Opening the economy: Where are we now?

30 April 2020

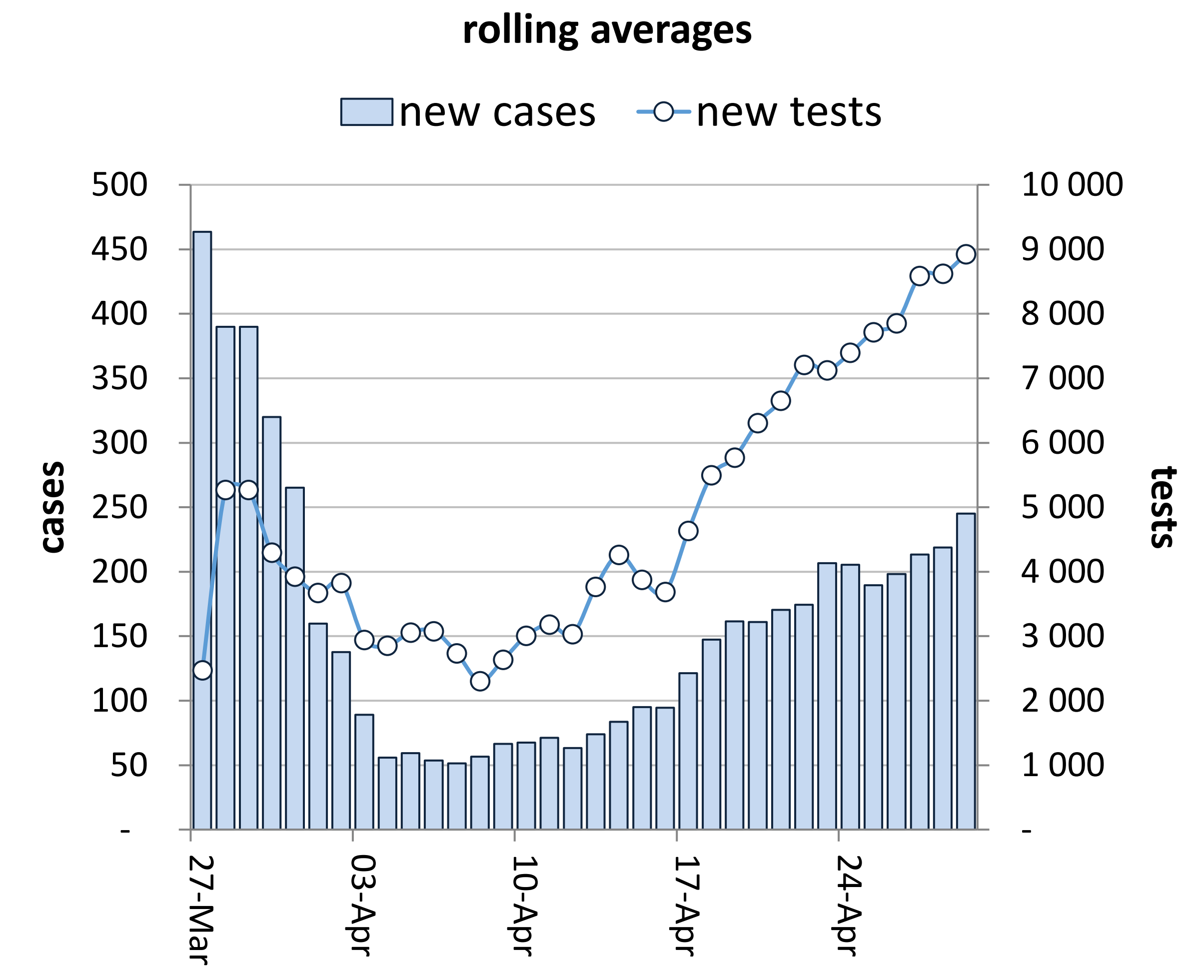
The problem:
The hammer and the dance

- Standard approach to emerging epidemics:
  - Lockdown to buy time (the hammer)
  - Manage risks of infection with less draconian measures (the dance)
- The delay in spread is needed:
  - To ramp up screening, testing, tracing and more targeted quarantine isolation systems
  - To prepare the health system
  - To get a headstart on treatments and vaccines
  - To re-organise work, public transport, schools, retail and recreation to reduce risks of infection

- Until there is a cure or vaccine, there will be disruption in order to limit contact
  - Physical distancing and self isolation
  - Barriers (plexiglass, masks, etc.)
  - Disinfection

Achievements

- Daily new cases reported fell from 450 on 27 March to 50 from 4 to 8 April
- Then increased gradually, reaching 200 a day over past week
- Incidence up from 3/100 000 on 8 April to 9/100 000 on 28 April (compared to average of 200/100 000 in US and EU)
- Share of positive tests stable at around 2,5% (compared to around 20% in the US, 5-10% in EU, around 2% in South Korea)
- Why?
  - Early lockdown
  - Physical distancing under apartheid
  - Experience and capacity due HIV/TB



