For a Stronger, Balanced and Inclusive Recovery

April 2021

Australian Unions

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Australian Unions

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Summary

In 2020 the crisis of Covid-19 was matched and beaten by Australia's determination to put people first. We listened to the health experts, acted decisively and all played our part – from our frontline health professionals to supermarket assistants, and delivery drivers to those taking on additional caring responsibilities.

Powerful income supports to keep Australians in work and in their homes, such as JobKeeper and the JobSeeker Coronavirus Supplement, were also unprecedented and vital. Unions and others campaigned for and won those policies from a Commonwealth Government that was initially resistant. These programs injected tens of billions of dollars of spending power into the economy and prevented a much deeper recession. But JobKeeper had its flaws: too many workers were left out of the program, and poor oversight allowed many big profitable businesses to rort the system, collecting millions in government aid they didn't need.

We showed that putting people first is not just the best way to keep them safe and healthy, it is also a winning economic formula. Keeping the virus at bay has put Australian in better economic shape than nearly every other country.

But this formula is now under threat. This report outlines several worrying trends that threaten recovery and show that too many Australians are being left behind:

1. The recovery is dominated by very insecure jobs. Almost 60% of net new jobs created since the worst period of the pandemic have been casual jobs. And almost two-thirds have been part time positions. More Australians have now been forced to work two or three jobs just to get by than ever before.
2. Wage growth, already weak throughout the last decade, is now at its lowest levels since record keeping began. The growth in insecure work has made it even harder for workers to press for pay rises. The Federal Government actions (like liberalising casual work, further ratcheting down public sector pay, and even arguing against a healthy raise for minimum wage workers) has made this problem worse.
3. So far the economic recovery has been almost entirely dependent on a post-lockdown rebound in consumer spending. While this is positive, it cannot continue to single-handedly power the whole recovery – especially with wages so weak. And despite many public pronouncements, government and business investment – the other engines of growth – have stalled. Without growth in secure jobs and wages, and investment, this consumer-led recovery will falter.
4. Despite the economic recovery, many workers and industries are still struggling, and have not regained pre-pandemic levels of employment. Workers in relatively insecure jobs (including young workers, women, and workers in casual and part-time positions) experienced disproportionate job losses during the initial stages of the pandemic, and many are still struggling to catch up. Occupations which cannot be performed from home (like community and personal services, technicians and trades, and labourers) are likewise suffering. So too is employment in industries like construction, manufacturing, air transportation, and higher education. Gender inequality continues to be structurally built into our labour marker and pay structures.

None of these trends were inevitable. They were driven by the Coalition Government's belief that recovery will be fostered by granting further profit, subsidies, and power to big business – and the rest of us need only wait for the benefits to trickle down. That hasn't worked in the past, and it isn't working now.

It could be so different. As new calculations in this report show, if workers' share of GDP had remained at 1970s levels, it would have been $200 billion higher in 2019, or an extra $15,000 in additional income, on average, for each and every employed Australian.

The Federal Government's failed vaccine roll-out also poses a huge threat to our recovery, leaving Australia very exposed to further outbreaks and lockdowns, and the ongoing impact of closed borders. These risks must be faced without the protection of JobKeeper and the Coronavirus Supplement which the Government has ended.

In short, the consequences of the pandemic and the recession have been shared very unevenly. Big business profits actually expanded markedly during the crisis – the first time in history that business profits grew during a recession. As a share of total GDP, business profits hit their highest level in recorded history in 2020. Not surprisingly, the stock market also surged: up 32% in the past year. Yet average hourly wages have barely moved: growing just 1.4% in the year – for those still in work – also the lowest in post-war history.

We need an alternative. That's why the ACTU put forward its National Economic Reconstruction Plan before the last federal budget in October 2020. It showed that investments in jobs, wages, services, and physical and human infrastructure could drive stable, inclusive growth, and a more robust recovery from the pandemic. While the Federal Government picked up on some elements of our proposals, its business-focused trickle-down approach failed to deliver the boost to genuine investment, jobs and wages that Australia needs. This report reviews the Government's efforts and restates the case for a more balanced, people-led plan for recovery.

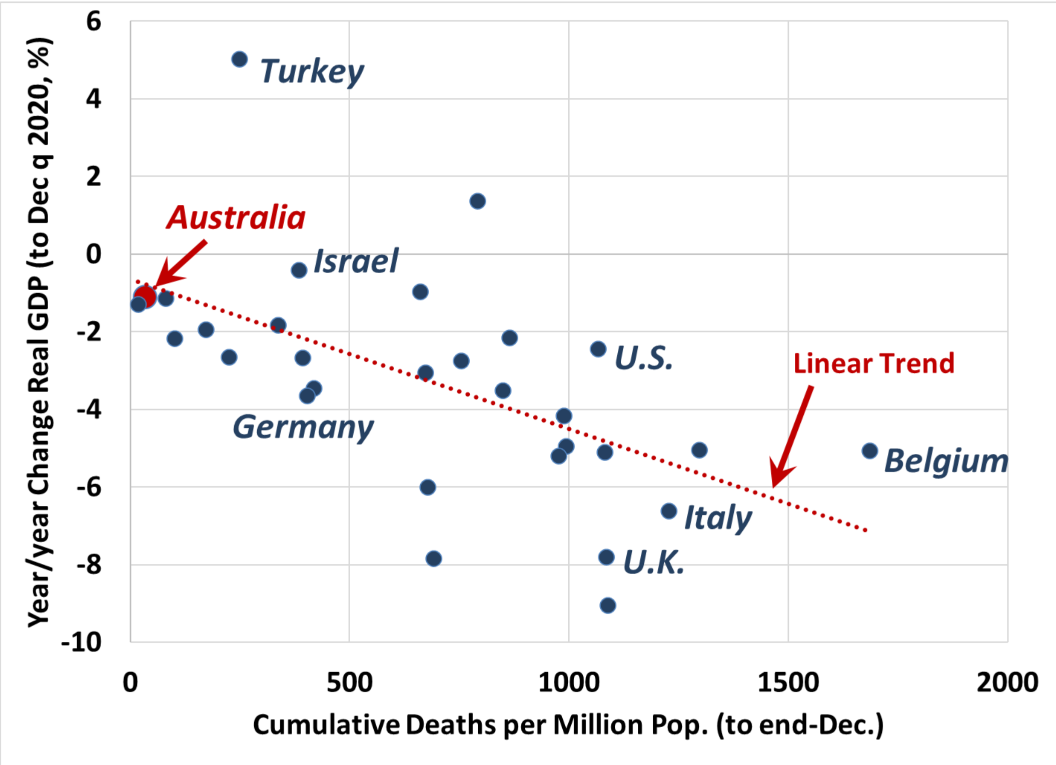
Today, as the Government prepares for its next budget, the Australian union movement is calling for a budget, and a lasting recovery plan, that puts people first, including:

