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## — Opinion

# Reconstruction can blow post-virus dog days away

If Australia breaks sharply with pre-COVID-19 politics and policy, the economy can snap back better from the most severe downturn since the 1930s.

**Ross Garnaut**

*Contributor*



Aug 18, 2020 – 2.17pm



Whatever else happens with COVID-19 from now on, it will leave us with by far the [most severe economic problems since the Great Depression](#). The most severe for Australia, and for the world. How long will it last, how deep will it go and how will it affect long-term prosperity political systems and international order? A great deal. Whether partly for good or entirely for ill depends on receptivity to knowledge, and [our political system's capacity to act decisively in the national interest](#) in response to knowledge.

It is impossible to snap back to what we had last year. Nor should we want to snap back. Australia's economy performed badly for most of its citizens in the seven years between the China resources boom and the pandemic – the dog days. Unemployment and underemployment in the later dog days remained well above developed countries that suffered much greater damage from the GFC. [Real household income per person and real wages stagnated](#). Growth of productivity and output per person were lower than in the developed world as a whole, the US and even Japan

and even Japan.



Investment in a low-carbon economy will build a prosperous future for Australia. **Bloomberg**

Post-pandemic dog days is our destination unless we break sharply with the political culture and many of the policies that have prevailed so far in the 21st century. Post-pandemic dog days would be more difficult than the seven years before the pandemic. The living standards of ordinary Australians would remain lower through the 2020s than they were on the eve of the pandemic. Unemployment, properly measured, would linger above the high levels of the pre-pandemic dog days.

The post-pandemic dog days will be worse than 2013-19 because:

- We need to manage an extraordinary legacy of public debt from the pandemic recession;
- Business investment will remain lower than the low levels of the pre-pandemic dog days;
- There will be reduced gains from trade as a result of the deterioration of our external environment – from problems in our relations with China, slower global growth and increased protectionism in the US and most other countries;
- Increased unemployment has permanently damaged the skills of many Australians, especially the young;
- Many of our most important economic institutions are weaker – the universities

and many businesses; and

□ Productivity growth, already low in the pre-pandemic dog days, will be lower still.

## **Reconstruction would be built around acceptance of the opportunities for Australia in the emerging low-carbon world economy.**

To make matters worse, the effects of a chronic deterioration from climate change and population ageing will gradually accumulate. Much lower immigration means there will be little boost to average [output from younger skilled immigrants](#) or to total output from an expanding labour force.

The alternative is post-pandemic reconstruction.

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Reconstruction requires a massive effort to raise productive investment and productivity, an effort built on acceptance of knowledge in economic, climate and health policy. It would be built around acceptance of the opportunities for Australia in the emerging low-carbon world economy.

Reconstruction would reject the anti-expert populism that has tragically diminished the great democratic capitalist countries of the North Atlantic. It requires acceptance by influential interests of changes in economic structure and the distribution of income where these are necessary to achieve outcomes in the national interest.

## **Distribute benefits of change fairly**

Experience has demonstrated that such change is possible in our democratic polity only if most people accept that the benefits of change are being distributed fairly across the Australian community.

So, policies to secure equitable distribution of the fruits are an integral part of a

program to lift productivity, employment and incomes.

It will be difficult to lift productive investment, since investment is productive only if it is in industries that do well in the economy of the future.

Investments now – whether in public infrastructure or private business expansion – will be generating output later in the 2020s and beyond. By the 2030s, [Australia and the world will be well on the way to a net zero emissions economy](#) – or we will be facing immense uncertainty from disputation over how to deal with rapidly increasing problems from climate change.

Investments over the next few years will have to make economic sense in the low-carbon global economy of the future.

The good news is that there is immense opportunity for profitable investment to build a prosperous place for Australia in that future world economy.

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The prize from post-pandemic reconstruction is huge. Integration of taxation and social security around a basic payment to all citizens and [a moderate effective rate of taxation on all income](#) would improve equity and also incentives for employment.

A guaranteed income for all Australians would reduce the anxiety that would otherwise accompany the structural change required for restoration.

Business investment would rise above the pre-pandemic dog days, while remaining below that of the China resources boom. Productivity growth would be moderately higher than in the pre-pandemic dog days, although lower than the productivity boom of the 1990s.

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Under this post-pandemic reconstruction, we would achieve full employment by

2023 or soon after. It would be genuine full employment – the non-inflationary 3.5 per cent that had been experienced in the US before the pandemic.

Prices and real wages would rise in the market place once we were approaching full employment. From that time, economic growth plus inflation would begin to reduce the weight of the recently accumulated public debt without lowering the standards of living of everyday Australians.

Businesses would generally do well in this expanding economy.

*This is taken from Ross Garnaut's presentation to the Melbourne Economic Forum, Wednesday August 19. Ross is Professorial Research Fellow in Economics at The University of Melbourne. His book, RESET, will be published by Black Inc with Latrobe University Press in November.*

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**Ross Garnaut** is professorial research fellow in economics at the University of Melbourne.



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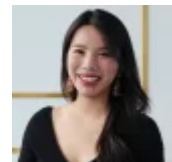
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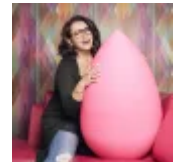
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