OPINION / COLUMNISTS

NEVA MAKGETLA: Red tape is the biggest threat to coronavirus interventions

With discipline and luck we won't be hit too hard, but now is the time for unconventional responses and risk taking

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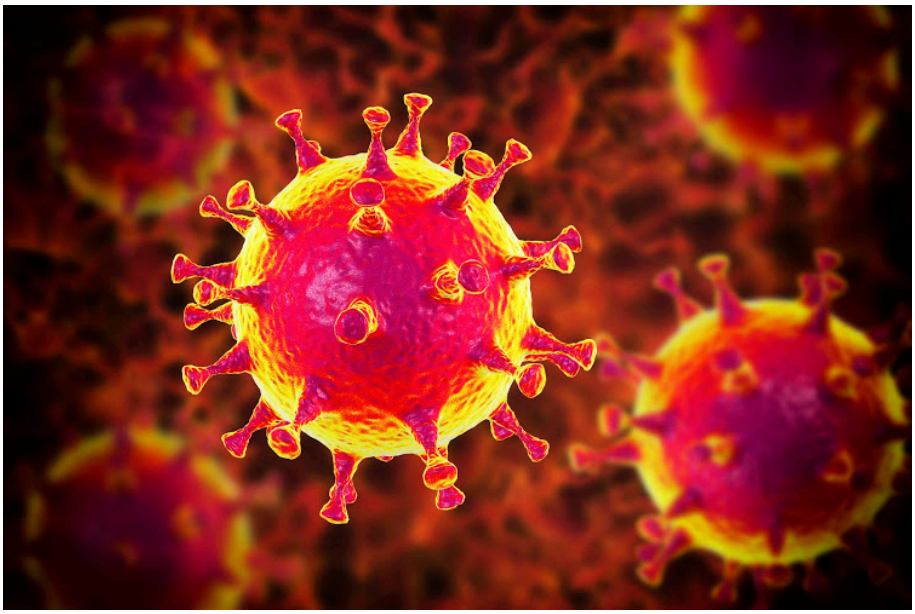
16 MARCH 2020 - 19:03 *by* NEVA MAKGETLA



Picture: KATERYNA KOM/123RF

SA doesn't yet have a coronavirus epidemic, and with discipline and luck we won't be hit too hard in the coming months. But the economic impacts of the global pandemic are already hammering SA exports and tourism.

Faced with limited reserves and the need to reach marginalised workers and communities, we need to look at unconventional and risky responses. Any programme will entail risks, but they are dwarfed by the costs of doing nothing. The core challenge is to mitigate the inevitable hazards, above all by working closely with organised business and labour.

The economic numbers are grim. China's growth rate is expected to drop at least a percentage point. Closures there have already affected SA's main mining exports. From mid-January to mid-March the iron ore price fell 5% in dollars, coal prices 8% and platinum 25%. The gold price has fluctuated wildly with the panic in international financial markets, which has also pulled capital out of SA and other emerging markets.

In the coming months surging epidemics in the US and Europe will cut growth there. Airlines, tourist hubs, hotels and restaurants face a hard landing.

The prognosis is complicated because the 2008-2009 downturn left many countries, including SA, with a fiscal deficit. Moreover, the US and Europe have kept interest rates low since then, leading to soaring corporate debt. In 2019 alone it jumped 17%, and most bond issues last year ranked as junk or one grade above. In a slowdown, over-leveraged companies could default, aggravating the downward spiral.

For SA, a creative policy response is crucial for two reasons: we can't simply blow up the budget deficit, already approaching 7%; and we need to address slow growth and deal with profound inequalities.

For resourcing, the most obvious opportunity is the R200bn surplus held by the Unemployment Insurance Fund (UIF) and the Compensation Fund. For two decades these institutions have been granted levies that far exceed their payouts, leading to snowballing financial holdings. But other sources should also be explored, including a step-up in industrial finance.

Monetary policy also has space. In real terms, the prime interest rate has climbed two points from 2015. World Bank data places it four times as high as the real rate in China, and a third higher than that in other upper-middle-income economies.

It is harder to spend money both quickly and well. It's fastest and easiest to tweak existing systems. A temporary cut in the UIF and Compensation Fund levies would boost the disposable income of formal workers and employers. Reversing the recent increase in real interest rates would also stimulate economic activity. Tax subsidies could incentivise employers to lay workers off temporarily rather than retrenching them.

But we need targeted programmes for the most vulnerable, who largely fall outside support systems designed for the formal sector. For instance, most people in the informal sector are self-employed. They don't get paid sick leave or compensation if they have to quit work for quarantine. Children may go hungry if school-feeding schemes close with their schools.

In response, subsidies to local organisations could, for instance, help fund food kitchens; deep cleaning of public transport and buildings; assistance for shut-in elderly people or parents with small children; and production of hand sanitiser and face masks.

Finally, we need to talk about risks. Countercyclical strategies are risky by nature. If market outcomes are bad, the government can denounce private actors. But if it takes action itself to improve outcomes, even if it ultimately succeeds it will get the blame for the inevitable shortcomings along the way. The response is often to bury every initiative in bureaucratic wrangling and procedures, in a vain effort to rule out any chance of failure. That approach now poses the greatest risk of all.

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