

COVID Response: Policy Perspectives

Governments must act rapidly to address the massive and potentially extended slowdown triggered by the COVID Crisis. As we fight fires, calm heads are needed. These events have already triggered an acceleration of the Robot Revolution – ie the automation of many more jobs across numerous industries.

Policy responses must therefore address immediate societal needs as well as the longer-term imperative to adapt social and physical infrastructure to help create stronger and more resilient economies. This requires imagination and careful thinking.



**By Nigel Lake, Founder
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Four important principles should underpin policy thinking

Dramatic measures must be implemented at very short notice. The most effective options will direct support to those most in need rather than those who have over-leveraged



Ensure support focuses on the lower end of society



Compensate government for risks it takes on



Protect the nation's long-term interests



Use investment to drive long term benefits



Flood-up economics: Ensure support focuses on the lower end of society

- Deliver material support to those for whom it will make the most immediate difference
- Money will mostly be spent rapidly in local communities, thus also benefiting SMEs
- Providing improved certainty of cash flow will reduce fear and its knock-on effects



A fair deal for business: Compensate government for risks it takes on

- Many businesses facing stress have recently returned substantial capital to shareholders
- More cautiously financed businesses should not be competitively penalised
- Government should receive appropriate returns for all support given



Defend our assets: Protect the nation's long-term interests

- Many companies' valuations have plummeted – some to irrationally low levels
- Opportunistic investors will likely seek to make acquisitions on highly favourable terms
- For the near term, governments should set more stringent foreign investment controls



Rebuild wisely: Use investment to drive long term benefits

- Leaving aside the COVID crisis, developed economies face major long-term challenges
- These include climate change, the Robot Revolution and infrastructure replacement
- The right short-term policy responses can help to rebuild stronger economies long term

Well-known policy tools can be repurposed to address the crisis

Whilst the best solutions will be national, some of the measures we outline below can be implemented by states, cities or local communities



Act rapidly



Provide targeted support



Think long term too



UBI: Systemic support to mitigate near-term impact and boost confidence

- Implement an emergency “universal basic income” paid to all permanent residents
- Set at c.\$500 to \$1,000 per adult per month for an initial three-month period
- No means testing, with first payments delivered immediately
- Provides a widespread boost to near term incomes and confidence



Liability management: Kick all financial liabilities one year down the road

- Defer all capital payments and extend the term of all financial liabilities by one year
- Require all commercial and residential rents to be reduced by 60% for one year
- Provide liquidity support to the financial system to help manage maturity ladders
- Funding cost of deferring capital payments is close to zero for the banking system
- Reduces cash flow pressure materially for consumers and other organisations



Protect the core: Support national infrastructure and leader companies

- Provide equity support to critical national infrastructure businesses, including utilities
- Effectively a reverse PPP - could include a ‘Golden Share’ to protect taxpayers’ interests
- Investment provided on arms’ length economic terms – no free ride for private capital
- Leader companies are critical to creating new jobs during the recovery and afterwards
- Support quality companies via loan guarantees until primary equity capital markets re-open
- Do everything that is possible to ensure these companies survive
- This will require temporary legislative changes to shareholder protections
- Change foreign investment regimes to protect local ownership in current circumstances



Support other impacted companies to be ready to operate again when possible

- Many other businesses will require some form of equity investment to survive
- Encourage bank support and flexibility but recognise commercial requirements
- Provide temporary protections to directors who try to assist companies to survive
- Provide flexibility to offer equity for salary sacrifice (not taxed until realised)
- Modify temporarily those rules that limit companies seeking urgently needed capital
- Provide these companies with guaranteed funding until capital markets re-open
- Again, capital provided on arms’ length economic terms – no free ride for private capital
- These measures will help capital to flow in a timely manner to good quality companies



Think long term: Implement measures that support long-term social prosperity

- Efficient and effective infrastructure will be important to growth following the crisis
- Actively seek opportunities to invest to support long-term economic development
- Optimise long-term outcomes to protect valuable jobs, manufacturing and exports

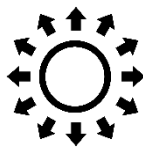
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