From Small Government to Not Enough Government

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Not too long ago, it was conventional wisdom to champion "as little state intervention as possible" so that the market could truly flourish. The Covid pandemic has upended all that. The government now has its plate very full – rescue the economy, protect jobs and cushion households from inflationary pressures. In short, widespread, intense intervention is necessary.

What a difference two years have made! The rallying cry of too much state intervention has been completely drowned out with allegations that many a government has not acted fast nor effectively enough. The challenges continue to overwhelm economies, from combating inflation to arresting Covid infection; untangling supply chains; ensuring food security, and bailing out critical state enterprises. The list is an unending one.

And we have not even begun looking at the pre-pandemic challenges of climate change, energy transition, the associated decarbonisation efforts, the adequacy of healthcare services and the build up of essential infrastructure to spur economic growth.

In the recent past, the public-private divide was clearly defined as "small government", a short form for minimal or no state intervention in the economy as far as possible. This complete reversal of public expectations reflects a distinct shift in opinion as to where the divide should now lie: squarely in the state intervention territory.

Were it so simple for the government to dynamically calibrate its degree of market participation. It is, therefore, not surprising that many governments have been found wanting by their people for being slow and unimaginative in problem-solving.

To be fair, the pandemic is nothing like what countries have ever encountered in recent memory. Even if governments could skilfully calibrate their degree of intervention, there would still be the nagging question of the ready availability of financial resources and human and physical capacity to confront the issues, especially concerning the pandemic.

Insurmountable pandemic woes

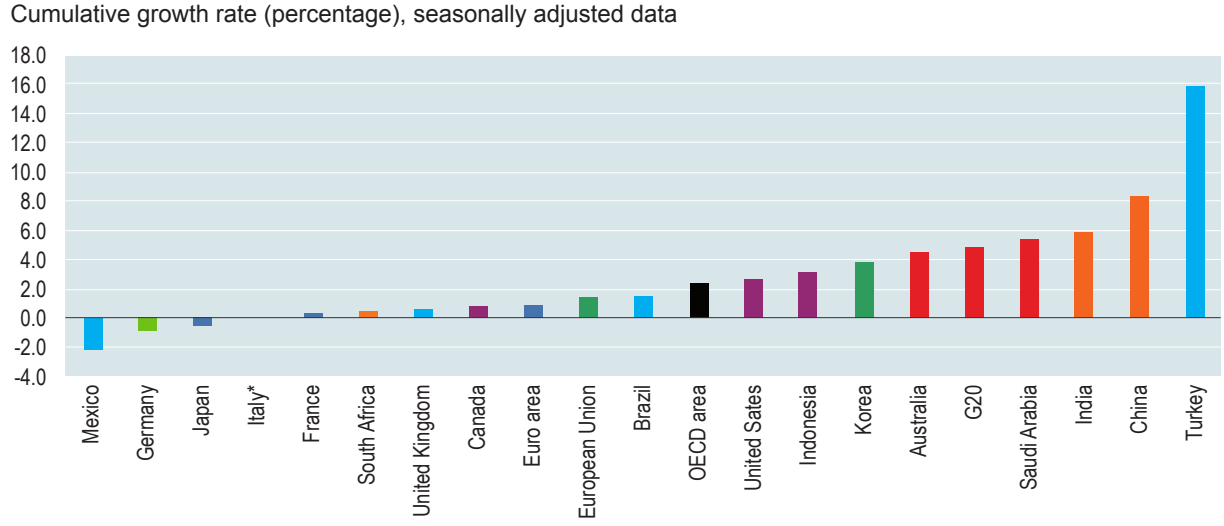
State intervention relating to the Covid-19 pandemic runs the entire gamut of ensuring the efficient detection of the virus, providing enough isolation hospitalisation facilities which are properly staffed, dispensing effective medical treatment, securing efficacious vaccination to reduce the severity of effects, and reducing infection through reliable enforcement of behaviours and protocols. Many governments have had to acquire control of private medical facilities and services, triggering public healthcare legislation where necessary.

