South Africa's Economic Recovery Plan and Macro-economic Policy: A Labour Perspective

October 2020

President Cyril Ramaphosa presented South Africa's Economic Reconstruction and Recovery Plan on 15 October 2020. This strategy is a product of inclusive decision-making and participation by a variety of stakeholders. These stakeholders include, amongst others, social partners at NEDLAC, the Presidential Economic Advisory Council and the National Planning Commission. This strategy is largely aimed at ameliorating the negative socio-economic impacts experienced over the past nine months. COVID-19 has deepened existing structural fault lines in South Africa's political economy. One clear example is the increase in job losses in the second quarter of 2020, which affected 2.2 million people in the formal labour market.[1] The economic recovery plan identifies employment creation as one of its central pillars. President Cyril Ramaphosa stated that '800,000 employment opportunities will be created in the months ahead'.[2] This target is laudable, but more needs to be done to create sustainable jobs in the economy.

The term 'employment opportunities' has been used inconsistently and vaguely in varied economic policy plans in South Africa over the past ten years. It is not clearly defined and does not explain the nature of jobs created. This point is salient in a South African labour market context, with high unemployment and underemployment levels. Most South African workers are not in the standard employment relationship because precarious atypical employment has grown rapidly.[3] An attempt to expand job creation has to factor in the nature and quality of jobs created otherwise it will deepen labour market disparities. The employment stimulus plan emphasises public employment programmes as key levers for creating new employment.

The research conducted on the Expanded Public and Community Works Programmes illustrates that these policy interventions are not suitable substitutes for formal employment.

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[1] Institute for Economic Justice (IEJ) 2020. COVID-19 FACT SHEET #5: The Case for Extending the COVID-19 Special Grants – October 2020
[2] C. Ramaphosa (2020). South Africa's Economic Reconstruction and Recovery Plan.
[3] Webster & Forrest (2020).Precarious work: Experimenting with new forms of representation South African labour responds

There is evidence of some provincial and local government structures using these programmes as formal labour replacement mechanisms.[4]

An additional concern is the restrictive macro-economic framework explained in the Finance Minister's Medium-Term Budget Policy Statement. The Minister of Finance proposed several budget cuts, which will affect the areas identified for public employment creation. This budget calls for a 'R300 billion reduction in non-interest expenditure over the next three years.' [5] The economic recovery framework on the other hand had set out targets for job creation, which now clearly cannot be met within this restrictive macro-economic policy framework.

Infrastructure is identified as another crucial part of the proposed economic recovery plan. The President stated that government aims to attract 'R1 trillion infrastructure investment over the next 4 years'[6]. This mammoth programme is slated to be stimulated by an infrastructure fund and the government has already committed 100 billion for the next ten years. The major concern regarding the infrastructure plan is the over-emphasis on total project investment monetary values. This approach does not provide insights on other important socio-economic indicators such as labour absorption rates in the infrastructure plans.

South Africans need to know how the social and network infrastructure will decrease their costs of living, and guarantee access to improved public services. The public-private-partnership model underpinning the infrastructure drive must not reproduce household inequalities and uneven access to transport, housing, data costs and health care. The development indicators in the proposed infrastructure plan ought to transcend market preferences such as 'bankable projects' or narrow metrics of 'value for money' and ensure greater integration of marginalised communities in economic activities. Society needs a holistic view on infrastructure development organised around labour absorption, decreasing spatial development inequalities, lowering the cost of living and environmental sustainability.

Additionally, the coherence between infrastructure, reindustrialisation and South Africa's macro-economic fiscal framework has to be strengthened. This is crucial for employment creation and achieving the industrial expansion targets outlined in the economic recovery plan. The budget speech did not provide a nuanced or calibrated tax strategy, which supports the reindustrialisation pillar outlined in Ramaphosa's recovery plan. For example, some middle-income countries support localisation through tax measures that lower costs for locally manufactured products. The government must not reduce tax policy measures to balancing revenue collection. There are several additional economic restructuring initiatives that can be pursued using a diversified tax strategy.

Further, South Africa has a growth problem that is primarily caused by weak aggregate demand and household income disparities. The President's speech on economic recovery plan and the subsequent Medium-Term Budget Policy Statement are silent on government's thinking regarding their commitment to meeting their obligations for salary increases as per the current wage agreement. Government has pleaded poverty in response to the calls of the unions to meet their legal obligation, yet at the same time has given signals that it will do anything to save the South African Airways. It would appear to us that what holds government back from meeting its obligation to public servants is lack of will rather than inability to meet its obligations.

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[4] COSATU 2014 input in Expanded Public Works Programmes (EPWP) review in NEDLAC.
[5] IEJ (2020). MTBPS: Mboweni moves us backwards 29 October 2020
[6] C. Ramaphosa (2020). South Africa's Economic Reconstruction and Recovery Plan.

In light of decline in demand in the economy and growing pressure on overstretched salaries of the public servants as a result of hikes in electricity tariffs and increase in foodstuff, the economy could be in a worst position if the state does not meet its obligation to increase public servants' salaries as per the current wage agreement. Most public servants support larger extended families and by not paying public servants will result in more citizens relying on the already over-burdened social grant system.

The President's speech on the economic recovery plan correctly identified improving livelihoods as an essential goal. But the budget speech does not present sufficient measures to increase aggregate demand and protect livelihoods. Throttling the salaries of public servants is no way to improve livelihoods. The proposed public wage reductions, minimal extension of the COVID-19 social grants, and refusal to extend the care givers grants exemplify this point. South Africa's economic growth targets will not be attained without increasing household income. Public servants, in particular, have households that are blighted by unemployment and who depend on them for sustenance. Meeting the demands of public servants regarding wage increases as legally provided for in the wage agreement is essential for driving a demand-led economic recovery plan. There are also other critical factors that can help to inject dynamism in the economy, and this includes promotion of localisation and reindustrialisation in order to produce multiplier socio-economic effects. The emphasis on maintaining fiscal consolidation to attract domestic and foreign investment has not yielded the desired policy goals over the past 26 years. South Africa's macro-economic framework does not support the policy targets outlined in the economic recovery plan in several ways.