Memo to #UpperDeckPeopleKE: Coronavirus Economic Shock Is Coming and It Has Your Names on It

By David Ndii

A worried friend called me about a situation he has observed in his neighbourhood somewhere in Kileleshwa. The part-time house-helps who work in the neighbourhood are now jobless. Their clients are at home and can do their own domestic chores, and also limit contact with outsiders in keeping with social distancing. The desperate ladies are now congregating at the roadside perhaps hoping to catch the eye of a passing client to lend a helping hand.

At the onset of the COVID-19 crisis, some influential voices in the West, Bill Gates and the UN Secretary General Guterres notably, expressed concerns for Africa and called on the world to prepare to stave of the unimaginable tragedy should the pandemic spread to these shores. Bill Gates talked of 10 million deaths. It may be early days yet, but it has so far not panned out that way, touch wood.

The 2019 Global Health Security Index lists the United States and the United Kingdom as the countries most prepared to handle a pandemic in the world. As I write, the two Anglo-Saxon transatlantic allies account for 35 per cent of confirmed cases, and 40 per cent of fatalities. The UK and Ireland are as similar as any two countries, yet the UK has 11,000 deaths, Ireland 340. Post-

COVID-19, the UK and the US will probably end up at the bottom of the heap. The index, now destined for disrepute, is compiled by the Nuclear Threat Initiative and the Johns Hopkins Center for Health Security in collaboration with the Economist Intelligence Unit (EIU), all of them US/UK institutions—imperial hubris and navel gazing.

I fear that many well-to-do Kenyans—those I occasionally chide as #UpperDeckPeopleKE— have a similar blindspot, namely, projecting the crisis onto those less privileged than themselves, wanting to believe that as long as they are properly social-distancing and working remotely, they are insulated from the crisis, and the charitably predisposed can do what they are able to do to extend a helping hand to the less priveleged who (like Africa) are the most exposed. Indeed, when I proposed a Lifeline Fund to cushion businesses and jobs in my open letter to the president three weeks ago, one of the most common reactions was, how would it help *mama mboga* (the vegetable woman, i.e. vendor)? It was lost to these people that *mama mboga* would continue to be in business, and might in fact benefit from the switch from eating out to eating at home. Not a single person who engaged me on this issue came across as worried for themselves.

In this column, I will endeavour to put some numbers to the COVID-19 economic shock. I will start with the structure of expenditure in the economy, which we also refer to in economics as aggregate demand. It consists of private consumption, private investment, government consumption, government investment and exports. Everything produced in or imported into Kenya ends up in one of these aggregates. Private consumption is two-thirds of final demand, private investment and exports combined account for just under a quarter, and government spending for just over 10 per cent (see chart below).

What is COVID-19's impact on each of these?

Private consumption: Food accounts for a third of private consumption, so that will survive, although not the restaurant business. In the US, restaurants account for 60 per cent of the jobs lost so far. Over and above food, most people are only spending money on essential household items. The leisure economy—tourism and sports notably—is out for the count. Best-case scenario: a 60 per cent contraction.

Private investment: Of the five components, investment is the most sensitive to uncertainty. Some businesses will complete projects that are underway, if they are able, but new capital projects will be put on hold. Best-case scenario 75 per cent contraction.

Exports: Horticulture is Kenya's second-largest export industry after tea, earning $1.2 billion (Sh120 billion), accounting for 20 per cent of exports of goods. The industry has been severely disrupted. The East African Community and COMESA (Common Market for Eastern and Southern Africa) countries, which account for a third of exports, are as disrupted as we are. Just as we are not consuming or investing much, they also will not be buying much. Every other export industry is disrupted to some extent. We also need to factor in diaspora remittances, which are not directly captured in the national income accounts. Diaspora remittances are estimated at US$2 billion a year, which translates to 2.5-3.0 per cent of private consumption. Best-case scenario: 50 per cent contraction.

Government consumption: This aggregate consists primarily of recurrent operations and maintenance (O&M) expenditure, i.e. the goods and services that the government uses to provide services. In principle, the COVID-19 shock may not affect it too much because the government can move money from low to high-priority spending, for example from travel to health. Best-case scenario: no disruption.

