BOLD ACTION REQUIRED IN SOUTH AFRICA IN THE FACE OF COVID-19 ECONOMIC FALLOUT

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1 INTRODUCTION

The COVID-19 pandemic has delivered a massive blow to the global economy and will plunge South Africa's economy deeper into recession. Every South African citizen must do their part in physical distancing, but we must also take bold, decisive action to mitigate the social and economic effects of the pandemic; social solidarity must guide us.

It is widely predicted that the virus will trigger a global recession, due to collapsing demand and the supply shocks this crisis will entail. It is estimated that South Africa's GDP could contract by between 1.8 and 7%.

A set of economic interventions must be introduced to complement the public health measures announced by the government and endorsed by experts – measures we fully support.

Economic stimulus typically aims to expand production in the economy in order to increase employment. What makes this response different from previous attempts to resuscitate ailing economies, is that it must: 1. support households and communities, 2. protect workers, 3. sustain businesses, and 4. lay the foundation for economic recovery, while simultaneously acknowledging the slowdown in economic activity that physical distancing will entail.

In this context, the economic interventions proposed below can buffer against the immediate economic fallout, while deepening social solidarity and laying the basis for a more equitable and sustainable economy. Policy measures may evolve with time, but focusing on the four objectives below should help to steer our responses.

2 ACHIEVING FOUR OBJECTIVES

2.1 OBJECTIVE 1: SUPPORT HOUSEHOLDS AND COMMUNITIES

Hundreds of thousands of people will see their sources of income decline or evaporate. High poverty rates, low incomes, and high unemployment, will be compounded by many being forced to stay home and lose out on vital employment opportunities.

Universal income transfers, ideally an emergency universal basic income (UBI) grant, is needed. Versions of the UBI have been introduced in *inter alia* Australia, Canada and Hong Kong, and are being introduced in the United States. We acknowledge the complexities of this in the context of physical distancing and incomplete tax and bank account databases. Engagement on the modalities and vehicles of implementation, including via existing social grant mechanisms, bank accounts and cellphone banking, airtime transfers, and mobile cash-payment services, must be explored. This should remain an entitlement even if not immediately claimed. High-income households should

"reimburse" their benefits to the fiscus via taxation, and cross-subsidise the rolling out of this measure.

Additional measures to support household incomes must be implemented. These include expanding the list of zero-rated items, targeted at products consumed by poor and low-income households. South Africa should also consider freezing payments and interest on certain loans, mortgages, utilities, rents, and student loans for a limited period, as has been done in various countries such as Italy, Egypt, Malaysia and the United States, particularly for those are struggling to keep up with payments due to a loss in income. The announcement of a payment holiday by Standard Bank, FNB and Nedbank on various loans is welcome in this regard. Coherence and clarity on these measures can best be ensured through a regulated, sector-wide approach that applies to all lenders. At the same time, many fall outside of the formal financial sector. Exploitative lending practices must be cracked down on, statutory maximum interest rates lowered, and a portion of bank lending prescribed towards lower-income households.

Free basic services must be extended in vulnerable communities, in particular access to safe water and the expansion of healthcare. Private and public sector health-care must pool resources. This may mean converting private hospitals into public healthcare facilities and closer state regulation of private laboratories to ensure they service the public as a whole. Targeted tax measures may be needed to reduce the price of medical products and services, such as cutting of VAT on a limited list of COVID-related essential medicines when advised by medical experts.

Austerity cuts to public services, and the public sector wage bill, must be reversed. Austerity budgets have significantly undermined service delivery and state capacity, and will reduce demand in the economy. For example, in May 2018, there were 38 217 vacant posts in the public health-care sector. The 2020 Budget must be revised. A fiscal stimulus must be directed towards building state capacity, particularly in health, to ensure that there are sufficient resources to contain, test and treat for the coronavirus.

Free mobile data and public internet access to support those no longer at their workplaces, keep the public informed and curb the spread of fake news, should be rolled out.

Where **testing** has been deemed necessary by a healthcare professional, it should be free.

Particular attention must be paid to those who will bear the burden of additional **unpaid care work** that arises due to the closure of schools and creches, stay at home requirements, and potentially caring for the ill. This work is distinctly gendered with women primarily shouldering such unpaid work and thus subsidising the functions of the state. Proposed measures include:

- Increasing the value of the **child support grant**.
- Assistance for the development of **volunteer-based systems** of caring for vulnerable members as has happened in the United Kingdom.

- **Specialist community health care workers** for the house-bound elderly with appropriate health and safety precautions.

- Improving the **ease of access to safe water** in the context of the increased need for the washing of hands and surfaces, and the fact that the burden for securing water often falls to women and girls.

- **Commandeer, as needed, facilities to care for the sick**, including public facilities such as community halls and universities, and private facilities like churches, and where necessary facilities such as hotels, which have the needed beds, cooking facilities and other amenities.

