The new welfare state must not last

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The huge expansion of government spending must be subject to strict value for money assessment. The alternative will be brutal political fights to hang on to the new largesse.

We are going through a watershed event in world history. The COVID-19 pandemic will have far-reaching consequences for all of us as we face a grim night of lockdowns and recession.

There is a legitimate debate about whether governments have responded correctly so far to the health crisis. But what is incontrovertible is that we have been plunged into a serious economic recession, even depression.

The equally important question now is what comes next. And with that should come a comprehensive analysis of the pros and cons of our next courses of action.

There has been an unprecedented and massive increase in the size of the welfare state in a matter of weeks. Given the parallel decision to lock down a whole economy, it is not clear what else government could do in the face of mass unemployment and poverty – which we know from the history of the 1930s can lead into a further spiral of misery and violence.

For someone like me who has supported Australia's long-term balance between a strong economy and a sustainable social safety net, it is important that we wind back much of this recent largesse over the next year or more.

But I know from long years working in government, both as a public servant and as a politician, that policy is extremely hard to reverse once it is put in place.

Upon rollout, new policy immediately creates its own vested interest groups who will fight tooth and nail to prevent any clawback.

In the mid-2000s when the economy began to turn down, it was very hard to pull back on temporary supplements to pensions that had been granted during the period of boom. The next few years we are likely to see such fights multiplied one hundred-fold. It will not be long before politics returns to normal programming as a vicious dog-eat-dog sport.

Globalisation under fire

Maybe, in some cases, the new levels of funding can be justified. However, without any rigorous process of evaluating programs, politicians will find it hard to sustain arguments for paring back the ones that need it.

They will need to rely upon subjecting all policy proposals to up-front rigorous regulatory impact assessment and cost-benefit assessment so that the trade-offs between market-based and more interventionist approaches are clear and acceptable. This should happen before any policy is implemented or retained.

Equally it means embedding in programs themselves, some clear indicators for outcome measurement that are linked to “inclusion goals” – in other words, goals that promote greater inclusion of disadvantaged groups that may otherwise be left behind.

There needs to be a continuous evaluation of reforms as they are implemented to ensure inclusion goals are being achieved and any unforeseen impacts are being addressed in real time. There also should be structured processes to encourage specific consideration of such inclusion issues at the cabinet level during decision making on structural reform.

I suspect the concept of globalisation will take a big hit. Globalisation itself is not an economic policy but a fact of life, whereby the global market economy has become more integrated with supply chains across multiple countries.

However, the present crisis could sharply curtail this era. Some US economists say the Chinese economic miracle has ended with it, given China has been one of the biggest beneficiaries of globalisation.

It can be assumed that countries will reassess some of their policies and to some degree be inclined to reverse their openess to globalisation as a result of the pandemic. For example, governments may mandate stricter rules about the domestic production of pharmaceuticals and ancillary medical supplies.

Governments and businesses will also look at diversifying their supply chains so that they are not held hostage to major disruptions in the future. Further, domestic businesses such as universities and tourism providers will also want to diversify their markets.

As long as the shadow of the virus hovers over us, then policymakers will need to weigh the balancing of competing objectives – not least of these will be keeping

Australia from entering a second Great Depression and avoiding leaving the country with a trillion-dollar debt burden. In the space of a few weeks, their task has just become a whole lot harder.

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