

Governments have made this recession worse. They can't now impede recovery

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A 7 per cent fall in GDP during the June quarter is pretty much to have been expected. Led by spending falls on transport (down over 80 per cent) and in cafes (down 56 per cent), household spending was down 12 per cent.

But there is no shortage of demand – the household saving rate has shot up from 6 per cent to nearly 20 per cent. Though precautionary saving is doubtless a factor, people have limited opportunities to spend their money rather than being short of funds.

The consumption foregone in the recent quarter is lost – and further losses will be recorded during the current quarter. And there will be lasting changes in demand, including a permanent dip in demand for office facilities, which will require building modifications and adaptations. Nonetheless, the crisis has not impacted the fundamental production base of the economy — its facilities and skills. Left to itself output will mend and do so quite rapidly – the high pent-up savings, low interest rates will help considerably in this respect. Governments can easily impede the recovery just as they were instrumental in augmenting the severity of the recession.

There are two concerns regarding the Commonwealth in this respect. The first is its selection of advisers. The Treasury hierarchy is dominated by men and women who are wedded to a Keynesian view of the world. Their predilection is to introduce demand stimuli when the issue is not lack of demand but supply. Pump priming measures are unnecessary and would add costs.

Even where supply augmentation is favoured, we have a problem that the senior Treasury people gained their promotions because they fostered subsidies to green power and punitive taxes on low-cost coal for electricity. They are likely to favour more such action, which detracts rather than adds to supply and productivity.

Indeed, the Treasury and RBA have been calling upon the states to inject more infrastructure funding into the recovery. Perhaps in response, the Victorian energy minister [Lily D'Ambrosio](#) is today briefing investors seeking ways to build another 600 MW of renewable capacity. This form of energy is already testing the capacity of the electricity system and discouraging productive investment by burdening coal generators which, rather than being subsidised, are actually taxed through coal royalties.

Secondly, as it presently operates, the Commonwealth is the cash dispenser to State governments. Each state, even the larger ones, can take costly actions confident that the costs of this will largely be recovered with funds from other states.

The most egregious case concerns Victoria where 17 per cent of adults have a job but no work compared with 4.6 per cent in the rest of the country. The rest of the Commonwealth is subsidising Victoria, and the Commonwealth must find ways of applying influence

proportionate to the funding it supplies. Quite appropriately, in addressing the way out, the Treasurer drew specific attention to this. Providing different rates for different states would be one such approach.

Jobseeker has to end — and the sooner the better. Its financing imposes a crushing burden on future real income levels and it will increasingly, by providing “sit-down” money, inhibit labour flexibility. Hopefully, the Commonwealth will not succumb to pressures from the opposition and sillier members of the crossbench to further extend this \$300 billion program.

Governments can assist recovery in many ways. Investment depreciation measures that have been put in place are among these. Other beneficial actions would include lightening the green tape and red tape that adds so much in cost and uncertainty to business decisions and growth-enhancing investment. Similarly, the rigid industrial relations laws would, if relaxed, allow much higher productivity. The Treasurer has addressed opening borders as a necessary approach but left unstated any timetable to wind-back the draconian restrictions the Commonwealth itself has in place.

In addition, as illustrated by [Adam Creighton's exposure of “bullshit jobs”](#) (like the \$249,000 ‘director of intersectionality and inclusion role’ at the Victoria Department of Justice) we have to eliminate the colossal waste within a largely unproductive bureaucracy. It is also advisable that Australia recognise its stature in the world and vulnerability to Chinese countermeasures in response to insults, however legitimate, thrown their way. Beef and wine are already targeted.

Governments can help the recovery but they will have a negative effect if they attempt to micromanage. In this respect, the Treasurer wants to “boost aggregate demand”. He had in mind reductions in regulations to augment the supply side of the economy but did also mention increased social spending and boosts to demand. Hopefully, these demand-enhancing agendas will be dropped.

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