- Reinstate JobKeeper for workers employed by businesses that are still struggling. Tighten up the conditions to prevent rorting.
- Expand vital public services including high quality aged care and early childhood education and care.
- Addressing gender inequality with measures to support women's participation, wage equality, and key services should be central to the government's plan for continuing economic recovery. These must include significant investment in early childhood education and care, an expanded 26 week Paid Parental Leave scheme, 10 days paid family and domestic violence leave and the urgent implementation of the full 55 recommendations in the Respect@Work report.
- Investment in public and community housing to create jobs and make housing more affordable for tens of thousands of Australians.
- Invest actively to build high-value, strategic industries including manufacturing, technology, and services.
- Invest in a rapid and ambitious energy transition to make Australia a renewable energy superpower, generating good jobs and lower energy prices, with comprehensive supports for a fair transition for fossil fuel workers.
- Direct measures to lift wage growth: including advocating for a strong increase in the national minimum wage, lifting public sector wage caps, and making it easier for workers to bargain collectively for better wages and jobs.
- Parallel measures to make jobs more stable and secure: including scrapping recent legislative changes that further liberalise casual employment and ensuring that all workers (regardless of employment status) have access to paid sick leave and pandemic leave.

Introduction: A Hopeful but Fragile Moment

The COVID-19 pandemic has constituted an unprecedented challenge for Australians. Most frightening of course was the threat to our health: hundreds died, thousands were infected, and we all confronted the risk of contagion. With localised outbreaks still occurring, global cases rising again and the shocking problems in the Federal Government's national vaccination program, those health risks are still present. But by international standards, Australia's success in virtually eliminating community transmission of COVID-19 is a historic achievement. Most credit for that success rests with the people of Australia, our public health infrastructure, front-line health workers, and the determination of state governments. They took the necessary steps to stop contagion and protect their residents, despite persistent nay-saying from business lobbyists and the Commonwealth government – who argued falsely that public health protections would somehow damage the economy. We also recognise the sacrifices made by millions of other working people that got us through the worst of the pandemic. Our collective experience makes one thing clear: if you do not protect people, there will be no successful economy.

Figure 1. COVID Deaths and Economic Contraction



Source: Jericho (2021) from OECD data.

Far from damaging Australia's economy, those successful health interventions have positioned Australia for welcome and needed economic recovery. As shown in Figure 1, countries which stopped contagion also, in general, experienced less economic damage during the pandemic. The damage to the economy was not caused by health restrictions, it was caused by the disease. And because we largely defeated the disease, Australia's economy is now enjoying one of the strongest economic recoveries in the world. Powerful injections of government fiscal support helped limit the job loss during the worst of the pandemic: JobKeeper preserved millions of jobs, and the Coronavirus Supplement prevented mass displacement of people from their homes and lives. This experience confirms that government has both the responsibility and the financial capacity to protect health and jobs on a mass scale. But those programs were not perfect: millions were excluded (including most workers in casual jobs, most foreign migrant workers, and workers in key sectors like childcare and higher education), and weak conditions allowed profitable corporations to pocket millions in subsidies they didn't need.

Australia showed that putting people first was key to stopping COVID-19. And putting people first will be just as crucial for rebuilding after COVID-19. Employment and economic activity have rebounded strongly since the worst of the downturn last winter. As of March 2021, total employment regained (and slightly exceeded) its pre-pandemic level. This is positive. But the battle is not over. To the contrary, there are many indications that the economic recovery from COVID-19 is far from complete, and still very fragile. These indications, reviewed in detail below, include:

- **Insecure work.** While total employment has rebounded strongly, the quality of new jobs created since the lockdowns is far from adequate. Workers in insecure jobs bore a very disproportionate share of initial job losses during the lockdowns – losing work many times faster than workers in permanent positions. That placed so much of the burden of the downturn on the backs of those who could least afford it. But now, instead of repairing that damage by making jobs more stable and secure, insecure work is coming back with a vengeance. Almost two-thirds of new jobs created since May are part-time (driving the part-time share of total employment to historic highs), and almost 60% are in casual positions. Almost 800,000 Australians are working multiple jobs. Inadequate hours and chronic job insecurity are badly diluting the benefits of the employment recovery.
- **Wage stagnation.** Wages in Australia were already growing at a record-low pace before the pandemic hit. Then, under the strains of the lockdowns, it fell further: growing just 1.4% in nominal terms, the slowest since the ABS started collecting these statistics. Government actions – capping public sector pay, liberalising casual employment, and most recently opposing a strong minimum wage increase before the Fair Work Commission – have made the wages problem worse. And the dominance of insecure jobs (including casual, part-time, and gig positions) in the post-COVID rebound is also further undermining wage pressures across the labour market.
- **Narrow base of recovery.** Almost all of the rebound in economic activity since the lockdowns has been driven by one factor: an exuberant rebound in consumer spending. Inspired by low infection rates, and wanting to make up for pent-up demand (and spend savings) accumulated during the lockdowns, Australian consumers have opened their wallets with great gusto. This has provided an important boost to business activity and jobs in some sectors, but it cannot by itself sustain a lasting or well-rounded recovery. Worryingly, the key underlying drivers of growth – investment, government programs, and net exports – have not recovered at all since the worst months of the pandemic. Moreover, if wage growth continues to plumb historic lows, consumer spending will inevitably contract.
- **An uneven recovery.** The uneven nature of recovery is also evident across industries, occupations, and demographic groups. Many vital, strategic sectors of the economy (including construction, manufacturing, air transportation, and education) are still recording major job losses. Workers who cannot do their jobs from home (including community and personal service workers, labourers, and technical and trades occupations) are also suffering continuing reductions in employment. Workers in secure jobs (part-time, casual, and precarious self-employment) bore the brunt of the downturn, and the surge in insecure work since the lockdowns (reinforced by the Coalition government's recent legislative changes) increases their vulnerability to future shocks. Predictably, young people also suffered the worst job losses as the pandemic hit, but are the last to be re-hired as the economy re-opens: employment for

those under 35 remains far below pre-pandemic levels. Women also bore a disproportionate share of initial job losses, and faced severe challenges from juggling paid work and unpaid care responsibilities as normal services (like childcare and schools) were disrupted. While women's employment has recovered in recent months, gender inequality is pervasive and women remain vulnerable to insecure work, lower wages, and the continued absence of vital supports. Further still, we are yet to see the impact of the ending of JobKeeper and the Coronavirus supplement on jobs and the economy.

In short, Australia's economy faces major challenges and risks, despite the good news of recent months. Compared to most other industrial countries, Australia certainly enjoys a better economic outlook, thanks to our effective health response. But we aren't out of the woods yet. There are continued health risks (especially related to Australia's very poor vaccination program), and continued economic risks (especially if the surge in consumer spending which has single-handedly powered recovery so far starts to ebb).

