Covid-19 lays bare impact of inequality, historical privilege

By Steve Nicholls

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On a trip to Denmark to discuss the Sustainable Development Goals (SDGs) with the National Business Initiative's (NBI) counterparts there, the one issue on which we struggled to connect was inequality. We battled to explain that inequality is fractal, that it exists in all circumstances. Our homes are unequal (biased towards men usually), our countries are unequal (especially in South Africa) and our global economics are especially unequal.

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In short, the generally more egalitarian lifestyles of Europe are built on global inequality and historical privilege. The luxury of being able to purchase relatively cheaper goods is premised on a general acceptance that much of the world is living in poverty and that Europe’s custom is therefore a lifeline, when in reality it is rather a structural entrenchment of existing poverty and inequality.

This was a step too far, even for the socially minded Danes. Their view is that they have essentially solved inequality and the rest of the world should follow their example. Admittedly, there is much to follow in this regard. It was surprising however, that a nation which has built equality on the differential between the high margin goods and services they sell and the low margin goods and services they buy, could not see the role of global inequality in this prosperity. Despite our differences, this was a conversation marked by mutual respect and curiosity. The irony is that at the time, the world could not have known that a pandemic was fast approaching that would only serve to deepen entrenched inequality.

Risk of embedding status quo

Fast forward a few months and the coronavirus pandemic was declared. Covid-19 has brutally laid bare the impact of inequality and historical privilege in many countries across the globe, but particularly in countries like South Africa, with so many marginalised individuals. And sadly, in the recent aftermath, it is apparent that nothing risks embedding the status quo quite like Covid-19.

Poor medical capacity makes poorer countries potential incubators of the disease, creating larger and longer vulnerabilities for the global system. The theoretical advantages of younger populations (more resilient), who are usually less urbanised and who participate in less complex economies (smaller networks of human interaction), are quickly eroded by reduced health support. The lower GDP per capita of countries such as South Africa are usually accompanied by lower health expenditure as a % of overall GDP. This results in fewer doctors and hospitals, fewer resources and chronic infrastructural problems such as intermittent access to water. Weaker borders mean that monitoring migratory infections is not only more challenging, but keeping re-infections out is also more difficult.

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20 Jul 2020

Lack of fiscal space

This inherent vulnerability, combined with poorer countries having less fiscal space to respond to the immediate medical crisis, means the impact of the crisis in these countries is far worse. This lack of existing fiscal space exists in the context of Covid-19 lockdowns driving tax revenue down, reducing trade, tourism and remittance shocks, while increasing additional short-term expenditure (army, medical and police). Of equal concern, poorer countries have less fiscal space to respond to the medium-term economic crisis. The United States has declared a $2tn-dollar fiscal package in response to Covid-19, but putting together trillion-dollar stimulus packages are not real options in developing country contexts.

South Africa's response to the crisis has been both swift and stringent, with President Cyril Ramaphosa first declaring a National State of Disaster on 15 March 2020 (with no recorded deaths in the country at the time) followed by a national lockdown eight days later. Recognising the devastating impact on the economy, the South African government, together with National Treasury and the South African Reserve Bank, simultaneously announced a number of fiscal and monetary interventions in an attempt to stabilise the economic decline.

SA's economic stimulus response

The South Africa economic stimulus response includes nine key components, beginning with more than R3bn for critically important businesses, with accompanying bridge financing to mitigate supply chain disruptions. There is also the Solidarity Fund, with the South African government putting up R150m in seed capital. Employee support has been given in the form of the Temporary Employee Relief Scheme and the Unemployment Insurance Fund. There are also critical tax subsidies and the Debt Relief Fund, aimed at supporting small and medium enterprises. However, the R500bn social and economic support package provided by the government is the single biggest once-off fiscal stimulus that South Africa has ever seen, bolstering spending from 0.1% of GDP to 10% of GDP.