There was also no doubt in people's minds that only the government could intervene in procuring drugs or vaccines at short notice and on such a scale. Likewise, the acquisition of the necessary personal protection equipment, down to seemingly mundane items like masks and test kits, simply became the state's responsibility.

Overall, the price tag is an inordinately huge one, and still counting. Many governments are confronting the pandemic with paltry public finances, to begin with. The many programmes to shore up the economy to ward off a recession have effectively dented many countries fiscally. The US government alone has already spent US$5 trillion (S$6.8 trillion), more than a fifth of its gross domestic product, on households, businesses, healthcare and supporting state and local government, in the hope of the economy recovering more quickly.

Shoring up the economy and employment

The bulk of fiscal stimuli has been directed at supporting businesses of all sizes, both big and small, to ultimately save jobs. Owing to the waves of infection from the Covid-19 virus and successive mutation, governments have had to grapple with the severe economic impact of lockdowns against



There is a lag between the onset of Covid-19 and economic impact on GDP. The economic effects are only visible (even then not in full) from H2 2021, partly because of government action such as stimulus packages, which run out over time.

Source: OECD

overwhelming shortages of medical facilities. The resultant blow to almost every economy has shifted the responsibility to resuscitate the economy to the government. See chart, "Gross Domestic Production (Q4 2019 to Q1 2022)" for GDP trends.

Geopolitical challenges

Even as the markets were furiously trying to re-work supply chains around the US-China trade war, the pandemic brought disruption to logistics at airports and seaports, and, further up the value chain, to manufacturing output.

Separately, the invasion of Ukraine by Russia has compounded the pandemic effects by truncating the availability of energy and food supplies. As a result, energy prices spiked, and food shortages pushed up prices. Inflation has permeated every fabric of livelihood so much so that many central banks have hiked interest rates. Elsewhere, the government has had to step in to secure the supply of essential foodstuffs like fresh poultry.

Amidst all these state interventions, there are also bailouts of mega entities, especially of providers of essential services. Take, for example, the airlines, most of which are state-owned. Many went into the pandemic in not great shape, to begin with. The scale of rescue efforts is mind-boggling, even for hitherto healthy players. The US has expended US$54 billion (S$73 billion) and the EU, €40 billion (S$57 billion), but many airlines are not out of the woods yet.

The list of state enterprises to be bailed out is a never-ending one in some markets. Sometimes, governments have to confront contagion effects, too, such as those afflicting property developers in China, regardless of ownership.

Bailouts are not entirely new. During exceptional downturns, governments are often prevailed upon to bail out institutions that are simply too big to fail. The 2008-2009 global recession is replete with examples of big-ticket bailouts of financial institutions. Timing market re-entry is

never a luxury in such cases. Equally, it should be added that making a non-disruptive exit down the road is similarly fraught with challenges.

Nowhere is the need for state intervention so evident and crucial than during the pandemic years. Businesses and society have looked to governments to take action. It is easy to understate the tremendous challenge of balancing the availability of resources with economic functioning amidst the infection spread.

Pre-pandemic challenges remain

The economic and health crises arising from the pandemic should not distract anyone from the challenges that are already pre-existing. See box, "Gross Domestic Production (Q4 2019 to Q1 2022)". The dangers of climate change, currently manifested in heatwaves and massive floods, are a grim reminder. The climate change agenda is a national, long-term commitment, and it belongs squarely to the government of the day. Be it the energy transition plan or decarbonisation measures, they require specific long-term strategies driven by the state, for businesses to act on and comply with.

These days, political parties live and die by the ballot box. Many may not last more than a term, explaining the oft-seen eagerness by politicians to pander to short-term populist demands by the electorate. Emblematic of the pace of technological advances, gratification has to be immediate. This has led some political leaders to abandon long-established business principles.

