

## **Unemployment benefits could smoothen economic downturns - Klaus Schade**

The current economic downturn is caused by domestic, regional and global factors. Lower global demand for some of our minerals and consequently lower prices in USD, the oil price crash resulting in the crash of the Angolan demand for our goods and services and the recent price hike that affects production costs and the cost of living, the completion of major private and public sector investments and severe droughts led to a sharp decline in economic activities. Contrary to 2009, government not only lacked the fiscal space to respond with a countercyclical fiscal policy, but had to cut expenditure in order to rein in increasing public debts that have already contributed to Namibia's downgrading by sovereign rating agencies.

Retrenchments among others in the mining sector and in particular the labour-intensive construction sector and related manufacturing industries led to a rise in unemployment and drop in household income. This in turn reduced consumer demand and resulted in a contraction in the wholesale and retail trade sector with additional pressure on the labour market.

An unemployment benefit scheme could have softened not only the social effects, but also the economic impacts. Unemployment benefits could ensure that employees who lost their jobs still have some financial means that could prevent them from falling into poverty. They would still be able to satisfy the most basic needs, including paying their rent or honour their financial obligation towards banks such as mortgages and instalments.

While in times of an economic boom the agency responsible for collecting and managing the unemployment insurance contributions and benefits will accumulate surpluses – a kind of forced savings for bad times – and hence will curb private demand, it injects some of these surpluses during an economic downturn back into the economy and hence raises private demand above the level without such a scheme. It follows almost the same logic like the countercyclical fiscal policy Government should ideally follow – curb public expenditure during a private-sector led economic expansion and expand public expenditure during declining private sector activities.

An unemployment benefit scheme would smoothen the economic impact of a contraction in an economic sector and prevent resultant increased unemployment to spread immediately to other economic sectors, in particular the retail trade sector and industries producing consumer goods, and hence lessen the number of potential job losses in these sectors that would have further exacerbated the economic downturn. The unemployment benefit scheme does not only benefit the recipient, but businesses as well since the decline in private demand, and therefore the demand for their own goods and services, is less severe than it would have otherwise been.

Published in Business 7 – 21 November 2018