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Shaping the COVID-19 recovery

Extraordinary times call for extraordinary measures and as the global economy faces a once-in-100-year challenge, many times greater than the 2008 GFC, lateral thinking around our recovery will be required for Australia to successfully emerge from the economic storm.

Despite all the uncertainty swirling around us, one thing is certain – Australia's response to this unique crisis has been swift and robust.

A 'traditional' financial crisis - as defined in economic textbooks - merely challenges credit markets and liquidity in financial markets. However, a global pandemic demands a shutdown of all but essential economic activity and with no face-to-face interactions or commerce, every economy needs life support. Australia recognised this quickly and responded in kind.

Unlike the US and the EU, it quickly identified the length and depth of the inevitable COVID-19 recession would largely depend on the speed and effectiveness of its virus containment and fiscal policy responses. To date, it has delivered on both.

Australia's proactive response on both fronts - evidenced by recent movements in the stock market and in the Aussie Dollar - has laid the foundations for a 'v' shape recovery and the distinct possibility it will even become a 'capital V' recovery.

The relatively swift flattening of the infection curve also appears very promising however, the ultimate timing of an economic recovery is impossible to predict. Essentially, it now rests on how quickly scientists can unearth a biological solution to this viral problem. While positive medical outcomes - such as large falls in new infections or the arrival and swift distribution of an interim antiviral - may stabilise or spark a mini recovery in some countries, a full global recovery is very much dependent on the vaccine silver bullet.

In the meantime, governments that manage to get a handle on the spread of the virus can begin planning and actively shaping the recovery, its aspirational construct and the areas it will prioritise when the inevitable upswing occurs. Similarly, businesses should use this reset moment to consider how they can better harness technology and innovation to meet the new consumer demands and expectations which will inevitably emerge when this pandemic ends.

It must also be remembered the pre-pandemic issues we faced have not gone away. Once the virus has been contained and businesses are out of hibernation, the spectre of low wages growth, stagnant standards of living and the unresolved problems of energy policy and climate change, will once again come to the fore.

One approach to engineering a recovery path to address these and other economic challenges, is to consider the concept of 'inclusive growth'. Coined by visionary economist Michael Porter, Professor at Harvard Business School, he argues that while GDP growth is an invaluable measure - and that it helped lift hundreds of millions of people out of poverty in the last century - we now need to focus on measuring and growing social progress in parallel with GDP. Afterall, a healthy society (in both mind and spirit) begets a healthy economy.

So, how can all levels of government drive 'inclusive growth' and in turn create a more equitable society?

1. Structural reform of healthcare, education, tax and superannuation;
2. Productivity enhancement to address income inequality and low wages growth; and
3. Regional infrastructure investment.

The first two of these can simply align to the wish list of the Productivity Commission, which has volumes of well-documented ideas the federal government could simply pick up and run with. Now with a budget deficit guaranteed for the foreseeable future and with no prospect of getting 'back to black' anytime soon, it should be the time to at least consider investing in some of the Productivity Commission's well thought through suggestions.

Finally, COVID-19 has exposed the inherent weakness of basing 40 percent of the country's population in two capital cities Reinvesting in our regions to make them more accessible, attractive and productive places to live and work will be an important national step. Equally important will be ensuring inclusivity extends to local community collaboration in designing and prioritising investment.

Every economic shock leaves a lasting legacy. Let's make this one inclusive.

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