Infrastructure continues to lag

Apart from sustainability, another great casualty is the investment in infrastructure, which is so critical to economic growth. Whereas one could have easily rattled off the economic infrastructure that are essential – airports, seaports, highways, industrial parks – the less obvious social infrastructure like schools, housing, and healthcare facilities are equally important.

The reality is that the infrastructure price tag tends to explode with time and will be compounded by the current inflationary pressures. Look at the size of the US Infrastructure Bill, standing at US$1 trillion for a whole host of works: repair and build new roads, bridges, trains, broadband access and clean drinking water. Essentially an attempt to compensate for the years of under-investment and lack of maintenance, there are still concerns that this is far from transformative.

Healthcare plans, particularly for an ageing but increasingly affluent population in many countries like Singapore, remain a critical but largely under-addressed part of the social infrastructure. Many healthcare systems continue to be severely tested by the current pandemic, leaving many medical professionals burnt out. There is very little bandwidth to plan for the future.

Role of government in business

What is the ideal level of state intervention in the economy? Should the government intervene at all? And if so, as the pandemic has clearly shown how critical the hand of the government is, should there be a timeline to reduce this degree of intervention?

Let's go back to first principles. The participation of the state in the economy is often justified by one of the following reasons:

1. To serve as a fiscal manager and promoter.
2. To safeguard national interests.
3. To pursue strategic goals.

See box, "Role of State in the Economy".

Role of State in the Economy

Fiscal manager, regulator and promoter

In a developing economy, the government usually winds up playing multiple roles. This includes taking the fiscal responsibility of raising revenues – and spending within its means (a rarity these days especially given the pandemic). Since a portion of public spending is usually incurred by consuming domestically-sourced goods and services, the government may be an important customer. As such, the fate of suppliers would depend upon the government's fiscal well-being and public policy intent.

Another more influential role relates to regulating strategic industries. As a regulator, the government can wield substantial influence over how businesses should operate within a particular sector, the amount of competition desired, and the kind of ownership to be allowed.

Depending on the stage of growth, a government can be expected to promote promising sectors. As a promoter, it would try creating an ecosystem of tax incentives, grants or other pro-investment measures such as access to cheap land or plentiful skilled labour.

Protector of national interests

It is easy enough to justify the government's involvement in business when safeguarding strategic interests or undertaking capital-intensive, long-term development. However, the prerequisites for actual participation should be defined clearly. Timing is, of course, everything. It does not merely refer to when or which part of the economic cycle but to the persistence of certain pre-existing conditions.

There are three compelling sets of circumstances under which a government can justifiably participate in a more concerted fashion, if not purposefully.

First, the most prevalent condition in many economies, especially emerging ones, is market failure, where government participation can help achieve a greater common good.

Provider of capital

A government can also perform a vastly different role as that of a provider of capital. In this role, the government can be a shareholder, and, where dominant, as in a state-owned enterprise. This in itself has wide implications for economic development, competition and accountability.