- **Feeding schemes** to ensure nutritious food to the most vulnerable, and the provision of supplements to build people's immune systems, should be established. These and **caring for the elderly and young children** can be undertaken by a mix of volunteer and Department of Social Development support.

- **Safe childcare facilities for people who are sick**, or in quarantine, as is currently being undertaken by Japan's trade unions.

Male relatives must be encouraged to step-up and shoulder a greater share of caring responsibilities, including through a programme of public education.

We need to **ensure that basic goods and services are still accessible to the public**. Government has already gazetted new regulations that compel retailers and wholesalers to ensure adequate and equitable stock and distribution of essential goods and services, and keep goods and services affordable. Penalties are proposed for those who raise prices in order to profiteer. These measures, and the list of goods and services identified, should be regularly reviewed, and frequent reports should be issued on the monitoring of consumer protection.

2.2 OBJECTIVE 2: PROTECT WORKERS

Workers should be able to not attend workplaces, without penalties, in order to protect themselves and their families. **Where attending work is unavoidable, these workers must be protected**.

Workers are advised that the CCMA is still open, but has scaled down to non-contact operations.

All workers should receive these protections, including 'atypical workers' . The Council of Global Unions, for example, has called for "income support for all workers, including for part-time, migrant, non-resident, precarious, 'gig' and informal workers".

Workers must be **protected when they travel**. This includes strict regulations put in place to govern conditions in all forms of public transport to mitigate the spread of the virus and the provision of preventive health equipment, such as sanitisers and hand washing facilities. It also means decongesting public transport. This can only be done

by expanding commuter transport, including taking the necessary steps to address the crisis in Prasa. Regulations may be needed to limit further the number of passengers who can be transported in each transport mode (taxi's buses etc.).

Workers must be **protected if they cannot work**. This includes instituting emergency paid sick pay, including for precarious and temporary workers, for those unable to safely travel, in self-quarantine, or caring for the sick; as has been implemented in Australia. Similar responses by countries like Singapore, South Korea, Japan and the Philippines are listed by the International Labour Organisation. Wherever possible, employers should allow for work-from-home arrangements.

Workers must be **granted protection from loss of employment**. Governments from other countries, such as in Spain and Italy, have encouraged businesses to temporarily suspend employment or reduce working hours but retain all benefits for employees and prohibit laying off of employees.

Where job loss is unavoidable, workers must be **protected during periods of unemployment**. UIF provisions should be amended to increase the level and length of payments, particularly for low-paid workers, and include atypical workers.

Workers must be **protected from the spread of the virus**. Occupational health and safety protections must be tailored and rigorously enforced. This should include inspections and whistleblower protections, to protect workers who are being forced to work in unsafe unsanitary or exploitative conditions. Particular attention should be paid to mine workers, who are at an increased risk of respiratory health problems. All workers should be given access to free preventative equipment, suitable training, medical testing and treatment.

Workers on the frontline of the pandemic deserve special attention. Safe childcare facilities for healthcare workers with children must be established and increased financial and training support for community health workers must be given.

2.3 OBJECTIVE 3: SUSTAIN BUSINESSES

There is a danger that as physical distancing increases, businesses will be driven into bankruptcy. This will have immediate impacts on people's livelihoods but also make it more difficult to recover from the pandemic. Some businesses require life-lines but these must follow two sets of principles.

First, to the greatest possible extent **public funds should be spent on supporting people**. Second, **any assistance given to businesses needs to be tied to strict conditions** to ensure that they assist the intended beneficiaries. Proposals by the United States Congress, for example, have set strict conditions for businesses qualifying for assistance. Businesses in South Africa that qualify for relief, including plans for a SMME debt relief fund announced by the Department of Small Business Development, should face similar conditions. These should include: ensuring that established wage agreements and the national minimum wage are honoured; there are no layoffs; wage inequality is reduced to an agreed ratio over an agreed time period;

and executive bonuses and dividend payouts for the period of relief, and for a designated period thereafter, are prohibited.

Low-cost loans will be needed, particularly for small businesses. Government has said it will utilise the Temporary Employer/Employee Relief Scheme (TERS) but more information about this must be swiftly shared. Quasi-state financing institutions, such as the Industrial Development Bank (IDC), have a leading role to play and must be capitalised to achieve this. Targeted credit at below market rates by the South African Reserve Bank (SARB) to support SMMEs and other vulnerable sectors must be provided. The introduction of bank lending requirements which promote lending to vulnerable businesses must also be put in place.

Tax relief measures, such as targeted deferred tax breaks for businesses in distress, or **assistance towards paying part of the wages of workers** whose jobs are threatened, as is currently being introduced in Denmark and the United Kingdom, should be considered as a last resort.