Government investment: The government could in principle continue with its development projects, although they will be slowed down by the physical disruption, and the logistical challenges created by the partial lockdown of Nairobi. Best-case scenario 25 per cent disruption.

These disruptions add up to 35 per cent expenditure contraction, which I estimate to translate to Sh390 billion a month. The next question is, for how long? Again, the best-case scenario for the pandemic appears to be another two to three months before the global curve flattens sufficiently for countries to risk letting their guard down a little. But the best-case scenario for a vaccine to become available is six months to a year.

A four-month disruption scenario, i.e. to July, works out to a contraction of Sh1.56 trillion. But, of course, the economy will not bounce back immediately, so if we factor in a 50 per cent recovery to December, it goes up to Sh2.3 trillion, which is in the order of 20 per cent of nominal GDP (i.e. before inflation adjustment). Roughly, a one percentage point in nominal GDP translates to 0.4 per cent real (i.e. inflation adjusted) growth, the figure that is normally reported as the annual economic growth rate of between 4 and 6 per cent in recent years. A 20 per cent nominal GDP contraction thus translates to an eight percentage points drop in real GDP growth, which takes us into negative three per cent territory. We have no precedent of an economic shock of this magnitude to compare with.

This is the situation unfolding the world over. Sixteen million people, 10 per cent of the US workforce, have lost their jobs in less than a month. The Penn Wharton Budget Model, a Wharton Business School fiscal policy analysis project, estimates that even with the mammoth $2.2 trillion stimulus, the economy will still shrink by 30 per cent in the second quarter. If borne out, it will be the largest quarterly contraction since World War II. With no end in sight, the language has changed from recession to depression.

Last week the Canadian government recalled parliament and passed a C$73 billion emergency wage subsidy bill, to augment the $103 billion emergency relief package passed a few weeks ago. The first relief package was equivalent to 4.4 per cent of GDP. This increase takes it up to 7.5 per cent. Such was the sense of urgency that the bill was processed by both houses on a Saturday afternoon, and signed into law at 9.30 p.m. that same night.

I am still hopeful that we will dodge the pandemic bullet, or that if it does hit, it will not be cataclysmic. But the economic consequences are inescapable. As this column has observed, the epidemiological and economic dynamics of the pandemic have decoupled. The economy is being ravaged by our self-preservation instinct. The economy thrives on venturesome behaviour—the willingness to trade risk for reward. But seldom is this trade-off a life and death issue—although to be sure some people, gangsters for example, do take life and death risks to make a buck. For the overwhelming majority, making a living is not life threatening. The coronavirus is making it so. We do not know how long it will be before venturing into nightclubs, huge weddings, spectator sports and international travel becomes routine again.

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A contraction of this scale will shed a lot of jobs. Cities and towns, Nairobi in particular, will be the most badly hit. In another month, a quarter of the Nairobi metropolitan area population—about 1.5 million people—may not have a penny to their name. Even a daily survival budget of Sh50 works out to Sh75 million a day. It is doubtful that private charity can sustain this for a week, and we are talking months.

In a prolonged crisis, formal establishment workers are more exposed to job losses and financial insecurity than those in the micro and small enterprise informal sector, and the higher up the managerial ladder, the more the exposure. Why so? In the micro and small enterprise economy (MSMEs), *jua kali* as we call it, many enterprises engage own-account workers, for instance, hairdressers, mechanics and carpenters who work for themselves and pay a portion to the business owners. When business is down, people work fewer hours and earn less, but no-one is laid off since they are not on a payroll in the first place. We would characterise *jua kali* as a flexible wage economy, while the corporate sector as a rigid wage economy.

In economics, wage rigidity/flexibility is a very big deal. If wages were as flexible as the prices of goods, earnings would rise in boom time and decline during downturns. The problem with a contract wage economy is that workers get pay rises when the economy is doing well, but are wont to take pay cuts during downturns (we say that wages are "sticky downwards") so the only way businesses can reduce costs when business is low is to lay off some workers. The *jua kali* economy is better cushioned because they share the work available and get a lower income instead of some earning a lot and others nothing. Moreover, given these flexible arrangements and volatile incomes, many of these workers are diversified, that is, they seldom depend on one income stream. As counter-intuitive as it may sound, the "job insecure" *jua kali* workers are more economically secure.