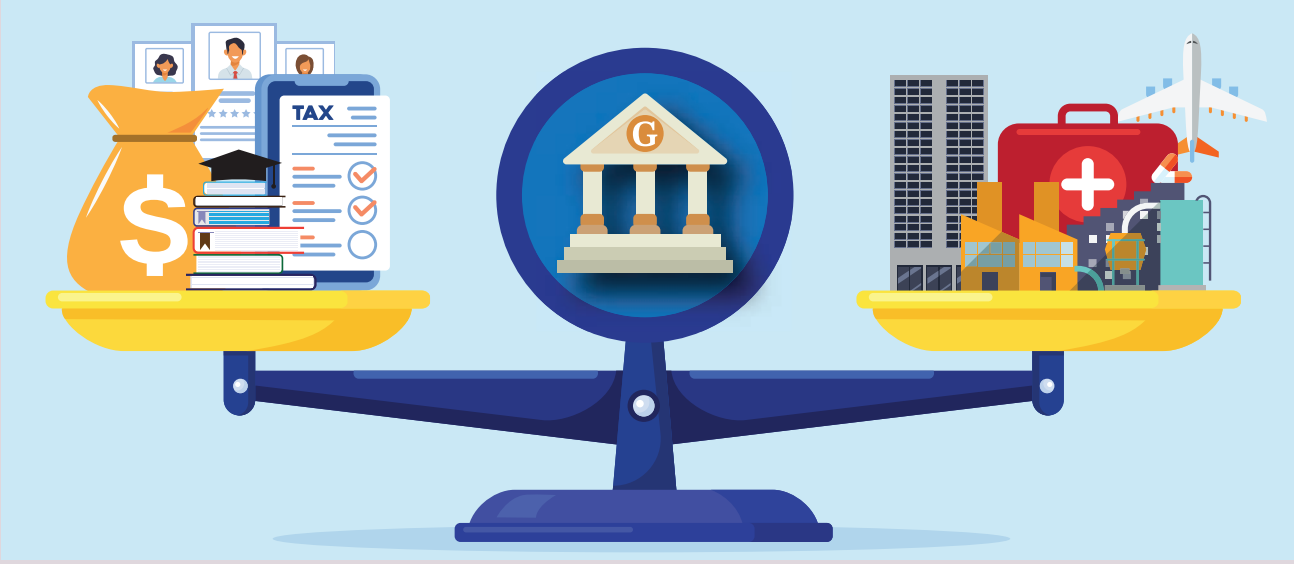
Where there is market failure and a need for seed capital, many governments would take on the role of providing capital. Many sovereign funds would fall under this category, and their role in economic development should not be understated.

Justifications can always be found for the government to be involved in business, especially in the provision of essential goods and services. Equally so, there is no shortage of reasons for the government to exit the market or reduce its influence over business, including the privatisation of interests, not crowding out the private sector, pursuit of better performance or poor fiscal health.

Public pressure frequently is the manifestation of a politicised set of circumstances, such as the undesirable market dominance of a government-backed player or prolonged under-performance of state-run businesses. However, exiting the market by the government is never as straightforward, contrary to public expectations. Deciding if and when government should participate in business, and if so, when it should make a meaningful exit, is key to achieving sustainable growth.

A close second is the development of new capabilities as a growth imperative. In charting the economic future, governments carry the burden of identifying suitable industries, kick-starting and nurturing them after that. Topping the list of priorities would be essential infrastructures like airports, seaports and roads.

The third rationale is when national or sectoral economic transformation is warranted. These are not mutually exclusive circumstances, and frequently, there is an absence of coincident market economics. For example, developing a multi-faceted sports complex with myriad objectives, which may not align with normal commercial expectations. This was the Singapore government's experience with its public-private-partnership project at the SportsHub.



Regardless of how national leaders are chosen, they are expected to fulfil a fairly similar set of roles and responsibilities – from overseeing the allocation of limited national resources to nurturing key industries for economic progress and employment, and providing a wide range of affordable public goods like education, healthcare, transport and housing. These are generally regarded as components supporting national interests and will continue to dominate the political agenda of many governments.

Each of the ascribed roles involves striking a delicate balance, especially when allocating critical resources, such as real estate, capital and the national budget, across the different stakeholders. Often, it entails answering the fundamental question of wealth distribution – essentially, how much the rich should be taxed to enable the government to help the poor.

This balance is not static and, over time, is shaped by affluence and shifts in public expectations. Every policy decision taken by the government has an impact on the underlying industry, on both business economics and competition dynamics.

Governments should ideally conceive and execute strategic initiatives for the longer term. However, with populism, programmes tend to be tailored to shorter-term goals. Sustainable development necessitates the government ensuring access to basic amenities such as healthcare, education and employment over a long period of time, something that most private sector players cannot provide. Sustainable development also entails the adoption of a green agenda by the government with commercially intangible goals.