And we now face another risk: government complacency and desire to 'get back to normal' – including the Coalition's usual infatuation with balancing the budget at all costs. This would undermine the continued active leadership that is still needed to achieve a full and sustained recovery. We must strengthen our ability to manage the continued health challenges associated with this pandemic. Most immediately, this means a powerful effort to fix the devastating failure of Australia's roll-out of vaccinations, which is the ultimate weapon in our fight against future outbreaks of COVID-19 and its dangerous variants. At the same time, we must also prepare for the next crisis, whether it's a health crisis, an economic crisis, or an environmental crisis: by addressing economic fractures, like the preponderance of insecure work and denial of entitlements like paid sick leave, that made this crisis so much worse. We must also address the growing structural imbalances and weaknesses that were evident before the pandemic hit: like the historic weakness of wages, the long-term redistribution of income from workers to employers, embedded gender inequity, our nation's vulnerability to climate change and the growing divide between high-income Australians and the rest of us.

The pandemic is an opportunity to address those long-standing problems. But that will require a fundamental change of perspective and direction from our government. Through the pandemic, this government has revealed a knee-jerk tendency to rely on favours and subsidies to business, with no strings attached, hoping that will translate into benefits that trickle down to the rest of us. That vision of business-led growth has never worked – and it didn't work in the pandemic, either. What is needed is a people-led strategy for full economic and social recovery. Government must put the concrete needs of Australians – secure jobs, income supports, top-quality public services, gender equality and environment and climate protection – at the top of their agenda. Despite recent deficits, government has the means to support massive investments in physical and social infrastructure, public services (including long-overdue improvements in early childhood education and care and aged care), affordable housing, the energy transition, and other priorities. If implemented, that vision of people-led reconstruction could usher in an era of expansive, inclusive growth, much like the generation of prosperity that followed the Second World War.

This report reviews Australia's encouraging but incomplete economic recovery from the pandemic, highlighting its structural weakness and imbalances. It shows that sustained and inclusive recovery requires a shift in the focus of government policy: away from more favours to business, no questions asked, and toward an emphasis on direct investments in human and environmental well-being.

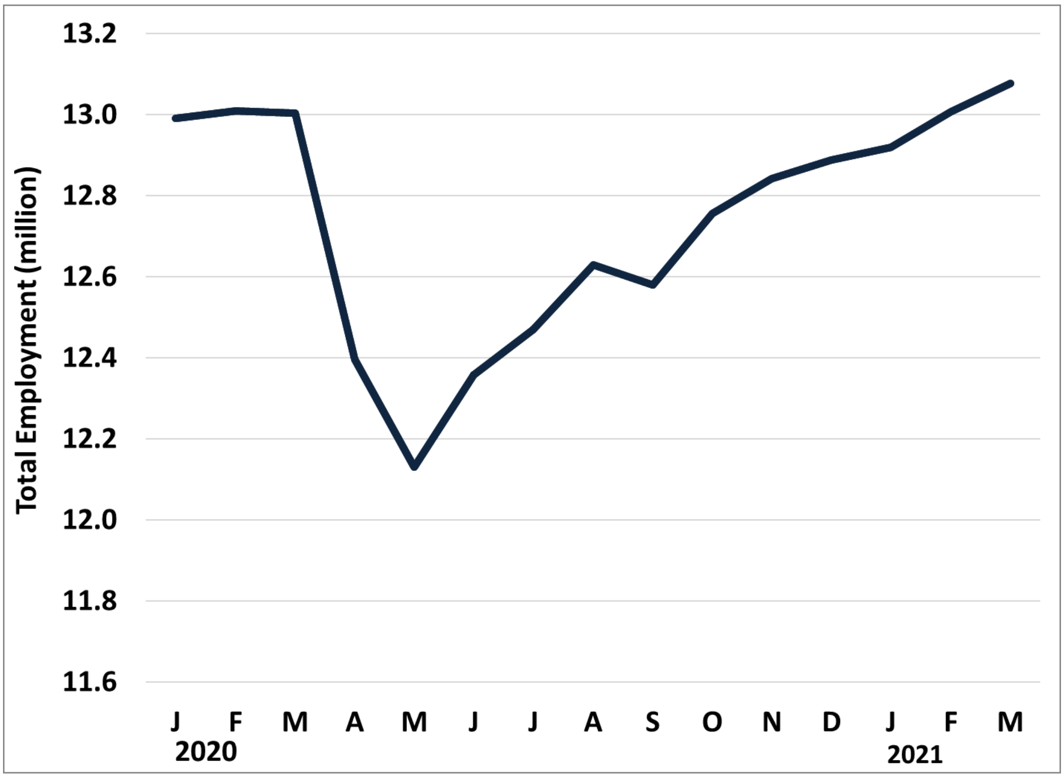
The coming 2021-22 Commonwealth budget will be a test of the government's willingness to foster economic recovery that better meets the needs of all Australians. If the government reverts to traditional form, we will see a predictable combination of chest-thumping, promised tax cuts (focused on business and high-income households), and looming austerity as it reverts to is traditional obsession with deficit reduction. In that case, the recovery from COVID-19 will remain incomplete, unbalanced, and fragile.

What we need instead is a commitment to secure, quality jobs with fair wages and entitlements (like paid sick leave), directly addressing our economic, social and environmental needs. That's a vision of people-led reconstruction that could power an optimistic era of progress that leaves no-one behind.

Recovery: Not There Yet

Since the end of widespread lockdowns and the near-complete elimination of COVID-19 community transmission by the public health system, Australia's economy and labour market have experienced an impressive but incomplete recovery. Cafes and shops have re-opened, internal travel has resumed (interrupted by occasional state restrictions), and many workplaces and offices are back to in-person working arrangements. Consumer spending has been particularly expansive since the lockdowns ended: after plunging dramatically during the worst months of the pandemic (due to both health restrictions on trading and shaky consumer confidence about the future), retail sales have roared ahead in recent months. In the initial months after the end of the lockdowns, nominal consumer spending surged 9% above year-earlier (pre-pandemic) levels[1]. Those that could afford it were glad to get out again to shop and enjoy themselves, and buoyed by savings that many accumulated during the pandemic, this surge in consumer spending is stimulating job-creation in many service sectors and a rebound in national GDP.

Figure 2. Recovery in Employment



Source: ABS Labour Force Statistics, Table 1.

