A policy response to COVID 19: An Australian perspective

Vicki Stylianou

Institute of Public Accountants, Australia

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This article presents an overview of the Australian economic policy response directed towards minimising the economic fallout that was expected to flow from the public health measures introduced to address the Coronavirus (COVID-19) pandemic.

Given their importance to economic activity, many of the economic policy responses targeted small businesses. These businesses, which numbering around 2 million, account for 35% of Australian GDP, employ 44% of Australian workers and are the largest employer in 8 of the nation's biggest industries. These businesses also employ more apprentices than any other sector.[1]

The speed and scale of the public policy responses to the COVID-19 crisis in Australia has been breathtaking, in terms of the health, social and economic dimensions. Like many countries, initial policies were aimed at avoiding a 'worse case' scenario and introduced social distancing restrictions, the closing of national and state borders and the closing of 'non-essential' businesses. These policies temporarily restricted the personal freedoms of Australians to reduce the potential for community spreading of the virus and, with it, the infection rate. Overall, these measures were relatively effective in controlling the public health impacts of the pandemic, and avoided the worst case scenarios initially envisaged. Two key questions are now how effective will the economic response be; and what will the implications be for the Australian economy going forward?

Economic stimulus measures introduced

The Australian Government responded to the pandemic by providing A$259 billion in fiscal and balance sheet support to business (equivalent to 13.3% of annual GDP). The direct

[1] *Source*: The Australian Small Business and Family Enterprise Ombudsman and the Australian Bureau of Statistics.

fiscal measures introduced were equivalent to 6.9% of GDP. Among other things, these responses provided support to workers, households and businesses and were spread out across three stimulus packages, with the first being announced on 12 March 2020.

Reflecting its status as a federation, all State and Territory Governments also released their own economic stimulus packages; together with the Reserve Bank of Australia, which is Australia's central bank, which introduced a funding facility (equivalent to 2% of GDP) aimed at helping banks lend to business, with a particular emphasis on small businesses.

The stimulus measures included, cash payments to welfare recipients, an extensive wage subsidy package, increased depreciation and write-off thresholds, financial assistance for trainees and apprentices, cash boost payments to small businesses, early access to superannuation (pension fund), a government guarantee of 50% for business loans for small businesses and SMEs, rent relief with a six month hold on evictions, relief from insolvency laws, childcare subsidies, deferring tax liabilities and lodgements, grants and concessional loans for small businesses affected by the recent bushfires in addition to the COVID-19 relief and removing numerous regulatory barriers. State and Territory Governments waived fees and charges, employed extra people, reduced or waived payroll tax, made cash payments to households and businesses, provided industry support, helped to reduce energy costs, brought forward spending on infrastructure and provided rent relief. The Australian Government established a 'National Cabinet' to enable enhanced coordination and cooperation between the Federal, State and Territory Governments and a National COVID-19 Coordination Commission. This has resulted in a high degree of coordination and consistency across Australia, particularly in terms of the public health responses.

A central element of the economic response to the crisis involved the implementation of a ‘wage subsidy scheme’ to maintain the link between employers and employees and to minimise unemployment. While possessing many similarities to schemes introduced in other countries, the idiosyncratic nature of the Australian scheme means that its economic effects will differ from those in other countries.

Wage subsidy schemes: a comparison

The United Kingdom, New Zealand, Canada, the United States, Australia and Denmark, among other countries, have all introduced wage subsidy schemes. The policy rationale is the same for all countries — to put the economy into ‘hibernation’ or to ‘freeze’ the labour market. The idea is to keep workers connected to workplaces, stop businesses from closing permanently and minimise any lasting disruption to the economy. The hope is that the economy will rebound swiftly once restrictions are lifted. A lot depends on the length of the hibernation or freeze. All schemes are intended to be temporary, though for differing periods of time and many have been extended. Most but not all have eligibility criteria, with most making proportional payments and some require employers to have attempted to mitigate their losses.

Australia**:** The *JobKeeper Scheme* seeks to be ‘egalitarian’ by offering a flat payment of A$1,500 per fortnight per employee, which means that some people are being paid more under the scheme than they were prior to the scheme. To be eligible, employers must have suffered a 30% reduction in revenue compared to a comparable period last year, or 50% for businesses with turnover over A$1bn. Once eligible, participants remain in the scheme for the full six months.

