

Rethinking Economic Policy for South Africa in the Age of Covid-19:
Innovative policy responses for the post-lockdown Phase

Understanding the Effects of the COVID-19 Pandemic on the South African Labour Market

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Understanding the Effects of the COVID-19 Pandemic on the South African Labour Market

by

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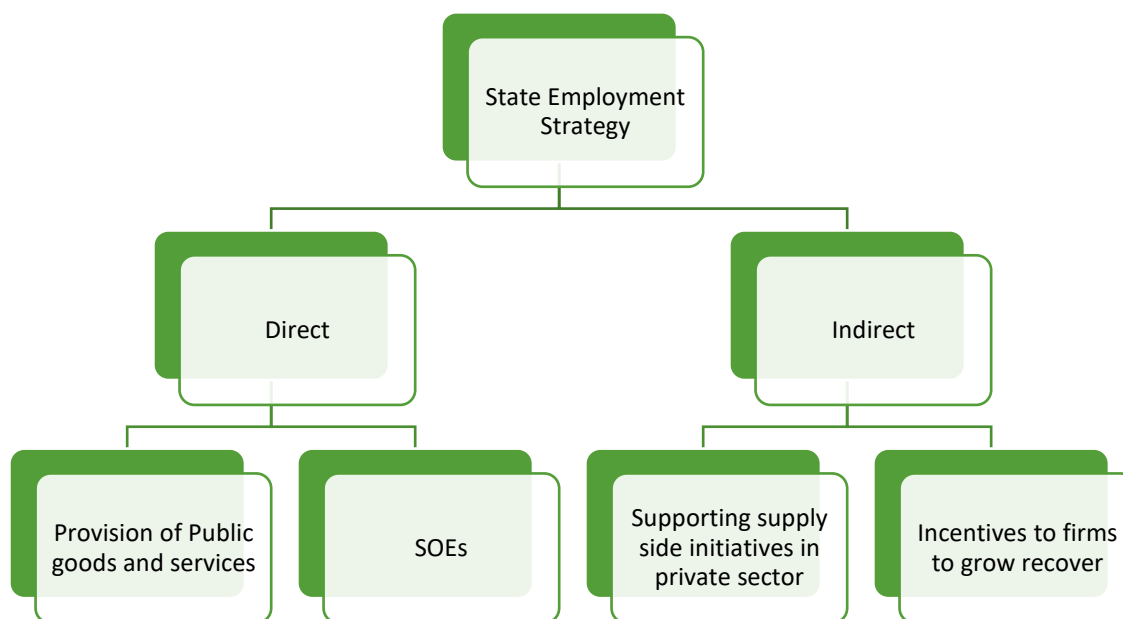
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Executive Summary

Unemployment in South Africa is a chronic problem which the Covid-19 pandemic has further exacerbated. Unemployment, by the broad definition, is around 50%. This is almost unprecedented in the developing world, and calls for radical action. In this paper we review South Africa's post-apartheid employment trajectory, and provide a framework for thinking about employment policy.

The crisis has made urgent a number of chronic problems in the South African labour market, and raised a number of important questions. Which sectors will be affected the most by the pandemic over the medium term? Where have the most jobs been lost? Where should we look and how should we think about solutions? This paper aims to draw on an analysis of sectoral employment, and a range of literature to flag sectors that are of concern with regards to employment dynamics. This will be useful in identifying the sectors of the economy that are employment intensive in the post-Covid economic reconstruction, and identifying sectors that may require targeted support in response to the shock.

Figure 1: Thinking about employment policy



The severity of this problem is acknowledged widely, and the pandemic has bolstered the status of the National Economic Development and Labour Council (NEDLAC) in negotiating economic policy among organised labour, business and the state. Employment is such a central issue that South African president Cyril Ramaphosa asserted that “our success in responding to this unprecedented crisis will be measured by the speed of our labour market recovery,” (Ramaphosa, 2020).

Despite the depth and urgency of the employment crisis that South Africa finds itself in- and numerous employment strategies- unemployment levels have increased over the last ten years. This paper outlines the changes in the South African Labour market over the past decade, presenting a brief analysis of the Covid-19 effectuated employment impacts. Finally, we codify the various employment strategies in existing literature and policy to illustrate the different ways that a post-Covid employment reconstruction can be conceptualised.

Table 1: Typology of economic policy

| | Developmental | Non-Developmental |
|------------------------------------|--|---|
| Positive Employment Impact | A.) Complexity approach - Aimed at manufacturing sector - Emphasizes goods with relatively higher employment elasticity of growth | B.) Support for goods/sectors that have high employment-to-output. |
| Neutral/Negative Employment Impact | C.) Manufacturing-led growth model | D.) South Africa status quo? |

South Africa is currently in block D, where employment and economic policy strategy has been neither developmental nor had a meaningful impact on employment. There is a range of reasons for this based on institutional, and political-economy constraints. Block C represents the standard approach that takes an industry level approach to industrialisation and development but is no longer employment intensive at the aggregated level. The aim is to reach a point at which employment is created within a development paradigm in block A. This will require addressing the current crisis by retaining, and regaining lost employment over the period of the pandemic. In material terms this requires supporting firms that have been drastically impacted, and foregrounding firms that have high employment-to-output ratios. Focusing incentives on firms that are employment intensive is an appropriate approach to the Covid-19 moment. While it is widely accepted that employment is lost in the short term, and regained in the long term (and at higher levels sometimes) as a result of creative destruction and innovative technical change, the job loss in the case of Covid-19 does not fit into this conception of short term job loss for eventual long term improvements in productivity, output and employment, because the exogenous shock is not related to technological advancements. The market will not respond in a time-efficient manner to the shock, in a way that accelerates damage incurred to aggregate demand and employment loss.

The ideal response to this shock in the immediate term falls into block B, until the efficient returns to this strategy have reached their aim of employment retention. Subsequently policy makers would be wise to shift the incentive tools available to the complexity approach in block A. Simply: the ideal approach would be to move to point A once point B has been exhausted. The determinants of when point B has been exhausted requires further analytical work. The value of this codification is that it suggests a blueprint for crisis of this nature that may arise in the future.

However, the economic damage caused by COVID-19 and the lockdowns are uncertain, and it will take a several months, indeed years, to have a better understanding of where the damage has occurred and how severe it is. We need to keep a close eye on all aspects of the labour market so that policy responses can support those most in need. In the medium to long term, we will need a new social compact that ensures that the economic damage from Covid-19 is not borne disproportionately by the poor. Such a social compact will have to address policies that raise the incomes of the poor – both through labour market and fiscal measures. South Africa needs to start an urgent conversation not only about the costs of Covid-19 but also about how the economy is likely to transition and who will benefit from that transition.

If the solidarity and social commitment to ending divisions in our society is to be taken seriously beyond the pandemic, the manner in which these labour market trends will impact on inequality must be considered. There is no natural mechanism or economic law that reduces inequality. Reducing

inequality relies on policies of redistribution either directly through structural changes leading to employment growth, higher wages or fiscally through taxation, with both requiring development policies that ensure that the benefits of growth accrue disproportionately to low-income groups. Given the conditions of the moment we find ourselves in, an increase in employment or wages is unlikely given the economic downturn and loss of employment. We are also in a highly constrained fiscal position, which limits the ability to pursue redistributive policies through the fiscus.