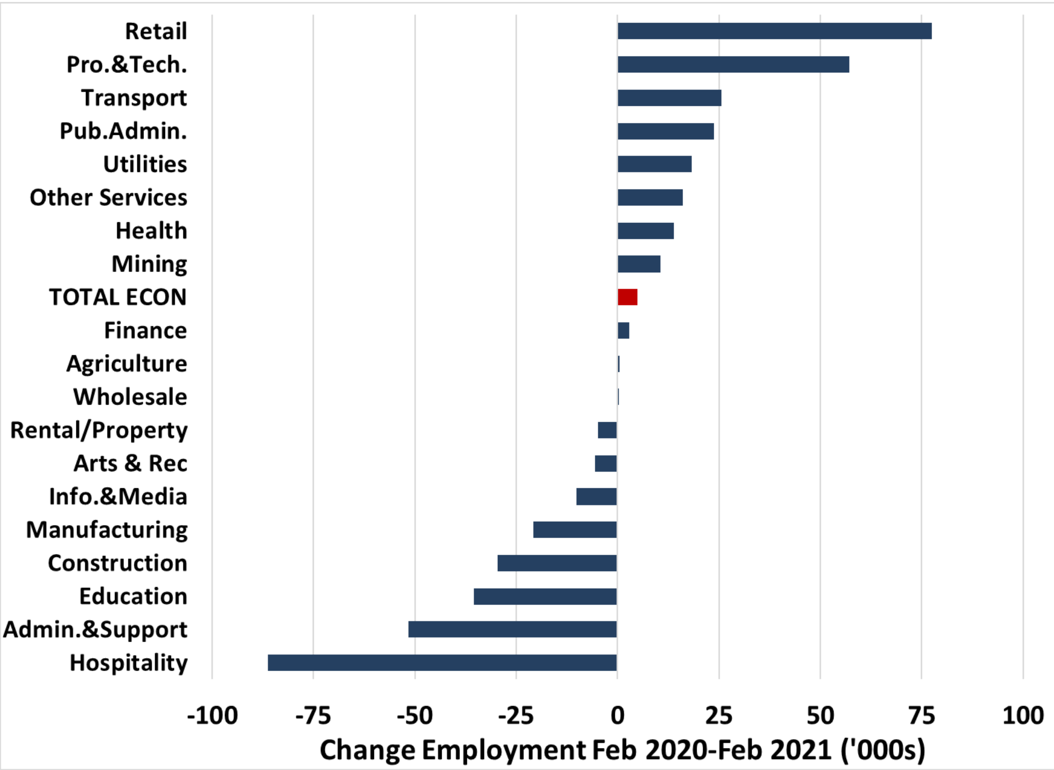
Figure 2 illustrates the roller-coaster ride of total employment through the pandemic and subsequent recovery. Initial job losses reached almost 900,000 positions in the first months of contagion. That was only the tip of the iceberg, however, of a much larger shock to employment and hours of work. Millions more Australians were not formally classified as unemployed, even though they had lost most or all of their hours of work. This was partly due to the JobKeeper program, rolled out by the government after pressure from the union movement and many economists. JobKeeper supported continued employment for almost 4 million workers at some point during

1 ABS Retail Sales, total retail turnover.

the pandemic,[2] and was still supporting the jobs of over 1 million workers when the program was cancelled last month. Without this powerful support, there is no doubt that job losses during the lockdowns would have been much worse. At the same time, the weak conditions attached to the program, allowing very profitable businesses to receive the funds, diluted its effect.

Buoyed by fiscal supports from government (including expanded Coronavirus Supplement payments as well as JobKeeper), employment began to rebound positively in June – interrupted for a while by the regional COVID-19 outbreak in Victoria. By March 2021, 9 months later, total employment regained (and slightly exceeded) its pre-pandemic level, at just over 13 million employed workers. Compared to larger and more sustained job losses in most other industrial countries, this is a positive result. It is due entirely to the success of Australia's aggressive and effective actions in stopping community contagion (efforts led by the state governments), backed up by strong fiscal supports from government during the early months of the pandemic. Contrary to the false claims (made most loudly during Victoria's painful but effective lockdown) that health restrictions would be too harmful for the economy, in fact firmly stopping the spread of COVID-19 was exactly the best thing for the economy. Other countries which implemented similarly effective public health measures and largely stopped community contagion (like New Zealand, South Korea, Taiwan, Norway, and a few others) have also enjoyed strong rebounds in employment and output.

Figure 3. Change Employment by Industry, Feb.2020 to Feb.2021



Source: Calculations from ABS Labour Force, Detailed.

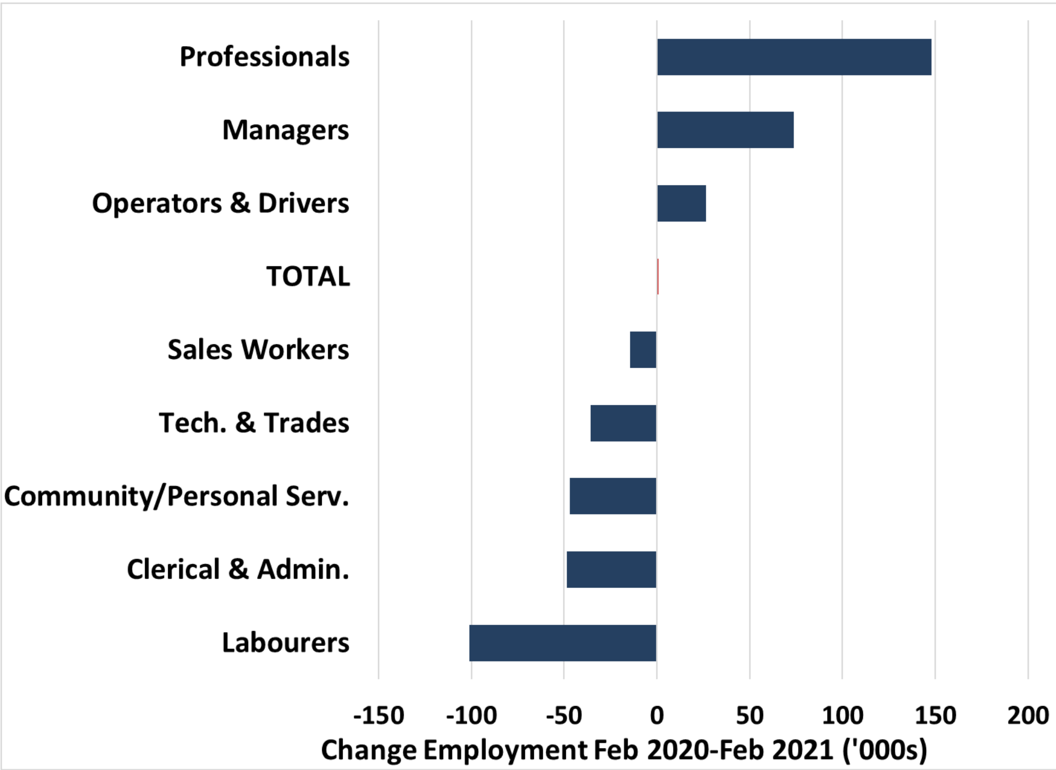
The crisis, however, is certainly not over. Many parts of Australia's economy and workforce are far from a full recovery. For example, while total employment has regained its pre-pandemic level, about half of Australia's industries employ fewer workers than they did when the pandemic struck – and many of those industries are still in a highly damaged state. Figure 3 illustrates the net change in employment over the year ended in February

2 Reported in the Commonwealth Budget for 2020-21, Budget Paper #1, "Budget Strategy and Outlook," p. 1-13.

2021 for major industries.[3] The retail sector has experienced the strongest gains in employment over this period (with 77,000 net new jobs compared to pre-pandemic levels), reflecting the surge in consumer spending that has led the recovery so far. Professional and technical services have continued to expand employment; many of these workers can work from home, so employment levels did not fall much during the pandemic.

