



# The Big Reset explained

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We will be leaving Covid-19 lockdown for something new, unfamiliar, and difficult. We will not be picking up where we left off.

Many businesses are in a precarious state. Job losses are mounting. Tourism, our single largest export earner—a fifth of our GDP—is shuttered for the foreseeable future.

The migration that has propelled so much of our recent growth is over for now, and maybe for a long time. Nor will there be much left of the \$4 billion international education sector.

Much of the modern service-sector economy that depends upon people congregating in cafes and lounges and bars and theatres will not be possible for some time yet.

The risk for business failures and job losses are worryingly apparent. A post-lockdown economy where the private sector has little appetite for investing, and consumers have an equally diminished inclination to spend raises the spectre of business failures, bankruptcies and lost jobs.

The role of state as a borrower and investor and a spender grows vastly larger and likely lasts a long time. Inevitably that sees them playing a much greater role in the shaping of the economy.

Much is measured in terms of a vaccine being delivered. Perhaps that will be achieved in 18 months, but perhaps the wait will be longer. Until then movement across borders will remain constrained and with it the greater likelihood of nations removing themselves from one another and reducing the connectedness of the global economy.

As a trading nation, the fate of our partners is our own. China, Japan, South Korea, USA and Australia account for the bulk of our export trade. Their economies, and by implication our prospects for trade with them, are all in various ways compromised.

China offers the notional reassurance of a giant consumer for our primary produce, emerging from the effects of the virus. But in the wake of the pandemic (*these results due Friday*) they have reported the first year on year decline in economic output in nearly four decades. Their largest export markets of North America and Europe are in lockdown and the impact on their export sector is expected to be devastating.

In the USA, economic and political systems are reeling. One in ten workers have lost their job inside three weeks. What might have seemed in recent memory to be ludicrously fanciful in terms of erosion of democratic norms and balkanisation of states, is now given serious contemplation by political commentators. It is a nation in turmoil. To say the

least of it, our trade prospects could be affected. To say more, the possibility of a geopolitical tilt from the US towards China raises a host of further questions.

South Korea, lauded for the effectiveness of its pandemic response, is an economy working hard to resume, but impeded by global problems. As a 21st century manufacturing economy, it is deeply embedded in the economy of global supply chains. Despite its earnest efforts, an absence of leadership at groups such as the G20 and G7 is said to be limiting the prospects for cooperation necessary to keep those lines open. Further, even if those goods might be supplied, shipping may not be available to move them.

The disruption that might cause to business and production and the economy is immense. Manufacturers and distributors may find themselves unable to source the products they need to do business. Consumers may find themselves pushing a button on an Amazon page for an item with diminishing confidence about receiving it.

In Japan there are fears the government's strategy of trying to tackle Covid-19 without a full lockdown will slow the outbreak but not stop it, thereby prolonging harm to the economy.

Australia, also affected by vulnerabilities in the global supply chain, has mooted revival of domestic manufacturing, along with the possibilities of a covid-era CER for Australia and New Zealand as an economic island.

### **How do we survive this? How do we set out to thrive?**

This is a time for realistic optimism; recognising that things are unclear, recognising that they are in upheaval and recognising that we cannot say yet, with certainty, exactly what needs to be done.

But realistic optimism also recognises that we have capacity as a society to acknowledge the scale and complexity of the challenge, marshal our resources, and actively and steadily work towards a resolution.

The alternative is to be paralysed by the immensity of the problem. That offers no comfort and no use.

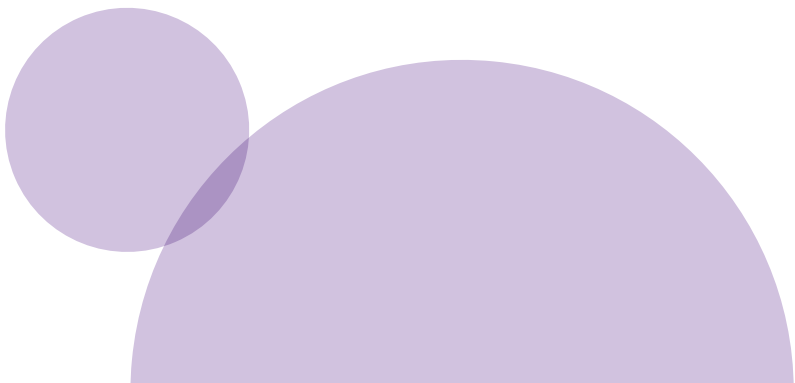
Neither is there any use in assuming that what it is happening is merely an interruption, that before long we can pick up where we left off. Too many holes have opened up in the economy for that to be possible. We will be doing some things differently for some time, and in some respects forever more. Borders will not be opening soon, and when they do the world will not be the same.

The work to be done as realistic optimists is to ask how to get things moving and productive and functional, albeit on terms that may be different from the ones that prevailed.

There will be questions about diversification. This is not a new question for the New Zealand economy but the importance of it is in sharpest focus now. How can we grow in other sectors? What alternatives can we find? We have a rich history of innovation that arose out of isolation. How can we draw on that?

There will be questions about pressing problems. What can be done for the tens of thousands of people already displaced? What are the possibilities of ideas that have been waiting for some time to get attention like a universal basic income or a green new deal?

There will be questions about the role of government, as a borrower and investor and a spender playing a much greater role in the shaping of the economy, weighted with the expectation for generating jobs and economic activity. The policy changes that have already happened in response to the virus have come very quickly. In just a few days, we saw nationwide free to air teaching, exercise programmes and the entire nation tuning in to government news updates amounting, as one observer had it, to a remaking of the NZBC. There is arguably latitude for experiment and innovation on a small scale. Might that be profitably experimented with in a similar way in other fields?



There will be questions about state investment in infrastructure, there will be questions about nationalisation.

There might usefully be questions about the ramifications of modern monetary theory now in favour. Could it put us, as one critic would have it, “on a road to the monetisation of debt and central bank financing of state budgets which historically ends in tears”?

There will also be questions about tracking and the surveillance state.

There are a great many questions to be asked and answered, and the more we ask them, the more we work our way towards a measured, constructive set of ideas and strategies to reset our economy.

There is much to be worried about, but there is much more that can be weighed, analysed and put into action. The resources in this hub are intended to help us take action with realistic optimism.

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