

‘Let’s drop land grabs, NHI, prescribed assets’ –

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Earlier this week, US real estate investor Tom Barrack issued dire warnings of a “domino effect” of margin calls, cross defaults and other related debt failures if financing in the sector dries up. This is because, as businesses are forced to close en masse for a month and more to stop the spread of Covid-19, servicing rents and mortgages becomes difficult and in many cases impossible. Barrack was looking at listed real estate companies, which own the big buildings and premises like shopping centres. But smaller businesses are heading for collapse, too, as the cashflow taps to the global economy are effectively turned off. South African journalist Jonathan Katzenellenbogen points out that the trouble was brewing before governments stepped in. The Institute of International Finance expects global growth to shrink by 1.5%. But as Katzenellenbogen highlights, South Africa faces the additional economic threats of land expropriation without compensation, a state health system and tough rules on pension fund assets. He calls for a rethink by the ANC. His article, which first appeared on the Daily Friend, is republished here, with permission. – Jackie Cameron

Corona Depression of 2020: costs and risks of a control economy

By Jonathan Katzenellenbogen*

President Cyril Ramaphosa’s lockdown speech earlier this week has been widely supported by opposition parties and much of the nation as a display of leadership, resolve, and decisive action. Lockdowns do work in stemming the tide of pandemics and help dispel public anxiety.

In one fell swoop, the power of the state has been greatly expanded and might continue to expand after the crisis. There are controls on movement, activities, profiteering, rumour-mongering, and much else.

In some countries, new measures to fight the disease have involved close monitoring of movements and contact tracing via cell phones as well as the use of extensive state power to enforce lockdowns. Get ready for easy mass surveillance for means other than disease control in the near future.

After crises and wars, state power has often been extended into wider economic spheres with price controls, rationing, and nationalisation. Will this crisis be any different?

The real cost we could be paying in this crisis might be a government response in the form of greater control over the economy.

The tendency to greater state control in the wake of the crisis is a definite risk from the interventionist response, but it does not mean the state should sit on its hands in this crisis.

Fundamental disagreement

There is a fundamental disagreement between those who argue for a do-nothing approach and those who support early, quick and dramatic intervention. Those who say ‘hands off’ argue that society is paying far too high a price for the survival of a small portion of the population. These are mostly elderly, and will soon pass on. But the pandemic is also taking its toll on a rising number of relatively young.

Some in this school point to the experience of the Diamond Express cruise ship. There were 700 people on board and 7 died, amounting to one percent of the total. John Ionnidis, a Stanford epidemiologist, estimates that the true death rate of the total population may be about 0.3 percent, with an upper estimate of one percent.

That is for the US. Ultimately the death rate from Covid-19 will depend on the type of health care received, so it might differ widely between countries. For South Africa there has to be a high mortality risk due to the high prevalence of pre-existing conditions and poor health care.

A trashed economy, runs the argument, might place more lives under great stress and risk of early death

There are legitimate questions about why governments are prepared to launch unprecedented crackdowns to stop Covid-19, but not address the large number of murders, car accidents, and for that matter, heart disease.

They argue that the pandemic should run its natural course, while admitting that hospitals would not be able to cope. A trashed economy, runs the argument, might place more lives under great stress and risk of early death.

An alternative and an option once lockdowns end might be a ‘stay away from oma’ approach that is, amongst other measures, being used in Israel, to protect those most at risk. Ideally this sort of targeted approach might have been the opening gambit of governments before the lockdowns.

It is not the case that the source of economic damage is entirely the result of imposed lockdowns. These build on what individuals, out of their own volition, have been doing for weeks.

In a look at real-time data that gives a good indication of economic activity, the *Financial Times* says, ‘traffic has at least halved in many of the world’s largest cities, spending in restaurants has halted and cinema sales have collapsed. The effects began to be felt even before nationwide lockdowns were implemented across parts of Europe and the US.’.

The interventionists argue that governments must ensure that as many people as possible should stay alive even given the economic damage. Governments that were initially hesitant in taking early and big measures like the UK and the US have now done so. Much of the reason for that is the force of public pressure.

Heavy guns

Indeed, globally governments have with few exceptions brought in heavy guns. They are simply not prepared to risk their health services becoming overwhelmed with Covid-19 cases and many dying.

Massive early interventions, when well managed, bring down fatality rates. Singapore and Korea are two examples. Singapore learned from the SARS epidemic and has conducted an enormous number of tests, and because of its early intervention it has only 340 cases in hospital, and two deaths so far.

Intervention is a bet on smoothing the case flow in hospitals, being able to do a lot more testing in the weeks ahead, and praying that a vaccine and various therapies will emerge in coming months.

These interventions will bash economies, but on a balance of probabilities and with the limited knowledge we have, this is the bet to take.

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But there are limits to containment, which essentially creates what might be compared to a dam wall in front of a large population that stands to be infected once the restrictions are lifted. The health minister, [Zweli Mkhize](#), estimates that between 60 to 70 percent of the population may ultimately be infected by the virus on the pandemic curve.

Without testing on a mammoth scale, government might be hard put to decide on when to end lockdowns and quarantines. There is, as yet, no test to detect antibodies that would give an indication of how many have had the disease so far.

The Chinese began lifting their restrictions after 10 weeks, and UK Prime Minister Boris Johnson has said the tide of disease can be turned in 12 weeks. We are probably in for a long haul.

A model of a pandemic for the European Commission at the time of the H5N1 outbreak in 2006 described in [this paper](#) assumes a duration of three months. The conclusion: such a pandemic does not have to spell economic disaster and the impact is roughly the same size as that of a major recession. Economies and individuals display enormous resilience and adaptability to shocks but must be allowed to do so for strong recoveries.

The introduction of price controls on key goods used in the Covid-19 fight might be counterproductive if they are too tight. Scaling up production is not a cost-free exercise, and producers must be given an adequate incentive to do so.

Price controls

The best way to create shortages is to impose price controls that make it unprofitable to produce. Higher inflation might well be likely as the economy comes on stream again. Maintaining or even extending controls would be a disaster.

For South Africa, if ever there was a time for crisis-driven reform it is now. As there might soon be little cash left for continued bailouts of state enterprises, this could force a serious reconsideration of present policy. If far more is to be spent on preparedness for a future pandemic, there is simply no room for bailouts.

The crisis should also be a forceful reminder that the three current portents of economic disaster – Expropriation without Compensation, National Health Insurance, and Prescribed Assets, should be taken off the table.

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