On the other hand, major net job losses are still being experienced in many important sectors. The biggest job losses have been in hospitality (still down 86,000 positions), and administration and support services (over 50,000 job losses). Other important and strategic sectors have also lost tens of thousands of jobs, despite the recovery in overall employment. The education sector has lost 35,000 jobs, mostly in tertiary education (reflecting the catastrophic failure of the Coalition government to include universities in the JobKeeper program, and the devastating loss of international students). At a moment when the need for Australians to gain new skills is probably more acute than at any other time in a generation, this needless crisis in Australian higher education reflects a terrible error of judgment on the government's part. The construction industry, despite targeted Government assistance, shed almost 30,000 jobs over the year. Some 25,000 jobs have been lost in air transportation, and despite government handouts to airlines like Qantas, they continue to eliminate and outsource decent jobs in the industry despite the rebound in domestic travel. And Australian manufacturing, despite pledges by the Government to promote Australian-made goods, has lost another 20,000 jobs – extending its 15-year contraction. All of these industries are vital sources of higher-wage jobs, but all have been failed by the superficial and optics-driven nature of the government's economic response to the pandemic. Other industries that have lost net employment include information, media, and telecommunications; arts and recreation; and the rental and property sector.

Figure 4. Change Employment by Occupation, Feb.2020 to Feb.2021



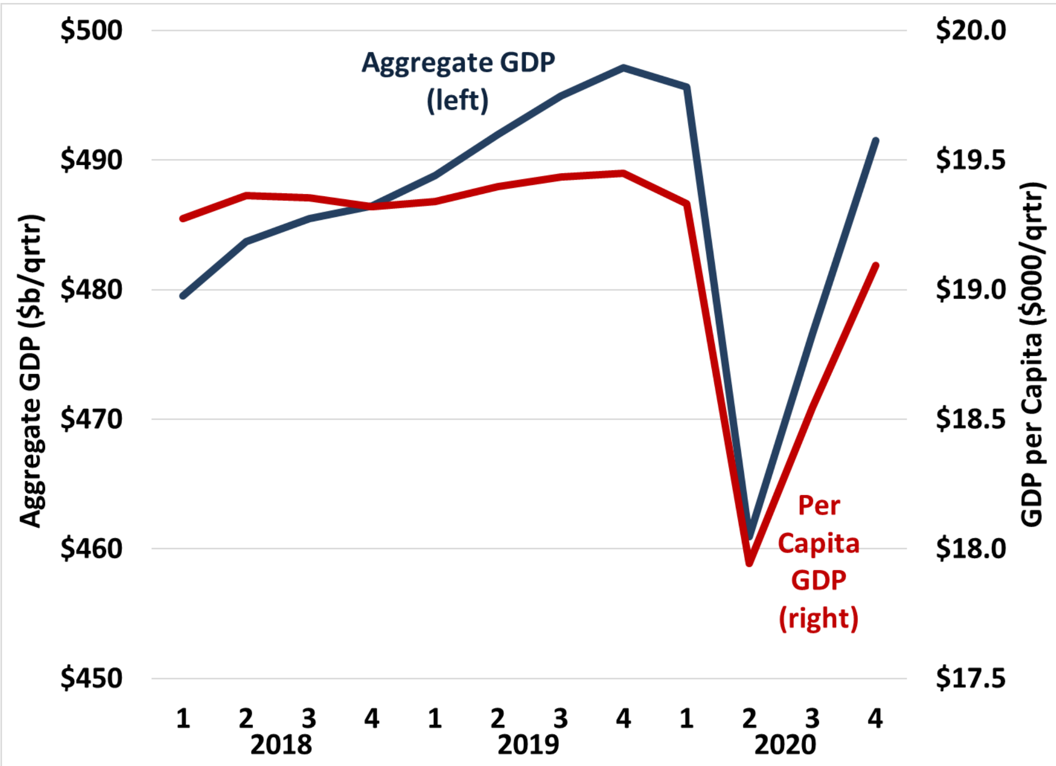
Source: Calculations from ABS Labour Force, Detailed.

3 Detailed data on industry employment levels is published quarterly; February is the most recent data available.

A similarly uneven employment pattern is also visible in data on employment by occupation. Almost all the growth in employment has been experienced in jobs which are able to be performed from home more easily: professionals and managers (Figure 4). Occupations which must be performed from a particular location (to interact with customers or service users, work on specific machinery, or at a direct production site) have all declined in employment over the past year, despite the rebound in total employment since May. Working from home has been a vital cushion during the pandemic for many Australians, and for the economy, allowing a maintenance of work and income despite health restrictions on normal workplaces. But the reality is that most jobs cannot be performed from home.[4] So the relatively stable employment recorded in these occupations cannot be generalised across the labour market. For people who do not perform most of their work on a computer, and whose work cannot be performed remotely, the employment recovery still has a long way to go before the damage of the pandemic has been repaired. Across the five occupational groups indicated in Figure 4 with a net decline in yearly employment, a combined total of almost 250,000 jobs is still missing from pre-pandemic levels.

Another metric for measuring the progress of Australia's economy since the pandemic is the level of output or GDP. Here, too, it is clear that total economic activity has rebounded rapidly since the end of the lockdowns, but not completely – and also that the composition of that recovery is uneven and fragile.

Figure 5. Recovery in GDP



Source: ABS National Income Accounts, Table 1.

