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NEVA MAKGETLA: Covid-19 grant is vital, SAA not so much

We can no longer afford to maintain projects out of sentiment or habit: we need to ask cold-blooded questions about their value to society

BL PREMIUM

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A traveller checks in at the SAA counter at OR Tambo International Airport in Johannesburg in this file photo. Picture: ALON SKUY

The government faces two urgent spending decisions this month. We've heard a lot about one — the cabinet's reported agreement to provide R10bn from the national budget to rescue SAA. In addition, the Covid-19 special grant is scheduled to end in mid-October, and renewing it will cost R11bn — almost the same as rescuing SAA. The grant provides R350 a month to 4.4-million people who have no other means of support.

Before the Covid depression it would have been easy to find funds for both projects. But the pandemic is expected to slash household and business incomes by a 10th, and national revenues by a fifth. We can no longer afford to maintain projects out of sentiment or habit. Instead, we need to ask the cold-blooded questions about their value to society.

Even in today's straitened times, national budgets deal in big figures. As a US senator reportedly said in the 1960s, "a billion here, a billion there — pretty soon we're talking real money". From this standpoint, R10bn is only 0.6% of expected national spending. Still, the cost of saving SAA equals 3% of the education budget, 4% of health, 6% of housing and 20% of defence. Moreover, excluding transfers to state-owned companies (mostly Eskom), national spending will shrink more than 0.5% in real terms this year, or about 2% per person.

Fiscal cuts inevitably target transfers or investments, because programmes such as education, health and security, which account for more than 40% of the budget, spend most of their money on employees, with the attendant contractual obligations. To help pay for the Covid response the adjustment budget has already cut public works by 8%.



The biggest transfers are social grants, at R220bn, but it would be unthinkable to cut them during a pandemic. Housing, infrastructure and business support (excluding state-owned companies) now come to R360bn, but again are hard to reduce without undermining economic competitiveness and living standards, especially in poor communities.

For both SAA and the Covid grant SA must also balance the cost against the anticipated socioeconomic benefits. The SAA package includes R8bn for recapitalisation plus R2bn in retrenchment packages for 3,000 people, at a minimum of R350,000, and more than R1m for pilots.

The new, smaller airline would mostly serve regional markets with a few overseas flights. It is not clear how this outcome would promote national development, except by improving regional integration. Outside of standard BEE goals, SAA has never specified any developmental aims, such as supporting mass tourism and serving smaller cities. Internationally, aviation is in crisis, and all of SA's carriers are affected. But the rescue package is not part of a coherent strategy to secure accessible and affordable travel to and within SA.

It's easier to justify the Covid-19 grant.

Without a vaccine or more effective treatments, the virus will continue to hobble economic activity. Low-income people often rely on activities that cannot operate safely, such as informal retail and services. Given SA's pre-existing, unusually deep inequalities and poverty, many households have neither savings nor other sources of income. In the absence of government relief, a human, social, political and economic catastrophe will result. A grant of R350 a month is less than half the poverty line, but at least it is something.

The Covid pandemic and resulting contraction in GDP are a slow-moving crisis. As a result, many people in business and the government appear to hope they will just go away if we ignore them. But the pandemic has entrenched a new normal that makes tough choices even tougher.

Funding an extension of the Covid special grants will be difficult, but avoiding it will cost even more. The case for bailing out SAA is far harder to discern.

• *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

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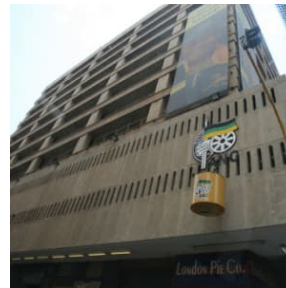
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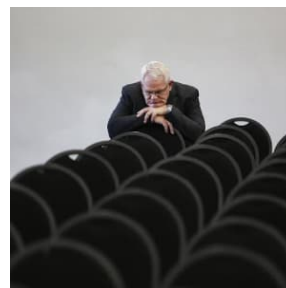
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