United Kingdom**:** The *Coronavirus Job Retention Scheme* has changed to allow claims for employees that have been brought back to work in addition to those who have been stood down (ie furloughed); and covers 80% of their usual wages (up to 2,500 pounds per month). The scheme was initially introduced for a period of 3 months (although it may be extended). It is open to any business which cannot maintain its workforce because of COVID-19.

New Zealand**:** The *Wage Subsidy Scheme* entails different rates for part-time and full-time employees up to an employee's usual wage. The scheme is open to sole traders and the self-employed and is paid as a lump sum covering 12 weeks. Initially, eligible employers had to experience at least a 30% decline in revenue compared to the previous year for any month between January and June; and under the Wage Subsidy Extension, the revenue loss has to be at least 40% in a 30-day period in the 40 days before the application.

Canada**:** The *Emergency Wage Subsidy* covers 75% of an employee's wages up to CAN$847 per week. The scheme is open to employers of all sizes and across all sectors who have suffered a drop in gross revenues of at least 15% in March and 30% in April and May.

United States**:** The *Paycheck Protection Program* authorises forgivable loans to become federal grants if small business owners meet certain conditions, including spending 60% (recently changed from 75%) of the loan on payroll costs. The other 40% can be spent on mortgage interest, rent and utility costs. It has recently been extended.

Debt — how much is too much?

Australia's position heading into this crisis was stronger than many, with both the International Monetary Fund (IMF) and the OECD forecasting that Australia would grow faster than comparable economies, including the United Kingdom, Canada, Japan, Germany and France. The IMF and OECD indicate that Australia is one of the advanced economies best placed to provide fiscal support without endangering debt sustainability.

Whilst our new debt level may be 'sustainable', it still needs to be repaid. However, it does not necessarily mean increased taxes or some kind of austerity program. According to some economists, Australia could take its time in repaying the debt, which would still be relatively low at a forecast 26% of GDP (according to Treasury), but possibly up to 50% (according to Deloitte and others). This is substantially lower than the latest OECD average of 110% of GDP. If we overcome the national obsession with surpluses, the country could afford the debt for a while longer whilst investing in renewed productive capacity, as was the case after World War II, where debt levels soared to 120% of GDP. Many economists contend that a similar kind of boost is needed to revive the economy as it emerges from hibernation, even if this means more stimulus and more debt.

Policy rationale — the knowns and unknowns

The lesson from the Global Financial Crisis of 2008-09 was to ‘go hard, go early and go households’. Accordingly, in the current crisis, the Australian Government went ‘hard’, ‘early’ and went to business, individuals and households. Some commentators have questioned whether, given the relatively restrained health crisis experienced in Australia, the economic pain endured is proportional — that is, has Australia gone too ‘hard’ with our economic response? However, given the impossible task of accurately forecasting the health crisis, it can be argued that Australia’s cautious approach to both the health and economic responses was aligned with community expectations.

‘Going hard’ has meant large-scale and integrated measures across all policy areas on the demand and supply sides, which have been necessary in order to make strong and sustained impacts. For instance, without the wage subsidy scheme, unemployment could have been far worse. It is estimated that wage subsidies will reduce peak unemployment, possibly down to 9% from 17% (Westpac Bank); or 8% from 12% (Deloitte); or 10% (Treasury). Prior to this crisis, the unemployment rate was around 5.2%.

The International Labour Organization (ILO) says that 2.7 billion workers (81%) globally have been impacted by COVID-19, with 1.25 billion workers (38%) globally facing a severe impact or displacement (unemployment). Even though Australia is classified as a ‘rich country’, it is still critical to get the policy settings right, both during and after the pandemic.

Policy responses — a useful framework

The recovery will rely on an integrated policy framework, such as the one outlined below from the ILO. Many of the Australian Government stimulus measures fit within this framework.

The ILO refers to the four pillars of policy responses to COVID-19:

1. Stimulating the economy and employment, through fiscal and monetary policy, lending financial support to specific sectors, including the health sector.
2. Supporting enterprises, jobs and incomes, including employment and retention measures (wage subsidies), financial and tax relief for businesses, extending social protections for all.
3. Protecting workers in the workplace, preventing discrimination, adapting work arrangements (eg enabling teleworking), providing health access, expanding paid leave.
4. Relying on social dialogue for solutions, including building trust and confidence, strengthening capacity and resilience of workers’ and employers’ organisations, strengthening the capacity of governments, strengthening labour relations and processes.