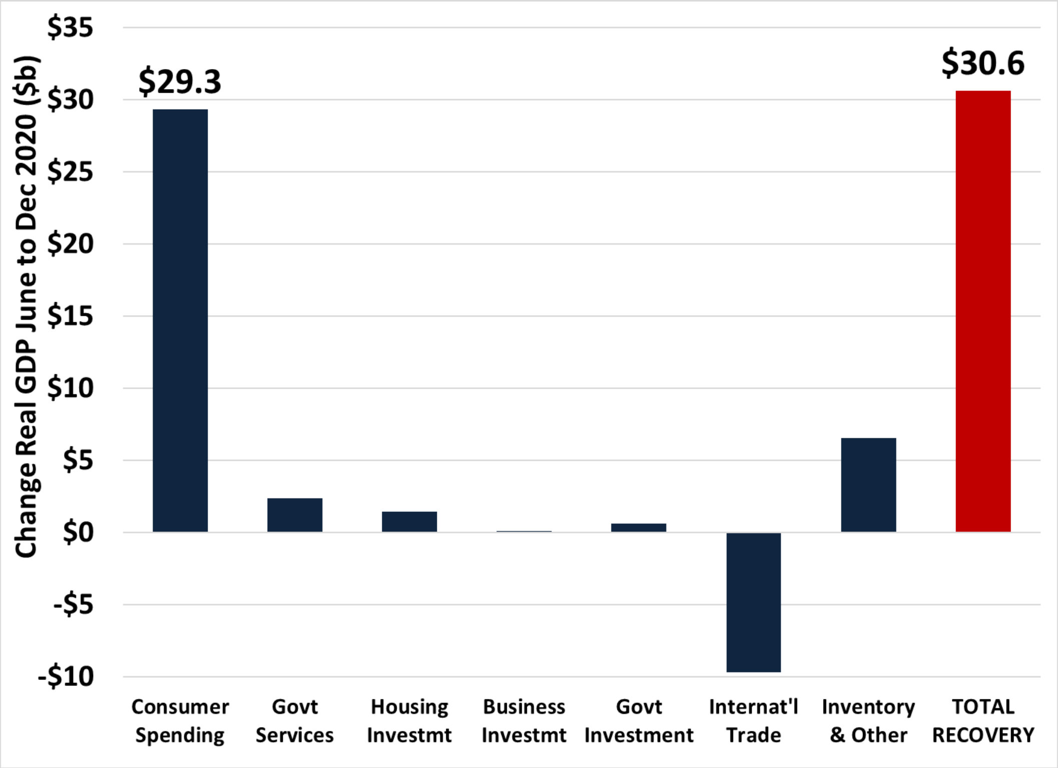
Figure 5 illustrates the trajectory of total GDP (adjusted for inflation) through the pandemic. Output declined by over 7% between the end of 2019 and June 2020. That represents by far the fastest, steepest recession in Australia's postwar history. With the end of lockdowns and the reopening of most activities, output began increasing again. By the December quarter (most recent data) GDP had recovered most but not all of those losses. In per capita terms, adjusted for population growth, real GDP was still 2% lower at end-2020 than a

4 Pennington and Stanford (2020) estimate about 30% of jobs could be performed from home after necessary adjustments in technology and systems.

year earlier. That may seem like a small amount relative to the bigger losses earlier in the pandemic – but keep in mind that a decline in real per capita GDP of that scale has only occurred three times in the last 70 years. So while the recovery in output since the worst months of the pandemic has been welcome, Australia is still experiencing a painful and severe economic contraction. The government must remain focused on restoring economic activity and getting Australians – in all industries, and all occupations – back to work.

A particularly concerning aspect of the post-COVID recovery so far is its almost total dependence on consumer spending since the lockdowns ended. Australians were very glad to get back into normal consumption patterns after the lifting of most health restrictions. And optimism spurred by low infection rates (tempered by concerns and anger about the failed Commonwealth strategy for vaccine distribution) has inspired large increases in retail sales, hospitality and entertainment, and domestic travel. The rebound in consumer spending also reflects pent-up demand – and, for some households, accumulated savings – experienced during the worst months of the pandemic.

Figure 6. Sources of Economic Recovery



Source: Calculations from ABS National Income Accounts, Table 2. Quarterly figures.

This vibrant rebound in consumer spending is welcome news, of course, and reflects Australia's success in controlling contagion. But while consumer spending is a vital part of the economy (accounting for over half of all expenditure), it cannot on its own lead a full-fledged economic recovery. As indicated in Figure 6, stronger consumer spending accounts for almost all (96%, more precisely) of the increase in real GDP recorded between the June quarter of 2020 (the worst point of the pandemic) and the end of the year. Quarterly household consumption (after inflation) expanded by $29 billion over that period, constituting almost all of the $30 billion recovery in total GDP. Other components of GDP – including business investment and government infrastructure investment – showed no sign of recovery at all. Australia's international trade balance actually contracted during this time. And a major inflow to inventories at the end of 2020 (to make up for a record draw-down during the panic-buying that occurred during the pandemic) accounted for a significant proportion of the total rebound in output – a trend that obviously cannot continue for long.

Indeed, there are signs that the initial outburst of post-lockdown consumer spending may already be running out of steam. Average consumer spending for the March quarter of 2021 was flat in nominal terms, compared to the December quarter. That means consumer spending will not have contributed to continued real GDP growth in quarter (and may have actually detracted from it).[5] The March cancellation of the JobKeeper program and the Coronavirus Supplement will also rip billions of dollars out of consumer spending; even the Treasury Department acknowledges the cancellation of JobKeeper will eliminate 100-150,000 jobs (Kennedy, 2021), and that will throw cold water on the rebound in consumer confidence that has been so vital to Australia's recovery so far.

The preceding analysis confirms the worrying dependence of the post-COVID recovery on a blossoming of consumer spending. There are three main causes for concern arising from that near-total reliance on one component of aggregate activity. First, the sharp bounce in consumer spending reflects factors (post-COVID optimism, accumulated savings, and pent-up demand) that clearly cannot sustain growth for long. Second, in the long-run consumer spending tends to follow growth in the leading components of the economy: in particular swings in investment, government programs, and exports. That's because consumers need to be receiving income from new activity in other parts of the economy, before they can spend that income on household consumption. In short, consumer spending cannot 'lead' overall economic growth for long. Third, and most worrisome, the level of consumer spending depends ultimately on household incomes – and as described below, wages and salaries (which make up most household income) are historically weak, and getting weaker. That can be offset for a short time by drawing down accumulated savings (as has occurred since the lockdowns), but not for long. Unless urgent measures are taken to strengthen the growth of Australian wages, the surge in consumer spending which so far has been the only major engine for post-COVID growth will inevitably peter out.

Figure 7. Business Investment, 2010-2020

Source: Calculations from ABS National Income Accounts, Table 3.

5 The ABS will release data on March quarter GDP on 2 June.

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The continued weakness in private and public investment, which is usually a crucial leading indicator of economic recovery, is a particular source of concern. In the private sector, business investment has been falling dramatically in Australia since 2012. Despite the Coalition government's self-proclaimed commitment to 'business friendly' economic management, the business sector's real contribution to economic growth has been eroding for years. Trickle-down strategies (like tax cuts, deregulation, and suppression of labour costs) haven't even led to expanded business activity – let alone delivered real employment and income gains to the rest of society. During the pandemic, however, this ongoing failure of business investment got worse. Business spending of all kinds declined to just 10.6% of GDP in 2020: its worst performance in Australia's entire postwar history (Figure 7). Very rich investment incentives offered by the Commonwealth government[6] – first to small and medium enterprises, but then extended to corporate giants in last year's budget – have not had any visible impact on this declining trend. By failing to invest in equipment, machinery, workplaces, and innovation, Australia's business sector is causing Australia to lag further behind advances in the rest of the world; it means that an increasing share of our work and production is dependent on lower-technology and lower-productivity sectors. Instead of more failed trickle-down policies, a better strategy for boosting private sector capital investment and solidifying the basis for future growth would be an ambitious reconstruction plan to foster development in strategic sectors like manufacturing, renewable energy, digital technology, medical equipment, and social infrastructure such as aged care and early childhood education and care[7].