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Additional pressure on poorer countries

With the economically marginalised bearing the brunt of the Covid-19 pandemic in terms of loss of livelihoods and food insecurity, the critical question is are these financial measures sufficient to assist in reducing current levels of inequality? Furthermore, this massive government expenditure is occurring in the context of long-term shocks relating to commodity and oil prices, with currency fluctuations further constraining national revenue. This additional economic pressure has the potential impact of causing poorer countries to break quarantine earlier, exacerbating their risk.

To mitigate the recessionary impacts of Covid-19, poorer countries are likely to have to borrow. These countries have weaker credit ratings and balance sheets and therefore, that borrowing comes at a greater price. Furthermore, a potential collapse in capital markets means fewer borrowing options. The United Nations Development Programme (UNDP) has highlighted the global solidarity needed to effectively halt a global debt crisis. The International Monetary Fund (IMF) and World Bank Group met with African leaders, including President Ramaphosa, on 17 April to discuss policy plans for effective use of resources. Multilateral organisations, such as the World Health Organisation (WHO) and the United Nations, have called for solidarity on debt relief for the poorest countries impacted by Covid-19, with bilateral partners making a commitment to suspend debt repayments from 1 May, 2020. In addition, the IMF and World Bank have each pledged $18bn not only to assist the poor and vulnerable, but also to help keep developing country economies afloat.

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Risk of the reduction in global aid

The World Bank's Maximising Finance for Development (MFD) approach, which focuses on privatisation, has also been criticised for contributing to the instability triggered by Covid-19. Poorer countries also face a potential reduction in the one redistributive measure on which they have come to depend. As richer countries consolidate their stimulus packages, developing countries risk the reduction of global aid and donor assistance while at the same time increasing exposure to protectionist trade measures imposed by our trading partners. As a middle-income country, South Africa will be first on the list of exposure to this risk.

As a result of these economic pressures, the recovery process will also be experienced unequally, with an extended lag in recovery for poorer countries. Lower initial tax revenue, combined with greater debt and more expensive debt burdens, mean that economic recovery will not only be slower, but the impacts all the more devastating. Ultimately, these processes entrench the unequal systems that made poor countries vulnerable in the first place.

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Putting our people first

What is clear is that how South Africa invests our borrowings is going to be critical. We must invest in sectors that are going to enrich our long-term competitiveness and not bolster already struggling sectors of the economy. However, this objective must be considered in the context of putting our people first. The national government, in partnership with business and other social partners, must find the balance between short-term stimulation of the economy, the protection of jobs and livelihoods and the stimulus of a longer term agile and competitive economy.

As a nation, we must challenge ourselves on these development issues across three timelines, where we cannot allow the investment in one to compromise the others:

- the immediate health and humanitarian crisis;
- short-term economic stimulus and recovery;
- long-term economic competitiveness.

Covid-19 is fundamentally an accelerated simulation of how our global economies react to crises. Our collective response offers us several global lessons. On an enormously positive note, it demonstrates that global information sharing and cooperation is possible. The pandemic shows that inequality is a system weakness and not something to be taken advantage of in the global arbitrage of goods and services. It also shows that our response capacity is a collection of past decisions (often taken to the detriment of the poor and vulnerable) and that we can make better, more informed decisions going forward.

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Building long-term economic competitiveness

As we emerge from the Covid-19 lockdown and turn our minds to emerging from the ensuing recession, we need to make financial decisions that rebuild our country in a way which addresses the failure that is our national inequality in order to build long-term economic competitiveness in South Africa. It is clear the economy we have now is not delivering on these goals, so is our opportunity to do something different. But this is also a global, political and multilateralism issue. Our collective strength is undermined by the populist nationalism and isolation so commonplace in the last decade.

In the process of recovery, we need to address the universal structural issues that maintain global inequality. If we do not achieve this outcome, the system vulnerabilities will not only remain, but get worse.

ABOUT THE AUTHOR

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