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There is also the supply side. The market economy is an integrated and complex autonomous system whose workings we take for granted. The entire edifice is built on, and operated by only two impulses: self-interest and price signals—the impulses that Adam Smith famously named the invisible hand. The invisible hand is the trader who aggregates livestock, takes it to market, returning home with groceries and other supplies for his customers deep in Maasailand. The markets are now closed. It is the much-maligned middleman in that *sukuma wiki*-laden jalopy that appears out of nowhere in foggy Kinungi. It is tough enough turning a profit in normal times, let alone when one is being shaken down and beaten by police at every turn.

To paraphrase Smith, it is not from the benevolence of the farmer or the trader that we expect our dinner, but from their regard to their own self-interest. Once they can't turn a profit, the dinner will simply not appear, without notice. Only then will we know that social-distanced online work cannot actually feed us, food delivery apps notwithstanding. A critical piece of equipment for medical supplies has broken down, but the maintenance company has shut shop, the *fundis* have dispersed upcountry, and spare parts are stuck in Dubai. It will take a week at least to get the operation up. Day by day, the coronavirus ravages the economy just as it is ravaging people.

Canadian economist Armine Yalnizyan calls the COVID-19 shock "a completely different economics". "We're into something else entirely, and the sooner Canada's decision-makers and news-shapers recognize the contours of this new landscape the sooner we will be able to make sense of the world on the other side".

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The sooner decision makers recognize the contours of this new landscape . . . She couldn't have put it better. Earlier this week the Africa Union appointed some eminent person to mobilise resources. As I write, Africa has lost 790 people, 0.7 per cent of the fatalities. Europe and North America have lost over 100,000, and the toll is still rising. It is not just their economies that are devastated, societies are traumatised. We are going to beg from shell-shocked people who are hanging in by the skin of their teeth; just how helpless, insensitive and entitled can we be?

The most dismal prognosis of "the other side" that I have come across has been put forward by financial economics professor [John H. Cochrane], who characterises the coronavirus as a negative permanent technology shock. Technology shocks in economics are transformational innovations—such as steamships, the internal combustion engine, aviation, the microchip—which have propelled modernity since the industrial revolution. Technology shocks have long impulses, for example, from the telegraph to the internet, and from the Wright Brothers to ubiquitous international aviation—and a jet-borne pandemic. A permanent negative technology shock, therefore, is a euphemism for a long-term productivity slowdown, a great leap backwards if you like.

My own sense is that the coronavirus will accelerate a "post-industrial world" that will indeed have elements of going back to basics. How might this "other side" look like?

As the economy convulses, many of the lower income urban workers—who are at any rate temporary migrants—will go back home, as they do during economic downturns and political upheavals. Many will not come back. Over time, self-reliance and resilience will replace preoccupation with getting ahead in the rat race. Development "silver bullets" such as rapid industrialisation, megastructures and growth *über alles* will lose their allure. Health and nature will matter more. People will be content with life on the slow lane. In this back-to-the-future world, it is the farmers, the *fundis* and the social workers—teachers, healers, artists—who will be in their element, and the managerial layers of paper pushers—bureaucrats and brokers—who will struggle to find footing and purpose.

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The state-society relationship will also be up for critical examination. So far, the national government's heavy-handed law-and-order approach to a health crisis—its colonial DNA—has ensured that it has not wasted a single opportunity that it has been afforded by the coronavirus to aggravate and further alienate citizens. The only people-centred state responses we've seen are from the county governments that the Jubilee administration has been doing its best to undermine and turn the people against. The national political class, parliament notably, has jumped ship and abandoned the people— vanished. But the Jubilee bigwigs have found time for skulduggery over their moribund political party, while Raila Odinga found it wise to give reassurance that the coronavirus is a minor storm and the reggae tsunami will be resuming in no time at all. A more tawdry and inopportune display of mindless obsession with power is hard to contemplate.

With every passing day, the prescience of Singaporean Foreign Minister Vivian Balakrishnan's assertion that the coronavirus will test and mercilessly expose the shortcomings of every country's health system, governance standards and social capital, is affirmed.

Which entrails of our dysfunctional governance, our venal political class, and the patronage oligarchy writ large—the hollow men—the coronavirus will bare is sure to become clear in the coming days. As to the nature of the beast that will come out on the other side, only time will tell.

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