As indicated in Figure 6, the expansion of public services played only a modest and secondary role in the economic growth that occurred after the worst of the pandemic last winter: adding just $2.5 billion to quarterly real GDP between the June and December quarters. But the weakness in public sector capital investment, in both physical and social infrastructure, has been even worse: it added virtually nothing to real GDP last year. Political leaders of all stripes accept that ramping up investment in public infrastructure plays a vital role in any effort to recover from a recession. Public capital projects create much-needed immediate work, including direct jobs in construction, jobs in the upstream supply chain (providing materials and supplies to the project), and jobs in the subsequent operation and maintenance of new facilities. They establish a foundation for the long-term growth of current public services (like education, health care, early childhood education and care, and aged care), and the valuable jobs created as those sectors expand. Public capital spending also promotes longer-run growth and well-being by resolving critical infrastructure bottlenecks (such as transportation, energy, and human services like education, health and public and social housing) and thus enhancing national productivity. Infrastructure spending is an economic 'no-brainer' during a downturn – and the Commonwealth government has certainly made more than its share of announcements and media events regarding new infrastructure projects since the pandemic hit.

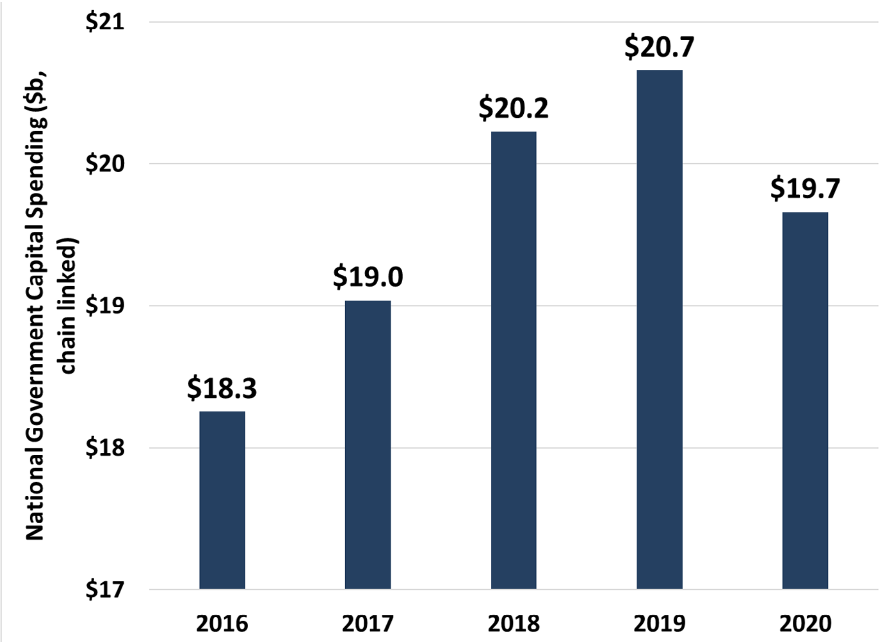
The painful reality, however, is that the real level of public infrastructure and other capital spending in Australia has hardly grown at all during the pandemic. Capital spending by the Commonwealth government actually declined last year, by 5%, compared to 2019 (Figure 8).[8] The failure of the Commonwealth government to actually mobilise a stronger real investment effort during the pandemic attests to the pre-eminence of political optics in its pandemic response, rather than genuine economic leadership. And combined with the chronic and ongoing failure of private business investment, it leaves Australia's economy all the more vulnerable to an eventual fading of the short-term burst in consumer spending which has done the heavy lifting in the post-COVID recovery so far.

6 These include the initial instant asset write-off program provided last year to businesses with turnover under $500 million, the 'Backing Business Incentive,' and then the massive temporary full expensing measure announced in October (applying to companies with under $5 billion revenue). The latter measure is expected to cost the government $27 billion in foregone revenues over the next 4 years.

7 The ACTU's (2020a) National Economic Reconstruction Plan contained several concrete proposals in this regard. The recent announcement by Australian Labor of a reconstruction fund to stimulate investment in strategic sectors (see Grattan, 2021) is another promising example of this approach.

8 Calculations from ABS National Income Accounts Table 2; chain-linked data.

Figure 8. Commonwealth Government Capital Investment, 2016-2020



Source: Calculations from ABS National Income Accounts, Table 2.

In sum, the recovery in employment and economic activity since the worst months of the pandemic has been encouraging and welcome. Australia's economic rebound has been stronger than in most other industrial countries; this reflects the success of our public health response to the pandemic, led first and foremost by courageous leadership from state governments, backed by strong cooperation and support from the public. Stopping community contagion of COVID-19 required extraordinary sacrifices: by front-line health workers and first responders, by other essential workers, by all Australians who followed health guidelines and helped defeat the virus. It is clear, despite this success, that the battle against coronavirus is not over yet: we need to continue to respond to localised outbreaks quickly and powerfully. We must resist the predictable complaints by business lobbyists that such measures are 'too costly' for the economy – which utterly ignore the reasons for Australia's relative success in economic re-opening. And the failed national vaccine campaign needs to be urgently accelerated and repaired, to allow a more complete and sustained re-opening.

However, the recovery so far has been concentrated precariously in an understandable but unsustainable outpouring of consumer optimism, which cannot continue to shoulder the whole burden of economic recovery. Consumer spending must be supplemented with other sources of economic leadership and purchasing power: most importantly by comprehensive efforts to boost both private and public capital spending, with real projects and real activity (not just rhetoric and photo-ops), and by sustained long-term improvements in public and human service delivery. Only that will allow the recovery to spread throughout the economy, and to find a more diversified and stable footing – rather than being solely and precariously reliant on the willingness and ability of Australian consumers to keep spending.

Recovery: For Who?

The COVID-19 pandemic and recession have clearly exacerbated long-standing inequalities in Australian society. Stopping and reversing that inequality must be a top priority for government economic and social policy in the recovery. The unequal effects of the pandemic are visible in distinct but related dimensions. It has exacerbated income differentials between different groups of households. It has further tilted the overall distribution of income and power toward big business and away from workers. And it has deepened the twin crises facing women: a shortage of secure and well-paid jobs, and an increase in the household caring burden. In terms of the distribution of opportunity and income across both individuals and classes, the pandemic has taken an already-unequal situation and made it worse. Failing to address these dangerous trends driving inequality not only marginalises and excludes so many people, it will inevitably hold back future growth.

It was apparent from the first weeks of the pandemic that its economic and employment impacts would be concentrated among certain groups of workers. In general, those affected people already experienced insecure and lower-wage positions – so they were the least able to absorb the costs of unemployment, underemployment, and instability. On the other hand, some workers in Australia (more often managers and professional workers) were able to shift their jobs to home-work arrangements quite quickly; many did not lose any income or work at all. Those workers, on average, enjoyed higher incomes to start with – yet they were relatively protected from both the health risks of the pandemic (by being able to work from home) and the resulting losses of jobs and income. Every recession is unfair, in that the costs of job loss are borne disproportionately by certain groups of relatively vulnerable workers. But the COVID-19 recession was brutally, unforgivingly unfair: it targeted workers who were already in insecure, poorly-compensated positions, forcing them to bear a grossly disproportionate share of the total burden.

