Time for stimulus, not austerity

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Streets in Sorrento have been emptied by Italy's lockdown.

• With about 286,400 confirmed Covid-19 cases around the world, and 11,000 recorded deaths, the world is reeling from this unprecedented pandemic. And bracing for the worst.

Aside from the human and social dimensions, the economic impacts are devastating, threatening jobs, small businesses, indeed livelihoods everywhere, sparing no-one, no class, no nation, no group.

Discussions this week with my fellow Jackson Institute for Global Affairs senior fellows and faculty at Yale focused on how to manage the continuity of teaching on virtual platforms, but also on the global economic shock and its effects.

A veteran economist shared this: "The economy is not just in a recession, it is full stop right now." Lamenting on how he had never seen that in his career, he said: "Markets are sending an important message: focus needs to shift from the playbook developed in past crises (like 2008/2009) to laser-like focus on Covid19 containment. Healing process in markets (first) and economy (second) will only start on the conviction that a bending of the infection curve is possible (and eventually feasible). The lack of visibility on that is the main reason why the markets remain in free fall."

The economist Nouriel Roubini, made famous for predicting the 2008 global financial crisis, this week tweeted that he sees "two conditions for the economy and markets to stop free falling and to start a U-shaped recovery (forget V-shaped delusions): 1. Radically control pandemic's contagion via draconian quarantine; 2. Massive fiscal stimulus."

My former colleagues at Goldman Sachs revised their full year 2020 GDP growth forecasts this week as follows: globally down to 1.25%, the US to 0.4%, China to 3%,

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the EU to -1.7% and SA to -2.6%. This is akin to forecasting a tsunami of economic shocks with aftershocks for the financial markets.

The National Treasury started 2020 predicting 0.9% GDP growth for SA this year, so a -2.6% forecast by Goldman Sachs represents around a 3.5% negative swing to SA's R5.4-trillion GDP. If modelled for potential impacts on lost tax revenue, it foretells a likely revenue shortfall, relative to the February 2020 budget, of up to R70bn.

If you add in additional unplanned expenditure of an estimated R30bn on the public health system to cope with the pandemic, the cost of the pandemic to the budget will be around R100bn, implying the 2020/2021 fiscal deficit will widen from a budgeted 6.8% to around 10% of GDP, absent any other adjustments.

This will blow SA's chances of maintaining the Moody's investment grade rating, unless a medium-term budget revised plan can be tabled to show a credible growth path to restoring reasonable fiscal ratios and sustainability in the coming three years.

Yet for South Africans to get through this human and economic catastrophe, fiscal austerity is the last thing they now need to see.

Rather, a smart fiscal stimulus, designed to protect the most vulnerable and in need, as is the case in most nations around the world, will be required in SA.

What, given limited fiscal space, can this look like?

The SA government this week announced plans for a debt relief fund, to assist small businesses affected by the pandemic.

This can take various forms. To be most effective, such a fund should be a partnership between the banks, the government and, importantly, real estate landlords who should each take pain to help small and medium business owners to protect jobs.

Banks should extend credit and provide liquidity with appropriately adjusted and relaxed payment terms, including payment holidays. The government should provide the last loss guarantee and relax capital requirements on banks, and landlords should relax, lower rents and/or extend grace periods on rental terms, for an agreed transitional period, say two years, to allow the economy to get on its feet again.

For small business owners, they should be able to borrow by committing to protecting existing jobs and demonstrating a track record of creditworthiness in normal times, even if with this pandemic they would be unable to continue without this extraordinary financial assistance, such credit relief to be made whole when normal times return.

If the success of the Troubled Asset Relief Programme in the US in 2008 is anything to go by, it is unlikely that such a government guarantee would lead to losses. Rather, when the virus ends, small- and medium-sized businesses, which otherwise would have had to close, will emerge protected from this unprecedented storm, able to hopefully function "normally" again.

Beyond financial support to small businesses, SA should also look at ways of substituting for supply shocks on factory goods.

The government will now have to act urgently to batten down the hatches. It will have to examine state spending and get bang for its buck or cut back. Corruption and wasted expenditure will need to be rooted out. Wage freezes will have to be negoti-

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ated until the economy normalises. Expensive experiments to save failing state-owned enterprises will have to end. Nice-to-have projects such as a sovereign wealth fund will have to be shelved.

The restoration of Eskom to health is paramount because the combination of the pandemic and power cuts is akin to a hammer and nail in the coffin of this economy.

South Africans will have to pull together. Business owners will have to find ways to protect their businesses and keep people employed and production going. Employees and unions will have to moderate their demands to see through the bad times. The government will have to ensure that its essential functions continue, and that it protects the health, safety and security of citizens.

People at home will have to self-isolate and where high-density populations live, extra effort will have to be made by local authorities to ensure clean water and sanitised conditions are provided to protect the hygiene and health of poor communities.

A national effort is under way, inspired by the excellent leadership demonstrated by President Cyril Ramaphosa and his cabinet last Sunday, to defeat the pandemic. But it will be a long road, with casualties and pain to come. How much pain is up to us all.

We will have to co-operate to starve the virus, and to kill it off as quickly as possible.

We will have to keep the economy alive, and we will have to pick up the pieces when the worst is past. Until then, each of us will have to keep safe and look after our families, communities and nation.

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