We can still have a V-shaped corona recovery. Here’s how

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The shutdown in Victoria is devastating the state economy retarding the national recovery.
The data on which to assess the actual downturn and longer-term national costs is confusing.
Measured GDP has seen a reduction of only 2.75 per cent. But this is largely a consumption-based measure and has been underpinned by JobKeeper/JobSeeker payments that represent borrowing from the future. Such payments unsupported by production cannot continue for long in spite of the hopes of Modern Monetary Theory supporters
and the illusions of leftists who think the economy produces irrespective of government measures.
A better measure of reduced output is the number of hours worked, which are down 9.4 per cent. This is imperfect because, on the one hand, largely unproductive public sector employees have been unaffected and, on the other hand, so also have the most productive jobs in mining, agriculture, processing industries, telecommunications and finance.
In terms of costs that have been imposed, government supporting actions will have increased debt by some $330 billion. The average Australian now has $13,000 more debt to service.
We have seen losses in vacations not taken, sports not watched or played, restaurant meals not eaten, nails not manicured – all the things that Dan Andrews tells us we don’t need to do. These are irretrievable losses in the pleasure we would otherwise have experienced.
Major longer term permanent economic impairments can still be averted. Economies, if left to mend, can recover from disasters relatively quickly.
One analogue to the present situation is that following a destructive war. After World War II the US and Australia, which had seen huge economic dislocation but little damage to productive capacity, recovered very quickly. Even Japan, which saw its national income fall by 40 per cent 1940-1945 and its industry pulverised, started a rapid recovery in 1946 and surpassed its pre-war GDP within 10 years.
Similarly, Eastern Europe and China have rebounded from the economic distortion that decades of Communism created.
At present, Australia has seen no fundamental loss of productive capacity or basic skills. Structural demand changes will bring some misaligned resources (international tourism, higher education, perhaps office buildings) and many businesses face financial ruin.
And although there will be future losses resulting from deferment of asset replacement, no facilities have been forcibly scrapped. This may still happen if the crisis continues – electricity plant and energy-intensive manufacturing is especially vulnerable. Much of the closure to date has been in service industries like retail and personal services. Perhaps under new owners, dormant industries can be followed by a quick rebound – indeed, Harvey Norman’s experience overseas in European and South-East Asian economies that closed then reopened was that consumers and businesses sprang back to life within a few weeks. This lends support to a V-shaped recovery along the lines of the RBA baseline scenario, which sees output falling by 6 per cent over 2020 and then growing by 5 per cent over the following year. That would see the unemployment rate two per cent above the standard expected to decline gradually to around 7 per cent. Though the RBA’s estimated output loss was optimistic even before the Victorian shutdown, the trajectory is achievable.

But previous rapid rebounds occurred in economies that were more flexible than modern-day Australia because people were forced into self-reliance with little cushioning from government payments. One obstacle to such flexibility in 2020 Australia is the dole payments amplified by JobSeeker. If there is an alternative to taking an unpreferred job, we will see structural unemployment and a sluggish recovery. This outcome is already foreshadowed in reports emerging of job vacancies being unfilled in areas like fruit picking. Additional barriers to rapid recovery would be created by other government interventions. Former Dow Chairman, Andrew Liveris at the Government’s National COVID-19 Coordination Commission is pushing his perennial elixir of subsidising domestic industry through requiring gas producers to supply energy and feedstock at a discounted price. He is also promoting a carbon tax (nowadays
referred to as a “carbon price mechanism”). That advocacy, along with massive new spending on unnecessary transmission lines, is shared by Liberal green MP Trent Zimmerman and resonates with Treasury and other key advisory voices that also see merit in policies based on the failed economics of Keynesian stimuli. In shutting down supply Treasury thought the stimuli would counteract this. It didn’t; it never does. When economies are re-opened to suppliers they recover quickly if unimpeded by regulatory measures. Recovery would be faster if the crisis became a catalyst for removing regulation. Areas that have arrested Australia’s economic advancement are particularly evident in green tape, industrial relations and in the renewable energy regulations that have transformed our electricity and gas from world cheapest to world dearest. In addition, cost paring should be put in place in the public service and in public corporations. Cost-padding impedes economic resurgence and we might even take a leaf out Uruguay’s book and place a temporary 20% tax increase on other than lower-paid public officials’ salaries.

Alan Moran is with Regulation Economics. His latest book is Climate Change: Treaties and Policies in the Trump Era.