

The way to kill the virus and revive the economy



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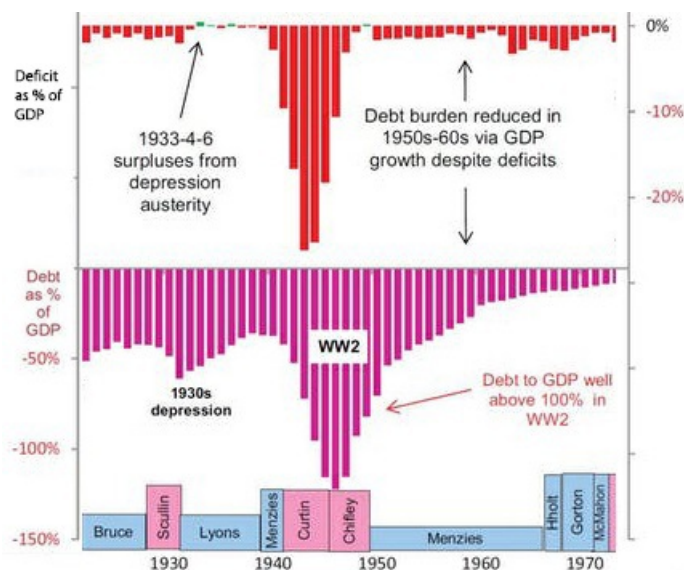
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Lead Editorial

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Just as we averted the worst scenario of coronavirus catastrophe—so far—we can avoid the worst economic consequences of the lockdown. Our approach must be the same. We mobilise! We do whatever is necessary to put the nation back to work supplying what is required for the nation to function. Just as we improvised to bring our healthcare system up to the task of saving lives if the worst modelling of COVID-19 cases became reality, we must improvise to create a vibrant industrial and agricultural capability. We must not only ensure we can make what Australians need for daily life, including medicines and other things we would normally import, but that we have a capacity to export to other nations in need.



Whereas prior to WWII the Australian government implemented austerity to pay down debt, for two decades following the war successive governments paid down an all-time record national debt without austerity, and without budget surpluses, by growing the economy through investments in industry and infrastructure. Source: Centric Wealth

Steps have already been taken in this direction due to the unavoidable need to source health supplies and equipment for the emergency, from personal protective gear to ventilators, and there are now signs that some of the policies which destroyed our productive economy are being reversed. Industry Minister Karen Andrews announced the government will buy Australian rather than from foreign suppliers (p. 3), and has stressed the need to produce pharmaceutical drugs locally, including the input materials required. The federal government has pulled forward a meeting to review water allocations for the environment in response to a demand by the NSW government to make more water available to farmers in the Murray-Darling Basin to plant new crops.

As we make this transformation there will be many more jobs in the productive sector. Some of the jobs in the service sector, lost in the lockdown, may never return. But Australia was vulnerable to this because too much of our economy is oriented to consumption rather than production. According to former banker and author Satyajit Das, writing 16 April for MarketWatch, in most of the world's advanced economies consumption makes up 50-70 per cent of economic activity. This crisis merely brought the existential weaknesses of our economic model to the surface.

All the forecasts of doom and gloom, made by the IMF, the Reserve Bank and others, do not need to become reality if we adopt an economic approach modelled on an urgent upscaling of physical production.

The debt that accrues from this process is not a problem, as long as it represents investment that grows the economy! University of Melbourne research economist Warwick Smith observed in *The Conversation* that history shows future generations need not suffer as a result of high government debt. In fact, Australia's postWorld War II period is marked as one of economic boom, despite the highest debt Australia has ever seen. (It helped that the debt was largely owed to Australians, rather than overseas, and we had the Bretton Woods system.) "We had strong economic growth, high wage growth, rapidly increasing material standards of living and falling inequality. During this period governments of both political persuasions ran nearconstant modest deficits and the level of government debt to GDP fell sharply.

"This counterintuitive miracle occurred because governments weren't focused on paying off the debt but were instead focused on productivity and full employment." Prime Ministers John Curtin and Ben Chifley "figured that if the government could bring about full employment during the War then they could bring about full employment during peacetime". PM Robert Menzies continued this approach because he found that as employment collapsed so did his chance of re-election. On the other hand, austerity measures to try to pay down debt always backfire, constricting economic growth; if adopted, it is purely "a political and ideological choice". One we do not need today. Australia has accomplished extraordinary economic feats in living memory, and we can rapidly re-create the institutions, such as a national credit bank, to make it happen again. The population will get behind this.

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