Special attention must be paid to assisting sectors which will be worst hit by the pandemic, including transport, tourism, hospitality, and the performing arts.

2.4 OBJECTIVE 4: MANAGE AND TRANSFORM THE ECONOMY

Other aspects of the economy need to be managed in order to support households, protect workers and sustain businesses. Monetary policy is one such example. Further interest rate cuts can sustain spending. But policies to support the rand and mitigate against capital flight are equally important. Capital management techniques, including targeted capital controls, are necessary (the Institute for International Finance has estimated capital outflows to be about $67.5 billion from developing countries, larger than at the time of the 2008 global financial crisis). Ways to sustainably reduce the 3.5% spread that commercial banks charge above the SARB repo rate must be explored, as should targeted measures for the SARB to lower government borrowing costs. The monetary policy committee should meet regularly, and on an emergency basis, to consider these actions as the economic situation unfolds.

Interventions in response to the crisis have the potential to support the long-run transformation of the economy to make it more resilient, equitable and economically and environmentally sustainable. This requires integrated macroeconomic, sectoral and labour policies to advance a just transition. Examples range from:

- **Investing in the local production of emergency equipment and supplies** that can be bought by the state locally and exported. A state-led initiative could spur the production of ventilators, masks, and medicines. This can lay the basis for expanding manufacturing in these areas after the crisis.

- **Putting more people to work** if conditions allow. This would involve a massive public works programme that would see workers focusing on supportive social welfare and health-care functions, and preventative measures from cleaning

playground equipment in parks to disinfecting taxis. This lays the basis for a job guarantee scheme.

- **Investing in a high quality, decongested public transport**, that prioritises low-cost travel for the poor and thus tackles the legacy of apartheid spatial geographies.

- **Shortening work hours**, which gives expression to intentions long-stated in the Basic Employment of Conditions Act.

- **The planning and careful sequencing of fiscal stimulus measures** that advance environmentally-sustainable structural transformation. Following, the 2007/2008 global financial crisis, for example, Asian nations, particularly China and the Republic of Korea, surged ahead with 'green' investments as a major part of their economic and employment recovery packages. We must consider how this crisis, combined with existing proposals on the table, can be the start of a South African Green New Deal.

Global solidarity will be equally important. The IMF has already endorsed the need for "coordinated and synchronized global" measures, as has the G7.This needs to include fiscal transfers by rich countries to poorer countries via international financial institutions, without conditionalities attached. Coordinated monetary policy, such as dollar liquidity lines from the US Fed, also need to be implemented, in particular to stem the fall in developing country currencies.

3 FINANCING THESE MEASURES

Many of these measures will require resources, financial and human. While we are encouraged by President Ramaphosa's announcement of the intention to introduce a stimulus package, we are concerned that initial indications suggest that resources will be appropriated from other programmes through reductions in allocations. This reprioritisation of spending leaves cutbacks intact, as with the 2018 'fiscal stimulus'. This will not have a meaningful impact and will undermine access to other crucial social services, and will exacerbate existing socio-economic fragilities and inequities. While spending measures to tackle this crisis may be specific, it cannot be business-as-usual for overall fiscal management.

The United States has proposed around $1 trillion for emergency economic aid and the United Kingdom is proposing a $39 billion spending package. Hard hit countries such as Italy and South Korea have put forward stimulus packages of $27 billion and $9.8 billion respectively. We need to follow suit.

Financing the measures will require solidarity taxation; introducing prescribed assets; greater borrowing; crowding in private-sector funds; leveraging non-state public-funds, such as within the IDC; and the wealthy contributing significantly. This is a time to build a public finance system that prioritises social solidarity and centres the needs of the majority.

4 CONCLUSION

Aggressive, coordinated emergency measures are needed to save lives and reduce the health risks to the most vulnerable in our society. Several civil society organisations have made recommendations, including using community halls, private hospitals, and other facilities, to meet increased healthcare sector needs. They have stressed that public and private resources – including for testing and treatment – must prioritise the most vulnerable, and that measures to mitigate the spread of the virus must be put in place. To this we have added critical economic interventions that must be undertaken.

While many of these recommendations require strong, decisive action by the state, we cannot rely on the government alone. We need to practice physical distancing to curb the spread of COVID-19. But we also need to ensure a response based on social solidarity and supporting the most vulnerable.

Recovering from the social and economic impacts of the pandemic will be a slow and painful process, made more difficult by the structural conditions of the South African economy. It requires boldness, determination, and joint action by all stakeholders, led by the government. These actions must begin immediately to mitigate against lasting harm to the economy, people and livelihoods. It is an immediate imperative but also an opportunity for us to make far-reaching systemic change, to address the inherent vulnerabilities and inequities of our society and economy and to change the way in which we relate to one another.