

SA-TIED SEMINAR

MEGAN BRYER

in response to **Wage inequality under
inflation-targeting in South Africa** by
Serena Merrino

Relevance of the research in the context of SA macro-economic policy

- In recent years, the **question of whether SA's macro-economic policy** framework is **still relevant** has come to the fore
 - Public calls for monetary policy to be used to address employment
 - Role of monetary policy beyond inflation targeting?
 - The SARB has in the past asserted that real variables, including growth and employment, are taken into account in interest rate decisions
 - Divided opinion about how much monetary policy can be expected to do
- In the **context of Covid-19**, both monetary policy and fiscal policy have played an important role in mitigating the negative effects of the crisis
 - Monetary policy response to Covid-19: The **SARB cut policy rates** from 6.25% (as of January) to 3.5%, one of the biggest rate reductions in any country. The repo rate is now at its level lowest since 1973. The prime rate is at a 55 year low
- But monetary policy response came **when inflation fell to record lows**, well below the 4.5% mid-point of the target range
- This paper **shifts our attention to inequality**, a persistent challenge for SA

Key insights for policymakers to chew on

- Surprise increase in prime rate → rise in inequality, decline in employment, **decline in labour share of national income**
 - Due to disproportionate destruction of low-waged jobs
 - The effect appears to be symmetric between contractionary and expansionary monetary policy shocks. **But labour share of national income declines in response to expansionary shock**
 - Merrino explains: in SA the structural unemployment of the lower income distribution -> **increasing wages and job opportunities benefits higher earning individuals relatively more**
 - **Better-paid jobs remain secure in bad times and benefit the most in good times**
- *Even when policy is used to intervene to protect the most vulnerable who suffer from shocks like Covid-19, the effect of support can disproportionately benefit those already better-off*
 - *What are the implications for policies designed to protect vulnerable i.e. NMW?*
- Surprise increase in prime rate → no significant impact on inequality for wagedworkers employed in the wholesale and retail trade, manufacturing, services such as tourism and communications, and public sector
 - Merrino explains: Contractionary shocks improve wage allocation slightly in service and government sectors **perhaps because money tightening decreases wages more than employment**

Interpreting the findings as policymakers

The paper looks specifically at the impact of surprise shocks on inequality, disaggregates for race

- **Short-term shocks**, but notes there may be longer term implications because of who wins and loses
 - How do we interpret the findings into **welfare**?
 - Are there inferences for monetary policy aside from shocks?
 - What about the **stickiness of SA wages**? Arguments that monetary policy efficacy is compromised by rigidity of wages in SA
- Specific recommendation made about the importance of **transparency** in surprise shocks
 - Capacity of those affected by the shocks to respond; is transparency sufficient? role of the state/intermediary?
 - Thinking about macro policy holistically, does this warrant fiscal policy intervention?
- How should the SARB think about **concerns over inequality in relation to other real variables**? How should monetary policy rank competing priorities into developmental objectives?
 - Does an adverse impact on earnings distribution outweigh the gains of inflation targeting?

Observations about race and the question of discrimination

- Findings on race are analogous to findings on low vs high paid workers
 - Contractionary shock → inequality rises because low-wage employment is reduced relatively more → worsens the black:white pay gap as black population is disproportionately poorer
 - **BUT compounded in that black workers also benefit less than white workers from an expansionary shock**
 - White wage-paid employees earn three or four times more than black employees on average, with particularly high peaks in 2008 and 2015
- These findings make intuitive sense, but what is happening to individuals from different race groups at a similar income level or skill levels? What can be said about discrimination on the basis of race?

Beyond the paper....

- The analysis is on full-time wage-paid workers only, but 40% unemployment in SA
 - **Wage inequality vs. overall inequality**
- What can we infer from this about the Covid-19 monetary response?