A Wage Subsidy for Working People, to Support Jobs and Livelihoods

The Storm Ahead:

Public health orders and plunging consumer confidence are causing a shut-down in real time of large parts of Australia's economy. The impact on employment, incomes, and production will be catastrophic: faster and deeper than any recession in Australian history. Traditional income support programs will be unable to cope (as confirmed by chaotic and heartbreaking scenes at Centrelink offices around Australia this week). Yes, we must provide generous support for those who lose work and income – and the measures announced 22 March are a positive step (although important problems, including delays in payment, need to be fixed). But government must also act forcefully to save Australian jobs. That will reduce the strain on the safety net. It will stabilise confidence for Australian households. And it will make it possible for businesses to quickly restart production once the immediate COVID-19 health restrictions are lifted.

Five Hard-Hit Industries			
	Revenues ($bil)	Employment (000)	Wages ($bil)
Retail	$433	1258	$55
Hospitality	$108	927	$32
Transport	$179	650	$45
Personal Services	$38	277	$14
Arts & Recreation	$35	255	$9
5 Sectors	$793	3367	$155
Share Aust. Total	10%[1]	26%	18%

Source: Centre for Future Work, from ABS data.
[1] Share national GDP.

The scale of the coming jobs crisis can be gleaned by considering the size and importance of just the sectors most affected by the initial health-ordered shutdowns of business. Just five of those industries are listed in the table: together they account for 3.3 million jobs (26% of total employment), 18% of total wage and salary income ($155 billion/yr), and 10% of national GDP.

The severe downturn already occurring in those sectors is sufficient to cause a major recession (destroying 1-2 million jobs in coming weeks). But there will be spill-over consequences for all other sectors, too.

For example, as retail sales shrink, then wholesale demand collapses – and manufacturing orders dry up. Evidence from other locked-down countries (including China and Italy) indicates revenue and employment in the hardest-hit sectors will fall 50-80%. Government must pull out all the stops to prevent this immediate crisis from becoming a long-term depression.

Poor Design, Inadequate Funding:

Prime Minister Morrison announced several measures 22 March to support households and businesses through the crisis. Some of those measures are positive and welcome. But his strategy to support continued employment in hard-hit sectors is inadequate, and contains many design flaws that will undermine its effectiveness. We need a much stronger effort to save Australian jobs in coming weeks: as with health care, it's far easier to prevent a disease, than it is to cure it.

The government's "Boosting Cash Flow for Employers" plan will rebate up to $100,000 to eligible small and medium enterprises. The plan allows supported businesses to simply keep the income tax they deducted from their workers' pay – so ironically, it is actually workers who immediately pay the subsidy (in the form of diverted tax payments). Any business with turnover under $50 million can access the scheme. But it will have limited, and in some cases perverse, effects:

Problems with the "Boosting Cash Flow for Employers" Scheme	
The rate of subsidy for wages is too small (around 20% on average, near-zero for low-wage workers).	No requirement that employers retain workers; they can be made redundant after benefit paid.
The plan supports higher-wage jobs (which pay higher tax) more strongly than lower-wage jobs.	Plan applies to all small/medium employers (whether needed or not), but not big employers.

To give just one example of the perverse effects of this plan, a café employing 20 low-wage workers (each earning under the $20,000 tax threshold) would receive no effective benefit from this scheme. But a financial consultancy, with 2 professionals earning $250,000 each, would get the full $100,000 benefit – even though it can probably continue operating. Even for most firms that qualify, the level of support is inadequate to keep them operating as their revenues dry up.

A Better Approach: A Direct Government Subsidy for Wages

To keep as many Australians employed as possible in the coming terrible months, the Commonwealth should replicate the more powerful, direct wage supports already being implemented in many other countries (see table). There, government is directly paying most of the wage costs for workers at hard-hit firms who would otherwise be made redundant. Government pays 70-90% of wages, for firms whose sales fall dramatically. Covered workers do not work while government pays their wages, but they keep their jobs. Firms apply for funds through the same government departments where they normally file employment records and income/payroll taxes.

We therefore propose an **Australian Coronavirus Wage Subsidy** program, with similar features:

- Government pays 80% of wages for workers who would otherwise be made redundant or stood down.
- Companies which experience a decline of over 25% in revenues would be eligible.

- An option for supporting short-time work (with 80% top-up for lost hours) would be included.
- Firms receive 75% of their expected rebate on application (to immediately boost cash flow).
- Reconciliation of final rebates would occur after 1 July, on basis of full financial statements.
- Program would be retroactive to 1 March, and continue until 30 June (extended if needed).

This program, like those in other countries, would require unprecedented government fiscal resources. But that cost would be offset, at least in part, by funds (over $30 billion) redirected from the existing cash flow scheme, and billions of dollars in income supports that would no longer be required (since many more Australians would keep their jobs). Support could be delivered more quickly (to tens of thousands of firms, rather than millions of unemployed workers), and would be targeted only at employers who experience severe revenue losses.

The ACTU stands ready to engage in constructive dialogue to design and implement this plan.

How Other Countries are Preventing Redundancies	
U.K.	Govt pays 80% of wages for workers otherwise furloughed, up to £2500 ($A5000) / mo.
Denmark	Govt pays 75-90% of wages, up to Kr26,000 ($A6000) /mo.; workers use 5 days leave.
Neth.	Govt pays up to 90% of wages for workers kept on staff, based on amount of lost revenue.
N.Z.	Govt pays up to $NZ 585 ($A575) / wk. for wages, up to 12 weeks; same for self-employed.
Germany	Govt provides loans & grants to business to pay wages, plus top-ups for short-time work.
Ireland	Govt pays up to 70% of wages for firms with 25% or more lost rev., up to €410 (A$750) /wk.
S. Korea	Govt pays 70% of wages for affected workers, up to ₩130,000 ($A185) / day.
Source: Compiled by Centre for Future Work. Most plans apply for 3 months, extended if needed.	