

# SA-TIED SEMINAR

## MEGAN BRYER

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in response to **Wage inequality under inflation-targeting in South Africa** by  
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# 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 wageworkers 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 to **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** wrt 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 wrt 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?