

## Opinion: Counting the economic cost of South Africa's lockdown

As South Africans, we want our country to prosper and the quality of life for all those living within our borders to improve. Millions live in total poverty and rely on family or intermittent work to get by: life is tough, and often short, as malnutrition and hardship take their toll. The most effective way to lift people out of poverty and improve quality of life is through education and economic growth.

I am concerned that our government's lockdown approach and the subsequent economic hardship inflicted on our people will cost more lives than it can save. I realise this is a controversial statement in a context where people are very fearful and understandably concerned about their health and the wellbeing of their families. An effective government must make difficult decisions that involve trade-offs and cost-benefit analysis. I am not saying we should trade lives for economic growth; I am saying we must consider how we can save as many lives as possible and give better lives to as many South Africans as possible with our limited resources.

President Cyril Ramaphosa's initial lockdown decision was justified to buy time in order to gather our health resources and prepare our hospitals. It was never meant to be a strategy to eliminate the COVID-19 virus – this is an impossibility. The idea behind lockdown is that the same number of people get ill, but the infections are spread over a longer time in an effort not to overwhelm the health system. Our government's lockdown strategy has morphed into something else entirely.

As new information emerges, it seems the virus mortality rate is substantially less than many feared, and many of the more alarmist predictions that led to lockdowns across the globe have proven to be flawed. The government must absorb this information, particularly given the youthful South African population.

There are two important questions:

- How many COVID-19 fatalities can be avoided through the lockdown?
- What is the economic, and therefore human, cost of the lockdown?

I will not go into detail on the potential number of lives saved by the lockdown. There is a great deal of information available\* that indicates the lives saved by this strategy will be minimal unless the lockdown means the number of infections can be suppressed until a vaccine becomes available. Data indicates the mortality rate for those below 70 years of age is less than 0.2%; only 2.9% of South Africa's population is older than 70. Furthermore, lockdowns or a lack thereof, seem to make little difference to the total number of cases a country experiences. It sounds tragic and defeatist, but it is not possible to make the virus disappear through lockdown, particularly in a country like South Africa.

Economic and human costs are two sides of the same coin. Studies indicate that mortality rates double with job losses. A smaller economy means fewer resources to allocate to healthcare and education in future. National Treasury thinks up to seven million people could lose their jobs. This could lead to tens of thousands of additional deaths.

The stimulus package outlined by the government is R500bn. SARS thinks tax collection could fall by R250bn this year as a result of the shutdown. Given government reallocations, this means additional debt of approximately R500bn in a single year. The economic damage will linger, tax collections are unlikely to recover to previous levels for years to come. The R50bn interest bill on this additional debt burden means R50bn less to spend on education, healthcare or other services – not just in 2020, but in perpetuity.

An extreme worst-case scenario for South Africa is 150 000 COVID-19 deaths (most models indicate worst-case scenarios of 50 000). This is based on 50% of people contracting the virus with a 0.5% fatality rate. (A more likely worst case is a 0.2% mortality rate of 50% of the population, which is 60 000). This is a huge number of deaths and a great tragedy. Let's assume the lockdown manages to reduce the number of fatalities by 50% by suppressing the illness until a vaccine is discovered: This would be an incredible success. 75 000 lives would be saved. The direct cost per life saved in this scenario is R6.6 million; indirect costs will be far greater. I know this puts a price on human life but, unfortunately, this is what government has to do every day when allocating resources. On the other end of the spectrum, if the disease can't be stopped, and a vaccine is not discovered, then almost no lives will be saved from COVID, but we will have destroyed the economy, increased government debt by R500bn, and lost a great number of lives through higher mortality not related to COVID. South Africa's 2020 budget called for healthcare spending of R229bn and police expenditure of R221bn: small amounts in comparison.

Sadly, because South Africa is a poor country, we have a very high mortality rate, and therefore low life expectancy. 410 000 South Africans die from natural causes each year, including 37 000 people from TB and 32 000 from diabetes. In addition, 15 000 die in road accidents and 21 000 are murdered. These deaths are equally tragic and perhaps even more so as they are often preventable.

Unlike Europe, South Africa has a limited social security net and an informal economy. Many people have no savings and have lost their livelihood with the lockdown. Hunger is an immediate reality. Malnourished children are disadvantaged for the remainder of their lives due to stunting. The government provides a child grant, but there are millions of immigrant children who have no access to this grant.

Just as economic growth and prosperity save lives, economic destruction and poverty cost lives.

So why am I writing this now? Firstly, every week the lockdown continues, the economic cost compounds. Since the lockdown was enacted six weeks ago, I have urged government to consider the full picture, including the human and economic costs of their decisions, and I have provided them with balanced data. I have detailed how this data indicates the lockdown strategy is tragically flawed. We can no longer afford to blame “the virus”, when the vast majority of the job losses and suffering is the consequence of a strategy that has not fully accounted for the human cost of the lockdown on the economy. I hope that in making this commentary I am contributing

to a heightened awareness of the issues, not emotion, underpinning this discourse.

Secondly, it is to reiterate how we think about managing your portfolios against this backdrop. We all have our views on what is the right or wrong strategy for government. However, most importantly for us as investors, we must deal with the situation as it is, and invest your funds accordingly to protect capital and maximise long-term returns.

*The above comments represent my personal opinions and I understand that many people may strongly disagree with my views.*

Commentary contributed by Andrew Lapping, chief investment officer, Allan Gray

#### \*Related reading

Here are a few interesting pieces; however, we encourage readers to seek out their own information on both sides of the argument, and to look at the actual data in an effort to draw their own conclusions.

- Professor Michal Levitt <https://unherd.com/thepost/nobel-prize-winning-scientist-the-covid-19-epidemic-was-never-exponential/>
- World Health Organization: 300 000 could starve to death per day <https://www.wfp.org/news/wfp-chief-warns-hunger-pandemic-covid-19-spreads-statement-un-security-council>
- SA piece on impact: <https://www.businesslive.co.za/amp/fm/features/2020-05-05-lockdown-disaster-dwarfs-covid-19-say-sa-actuaries/>
- Sweden's model: [https://www.realclearpolitics.com/articles/2020/05/01/as\\_we\\_mull\\_leaving\\_lockdown\\_is\\_sweden\\_model\\_the\\_way\\_forward\\_143093.html](https://www.realclearpolitics.com/articles/2020/05/01/as_we_mull_leaving_lockdown_is_sweden_model_the_way_forward_143093.html)
- <https://unherd.com/thepost/coming-up-epidemiologist-prof-johan-giesecke-shares-lessons-from-sweden/>
- COVID mortality influenced by age: <http://www.ox.ac.uk/news/2020-04-17-covid-19-mortality-highly-influenced-age-demographics>

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