Academic research – what does it tell us about policy design

There have been numerous studies and reports over the years on the effectiveness of Active Labour Market Policies (including wage subsidies). Indicative, overall, of the findings is *What Works for Active Labor Market Policies?* by Eduardo Levy Yeyati, Martín Montané and Luca Sartorio, Center for International Development, Harvard University, July 2019. Their findings included:

- programs are more likely to yield positive results when GDP growth is higher and unemployment lower;
- programs aimed at building human capital, such as vocational training, independent worker assistance and wage subsidies, show significant positive impact; and
- program length, monetary incentives, individualized follow up and activity targeting are all key features in determining the effectiveness of the interventions.

Other studies have found that generous and long-lasting hiring subsidies can have more substantial positive effects in the long-term. By contrast, short-term hiring programs and subsidies are only effective if they comprise a substantial training element.

These might be useful indicators, considerations and features when designing policies to aid our recovery from this crisis and post-COVID-19.

What can Government do to ensure small business survival and prosperity?

There are numerous issues to address to ensure the ongoing survival and future prosperity of small businesses. Some of these rely on the overall health of the broader domestic and global economies. In the Australian context, there are three critical areas requiring a policy revision by Government. These include: tax reform, supply chains and digitization.

Tax reform — the road to recovery and beyond?

While we were in a relatively good position fiscally compared to many OECD countries, with relatively low government debt and a federal budget almost back in surplus, the Australian tax system is overly-reliant on personal and company tax. Approximately 60% of all federal revenue comes from personal and company income taxes, nearly twice the OECD average.

Australia’s experience from the Global Financial Crisis suggests that it will take a long time for corporate taxes to recover from the COVID-19 downturn as company losses are carried forward. This puts additional pressure on personal income taxes to carry the load. However, long term weakness in wages growth, combined with COVID-19 related unemployment, suggests that personal income taxes may not be able to adequately carry the load.

Consumption tax (known as the Goods and Services Tax or GST) will not be of much use in making up the shortfall since it is payable on only about 47% of consumption.

The pandemic has now exposed an ill-equipped tax system to support the recovery process. Efficient taxes that support growth are needed and previous tax reviews can point the way for genuine and robust reform.

Supply chains —the need to diversify

The new normal will also depend on the reaction to globalisation and integrated supply chains. For Australia, which has the most concentrated trade profile in the world, this crisis has glaringly exposed the vulnerabilities of our supply chains. There is now widespread speculation about re-industrialisation, becoming more self-sufficient in crucial medical supplies, de-risking, building resilience, diversifying and focusing on national values.

The Australian Government needs to reassess its policies on industry, innovation, digitisation, trade and investment, in light of the pandemic. Whilst the stimulus measures have assisted during the crisis, there is an imperative to take the opportunity to ‘reset’ or ‘reboot’ policies and programs in these critical areas. However, genuine reform takes political will.

The digital economy — capturing the potential

Australia has low penetration and adoption rates of e-commerce compared to comparable economies (just over half that of the US), creating huge potential for the future. Small business and SMEs can be at the forefront of this evolving digitally enabled economy, with the pandemic exposing the gaps and accelerating the change. The challenge is to ensure the momentum continues past the pandemic.

According to McKinsey, businesses need to renew and refresh their engagement with customers by offering an excellent digital experience, safe and contactless connection and dynamic customer insights through the timely and effective use of data.

Conclusion

Australia's policy responses to the health, social and economic challenges caused by the COVID-19 pandemic have been arguably effective in constraining the infection rate, securing a reasonable level of social cohesion, limiting the impact on unemployment, generally keeping businesses in a state of hibernation and mapping a clear road to recovery. While history will judge how genuinely effective these policies have been, the crisis has exposed many vulnerabilities and flaws in the Australian economy. Three of these relate to the need for serious tax reform, global supply chains in need of urgent diversification and a lagging and uncompetitive digital economy. While there are many uncertainties and pot holes ahead, the crisis presents a real opportunity for Australia (and other countries) to reshape the world we want to live in.