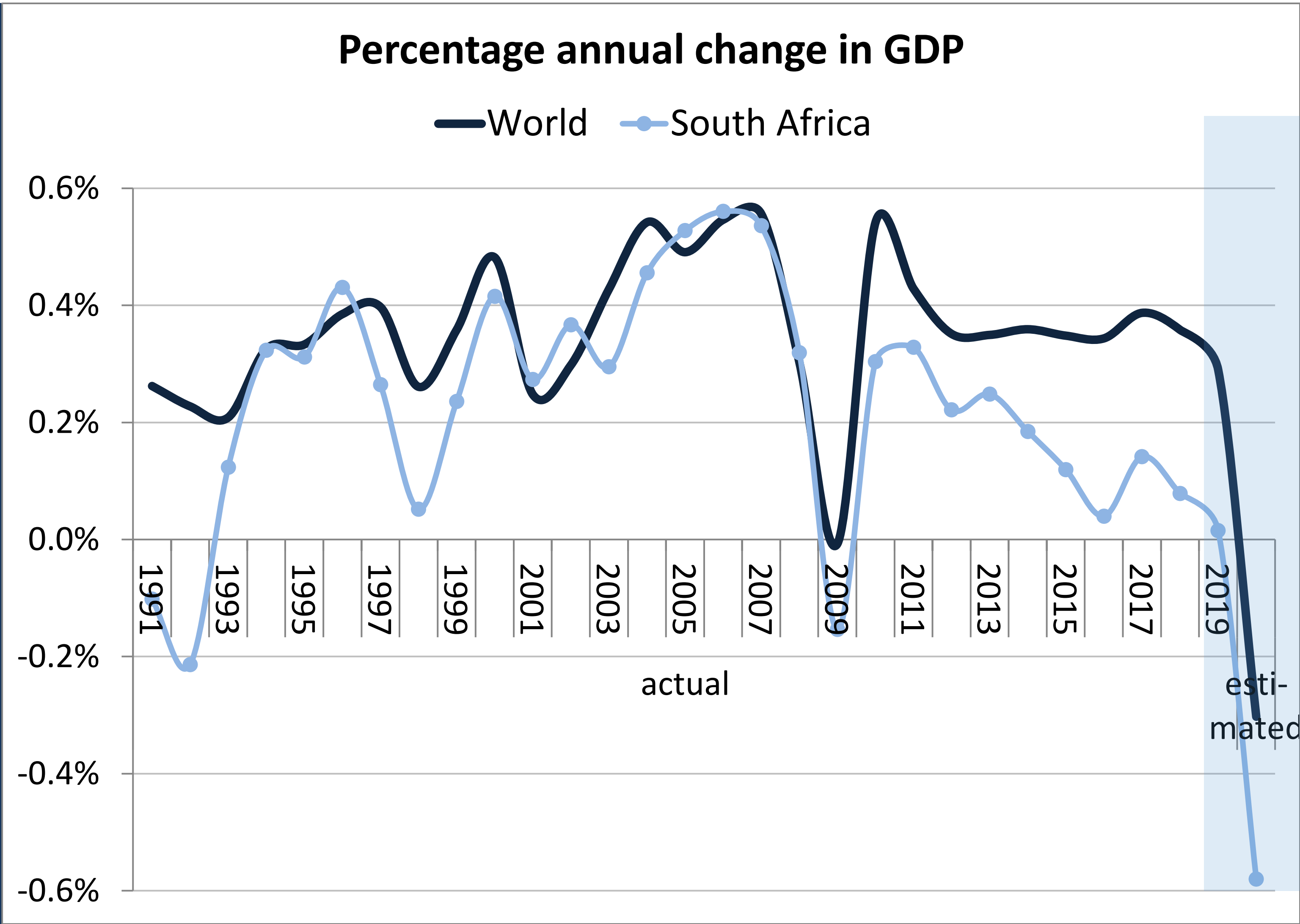
BUT: The hammer isn't a long-run strategy

- Economic data only available from next month
- Some key indicators:
  - Electricity use down by half
  - Travel to work down by half
  - UIF claims equal to a quarter of formal employment

- Survey:
  - Half of employers cannot survive another month of lockdown without retrenchments or bankruptcy
  - Most cannot shift into essential products, and SMEs at particular disadvantage

IMF forecast

- Bigger decline by far than 2008/9 global financial crisis
- Particularly tough as both SA and world economy both fragile and slowing in recent years



The dance

- Aim: Restore some economic activity without letting contagion get out of control
- Limits on economic opening therefore defined by:
  - How well a value chain can limit risk of infection
  - The relative importance of the value chain to society

- By definition, can't fully eliminate risk
- Rather, set up risk-management systems
  - Try new solutions
  - Monitor
  - React promptly and appropriately if it goes wrong
  - Try more new solutions

