – low inflation, floating exchange rates, liberalised capital markets, lightly regulated financial sector, high real interest rates, and low fiscal deficits – will lead to growth and investment.

- Growth, Employment and Redistribution (GEAR)
- Accelerated and Shared Growth Initiative for South Africa (AsgiSA),
- the New Growth Path (NGP),
- the National Development Plan (NDP);
- recently the National Treasury has also released a “discussion document”.

Austerity in South Africa

Since at least 2014/15, the South African government has imposed austerity despite commitments to counter-cyclical policies in the Medium Term Strategic Framework (MTSF) 2014-19.

- Non-interest expenditure growth
- VAT increase

MTBPS 2019: The National Treasury has asked departments to prepare proposals on how to reduce expenditure as it seeks to cut the budget by 5% in 2020/21, and then by 6% and 7% in the following two years.

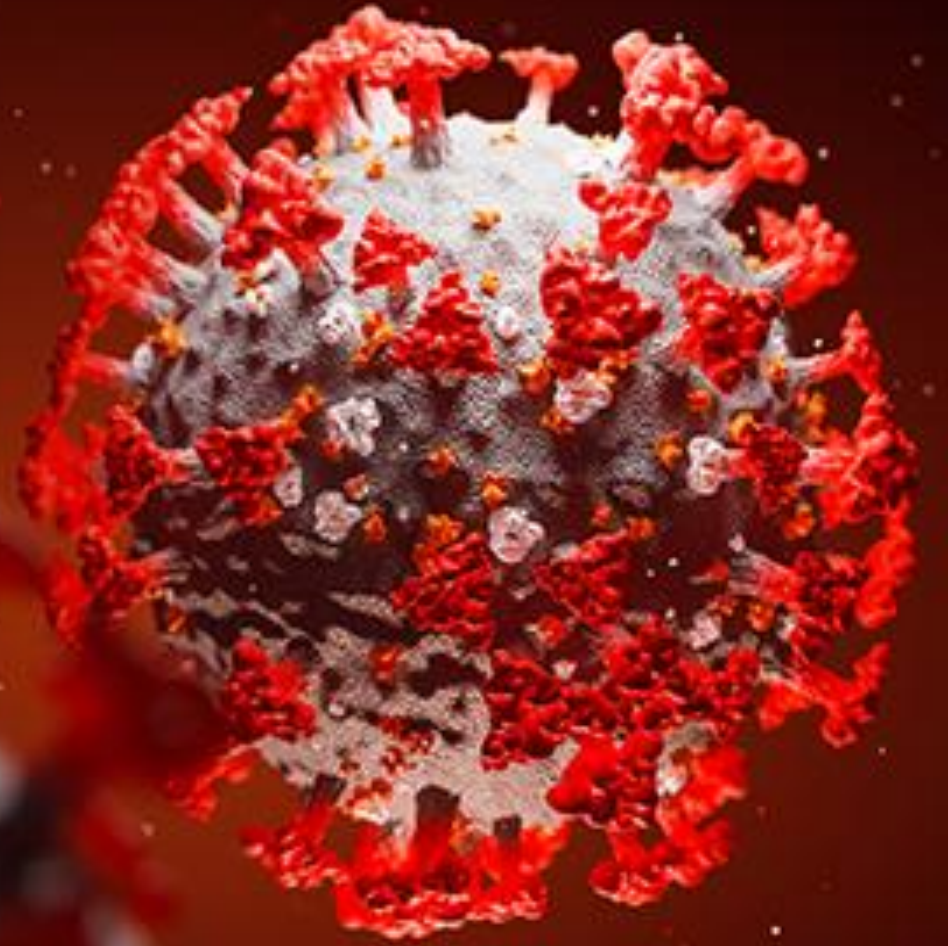
	2014/15	2015/16	2016/17	2017/18	2018/19	Average growth
Revenue growth	2.7%	5.1%	0.6%	-1.0%	2.7%	2.0%
Non-interest expenditure growth	1.7%	4.6%	-0.2%	0.3%	2.6%	1.8%
Population growth	1,6%	1,6%	1,6%	1,6%	1.6%	1.6%

Sources: Consolidated budget revenue, National Treasury 2017-2019 Budget Review and own calculations. StatsSA Mid-Year Population Estimates

South Africa's economy was already failing

- ❖ Growth has trended downwards since 2010/11, averaging just 1.7% between 2011 and 2018
- ❖ Stagnating growth, high unemployment and inequality along racial and gender lines.
- ❖ Technical recession
- ❖ Increasing debt despite fiscal consolidation efforts
- ❖ At least 55% of SA's population (30 million people) live below the Stats SA poverty line of R1 267 per person per month – black women, particularly rural, at highest risk

A failed fiscal policy response to COVID-19



Early warnings

- Economic contraction: 7-10% (Treasury 7.2%)
- Job loss estimates for the country range from 400,000 - 1.79 million
- Prior to COVID-19, Oxfam the number of people in South Africa who regularly experience hunger and malnutrition at 13 million.
- At the beginning of lockdown, research by SALDRU showed that 50 million people (based on income) were classified as being unlikely to be able to take preventative measures in light of COVID-19.
- Despite measures to regulate pricing during the crisis, data from the Pietermaritzburg Economic Justice & Dignity Group (PMBEJD) indicates that the cost of the (actual) basic basket increased by a massive 5.8% (or R187) from the previous month, moving the cost of the basket to R3.408.
- SMMEs were at risk
- Painfully gender blind responses: school closure versus returns to work. Social reproduction not supported.

A failed response to COVID-19 crisis

Instead, R145 billion is added to COVID-19-related expenditure. R109 billion of this is funded through the suspension of baseline allocations and reprioritisations. Therefore, the Budget presents a net increase of R36 billion to non-interest spending in the current year.

- **Social security:** The President's package indicated a R50 billion allocation towards social grants. The Budget allocates R41 billion of which only R25 billion is new spend. This is on top of the implementation failure of the new COVID-19 grant.
- **Job protection and creation:** Only 6% of the President's R100 billion is allocated for 2020/21. This comes largely from budget reprioritisation, including from existing funding related to small business support and unemployment reductions.
- **Health:** The Budget provides only R2.9 billion in new funds for health spending. Although the President's R20 billion allocation is increased to R21.5 billion, this comes from a reprioritisation of existing health spending.
- **Municipal support:** R20 billion remains allocated to support municipalities in providing proper water and sanitation, sanitary public transport, food provision, and accommodation for the homeless. R11 billion comes through an increase to local government's allocation, and R9bn through the reprioritisation of existing municipal budget expenditure.

A failed response to COVID-19 crisis cont.

- **Wage support (TERS):** The R40 billion allocated to the Temporary Employer/Employee Relief Scheme from Unemployment Insurance Fund surpluses remains in place. Thus far, less than 30% of the workforce has been supported with 60% of the budget used.
- **Credit guarantee scheme:** The R200 billion in off-budget credit guarantees remains in place. According to National Treasury, R10 billion has been accessed, a fraction of the need.
- **Tax relief:** R70 billion in tax deferments were expected. Thus far a tax shortfall of R26 billion is reported. SMMEs have struggled to access these programmes.

Documented socio-economic harm

Experienced economic harm

- 3-million South Africans lost their jobs during lockdown (Feb to April) (NIDS CRAM)
- At least 1,5-million had jobs, but no pay: In addition to the 3-million people who lost their job, an additional 1,5-million (9%) reported zero pay although a job to return to.
- Half of households (47%) ran out of money to buy food in April: 1-in-2 respondents indicated that their household had run out of money to buy food in the month of April.

End...