Beyond the domestic purview, most governments must also assume responsibility for enlarging the economic space that homegrown enterprises can play in. Opening pathways and providing capital are only two of the more critical priorities. It does not help that there is heightened resistance to what is regarded as geopolitical influence.

Importance of role separation discipline

Each of these roles has a different impact on business. It is imperative that government not only articulates the different roles clearly but also performs each role with utmost discipline. There are occasionally scenarios where the public will flatly

refuse to accept that the roles are different and insist on government action regardless. These tend to coincide with periods of economic difficulty.

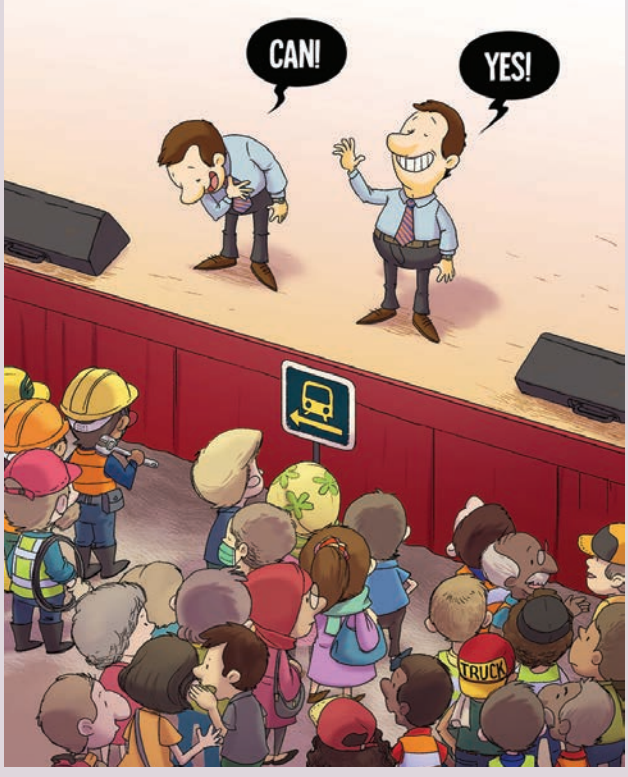
Take, for example, how the public may demand that electricity tariffs are summarily reduced or capped in view of escalating energy input costs, simply because it is a state enterprise supplier. This same public may ironically expect such government investments to provide an acceptable return on another occasion. Something has to give, and the government's role as a provider of capital should not be commingled with its fight against inflation on the public's behalf.

It is difficult to overstate how populism is commonplace these days, giving perfect meaning to the old adage "make hay while the sun shines". In practice, it means extending the already long arm of the government into every conceivable sphere of influence, be it in the government machinery or the business and social communities at large. It means scoring quick wins so that re-election is assured.

In attempting to meet more immediate preferences, some governments will consciously conflate their multiple roles as regulator and capital provider. Often, social priorities are ranked above all things else. Providing employment for the masses, especially within the lower income segments, is a burden that many governments carry, to the detriment of the state enterprises that are often used as the policy execution means, like compelling railway operators to solve the unemployment challenge.

Too much or not enough government

There are enough economic downturns to inform us that state intervention is a necessity. The downturns often need to be widely



pervasive, but no matter how deep the recession is, government intervention is expected, almost regardless of the amount of resources needed.

A government that steps up to the challenge is to be applauded, however short-sighted the population may seem. Some of the fixes may be temporary in nature, like many economic stimulus packages to protect jobs, simply because it is not sustainable to do so for a prolonged period. Others require longer-term "repair and resuscitate" strategies, partnering the private sector whenever meaningful. Unfortunately, this does not square with the political reality in many parts of the world. Despite this, many leaders should still endeavour to formulate longer-term economic recovery plans. ■

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