TIPS

Implications for business

- Often need to introduce profound changes in work organisation and facilities
  - ➢ May need assistance to develop new solutions
  - ➢ Ability to manage risk varies by industry – hardest
    - Where directly serve customers and where need crowds (recreational and personal services, education, public transport, traditional retail)
    - Relatively labour-intensive manufacturing
- Often imposes additional costs on producers (e.g.: space, protective equipment, disinfectants, screening equipment, digital equipment and data, safe worker transport)

- Problem: public transport
  - ➢ Critical given apartheid residential patterns
  - ➢ But often beyond control of individual companies, especially SMEs

Implications for government

- Have to accept that cannot entirely eliminate risk - rather
  - ➢ Seek practical measures to minimise risks from production
  - ➢ Then decide whether to allow specific activities

- Need to fast-track systems and capacity
  - ➢ To evaluate risks of specific production systems, and to weigh them against the benefits of re-starting production
    - It saves resources in the short run to generalise by industry
    - But often big variations within them – end up with some high-risk activities, while some lower-risk opportunities are barred
  - ➢ To monitor
    - Implementation of risk mitigation strategies by businesses
    - Incidence of new infection
  - ➢ To respond rapidly and effectively to new opportunities as well as problems

The jobs challenge

- Bulk of employment is in services and retail, where direct contact with public
- Table is impressionistic but shows
  - Labour-friendly value chains often higher risk, especially recreation, restaurants, other services that traditionally provided in person
  - Key exports are heavy industry + food (but no data on services)

	Ability to manage risk	Labour intensity/SMEs	Share in GDP/exports
security	4	5	2
cleaning	4	5	2
healthcare	3	5	4
education	2	5	3
concerts and theatre	1	5	3
restaurants	1	5	2
personal services (e.g. hair dressing)	1	5	2
church services	1	5	1
food and wine exports	4	4	3
public transport	1	4	2
food for SA	4	4	4
fashion	4	3	2
PPE	4	3	1
freight transport	3	3	3
mining	4	2	5
machinery	4	2	4
metals	5	1	5
auto	5	1	5
telecommun-ications	4	1	2

Level 4 requirements

- Limits on permitted activity
  - Production of essential goods and services for households (food, healthcare inputs, warm clothing, heaters, disaster services)
  - Key export industries (mining value chain plus auto and food)
  - Retail for listed essential goods only (extended mostly to hardware, cosmetics and winter clothing)

- Limits on workplace employment:
  - Regulations already in place for production and public transport relating to physical distancing, hygiene, some screening and masks
    - Not well enforced in transport
  - New restrictions on-site employment depending on nature of output:
    - 100% for essential goods and services
    - 50% for exporters
    - 30% for other manufacturing
  - Plans for distancing and sanitation at work and l breaks

Level 4 as a risk management system

- Apparently guided more by aim of limiting total number returning to work than potential for individual workplaces to manage risk
- Arbitrary and often unrealistic limitations on worker numbers and products
- Rigid restrictions without transparent ways to change
  - ➢ No visible path for individual businesses to demonstrate they could produce at low risk, so unnecessarily constrain production and jobs
  - ➢ No explicit criteria for essential products (heaters but not kettles; cigarettes but not wine)
- No organisational or financial assistance for SMEs to meet risk-mitigation costs
- Limited capacity to enforce safety e.g. for public transport

- No visible effort to mobilise capacity for monitoring workplace and commuter transport
  - ➢ Police and army won't be effective, and national inspectorates alone don't have capacity
  - ➢ OHS generally relies on stakeholders + inspectorates at national and local level

TIPS

Level 4 as a recovery plan

- Does not address challenges to re-opening the economy besides the health risks
- Specifically:
  - ➢ Liquidity crunch for small business – UIF and small business support both very slow to roll out
  - ➢ Crashing domestic and global demand, especially for tourism, domestic personal and recreational services and retail
    - What would a just transition look like if cannot open for 2 years?
    - Why going slow on e-commerce as a less risky mode of retail?
  - ➢ Regulations often unclear, arbitrary and hard to appeal, including around trade – what imports are permitted and what exports?
  - ➢ If job creation will remain slow, redistribution will be critical and needs to scale up
  - ➢ Slowdown since end of global commodity boom means recovery will need to feed into diversification that is both sustainable and more equitable – prerequisites are
    - Greater agreement on core aims in terms of production structure, ownership, incomes and education as basis for coordination across the state
    - Greater consistency in shaping environment for business

Toward a paradigm shift

- Need to start setting up capacity and systems to permit a more flexible, responsive and ambitious approach
- First-best outcome: individual producers can apply to produce based on risk management plans because have adequate capacity
  - To evaluate plans and issue permits
  - To monitor implementation and infections
  - To require changes or closure if necessary.

Re a leboha!