Table 1: An Unfair Burden

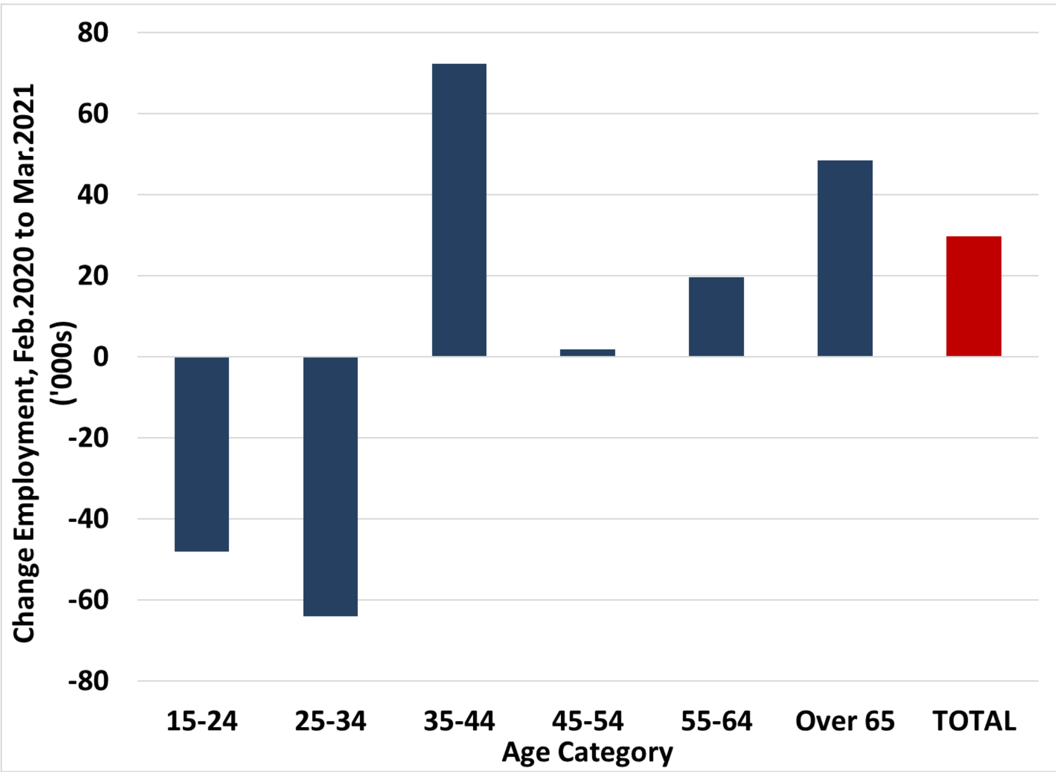
	Jobs
Total Employment	**-6.8%**
Women	-7.8%
Women Under 35	-10.4%
Part-Time Jobs	-12.8%
Casual Jobs	-20.6%
Hard-Hit Industries	
Arts & Recreation	-36.0%
Hospitality	-31.4%
Information & Media	-15.2%
Other Services	-11.1%
Administration & Support	-10.9%
Transportation	-10.4%

Source: Calculations from ABS Labour Force, Labour Force Detailed. Seasonally adjusted except for casual employment.

Table 1 summarises the disproportionate impacts of the initial downturn in employment resulting from the pandemic. Between February and May, overall employment in Australia declined by close to 900,000 jobs (or 6.8%). Of course, that was not the full extent of the carnage, since millions of other workers were nominally kept on the payrolls (in large part thanks to JobKeeper wage subsidies) but were not working any hours. Hundreds of thousands more had lost most of their hours of work, but were still deemed 'employed' by the official ABS statistics.

Several identifiable groups of Australians suffered especially painful losses of jobs and incomes. For example, job losses for women in the pandemic were worse than for men – and that was exacerbated by the challenges faced by women in balancing paid work with the unfair share of unpaid home and family responsibilities they continue to shoulder, all in the context of inadequate social supports for working families (such as inaccessible, expensive early childhood education and care services[9]). Women were also much more likely to drop out of the labour market altogether during that initial stage of the pandemic, reflecting the impossibility of combining paid work and family care given the disruptions in normal childcare and schooling. Women's participation declined by 4 percentage points to May 2020, worse than the corresponding decline for men. Those disproportionate declines in women's employment and participation have now been largely reversed, but women workers continue to be channeled into insecure jobs (part-time and casual), lower-wage industries, and are forced to juggle paid work with unpaid home and caring work. Addressing the gender dimensions of both the pandemic and the subsequent, incomplete recovery remains a critical priority for economic and social policy.

Figure 9. Employment Change by Age Group



Source: Calculations from ABS Labour Force Statistics, Table 22. Original data.

9 The uneven gender impacts of the pandemic, and necessary policies to support women in the recovery, are reviewed in detail in ACTU (2020b).

Young people were also disproportionately hit by the initial decline in employment in the pandemic. Like for women, these severe job losses resulted from young workers' concentration in part-time and casual roles, and from the fact that young people are more likely to be employed in the consumer-facing industries that were hardest hit by health-ordered shutdowns (especially hospitality). Job losses for those under 35 years of age were 50% higher than for the overall workforce. And unlike for women, youth employment has not recovered from those disproportionate losses. As indicated in Figure 9, employment for those under 35 is still lower than before the pandemic hit, by a combined total of 112,000 jobs (as of March 2021). All age cohorts over age 35 have recovered their initial job losses, and then some. Hence the entire aggregate burden of job loss since the pandemic is now being borne by younger workers. Ironically, the strongest proportional net employment increases (compared to pre-pandemic) were experienced for those over age 65. Employment among seniors grew by almost 50,000 positions (or almost 8%) since February 2020, accounting for more than 100% of all the net employment growth in the whole labour market in that period. Growing employment among elders is not a sign of a strong economy: for many, it is instead a sign of economic desperation among Australians who should be enjoying a secure retirement.

Perhaps the greatest employment injustice of all during the pandemic was the incredibly disproportionate job losses experienced by people working in relatively insecure, non-standard jobs. Because they can be dismissed easily – in many cases by simply cancelling their shifts or not renewing their contracts – workers in these insecure jobs are first to lose hours and jobs when any downturn hits. The vulnerability of workers in insecure jobs was demonstrated with a vengeance when the pandemic hit. About 13% of part-time workers lost their jobs (and many more lost most of their hours), about twice as rapid a job loss as experienced in the broader labour market. Meanwhile, 21% of workers in casual jobs lost their positions (three times as bad as the overall decline). These insecure jobs were disproportionately concentrated in several of the worst-hit industries, which lost employment immediately because of health restrictions on activity. As noted above, young workers and women were over-represented among these insecure positions, and thus suffered a disproportionate share of job losses.

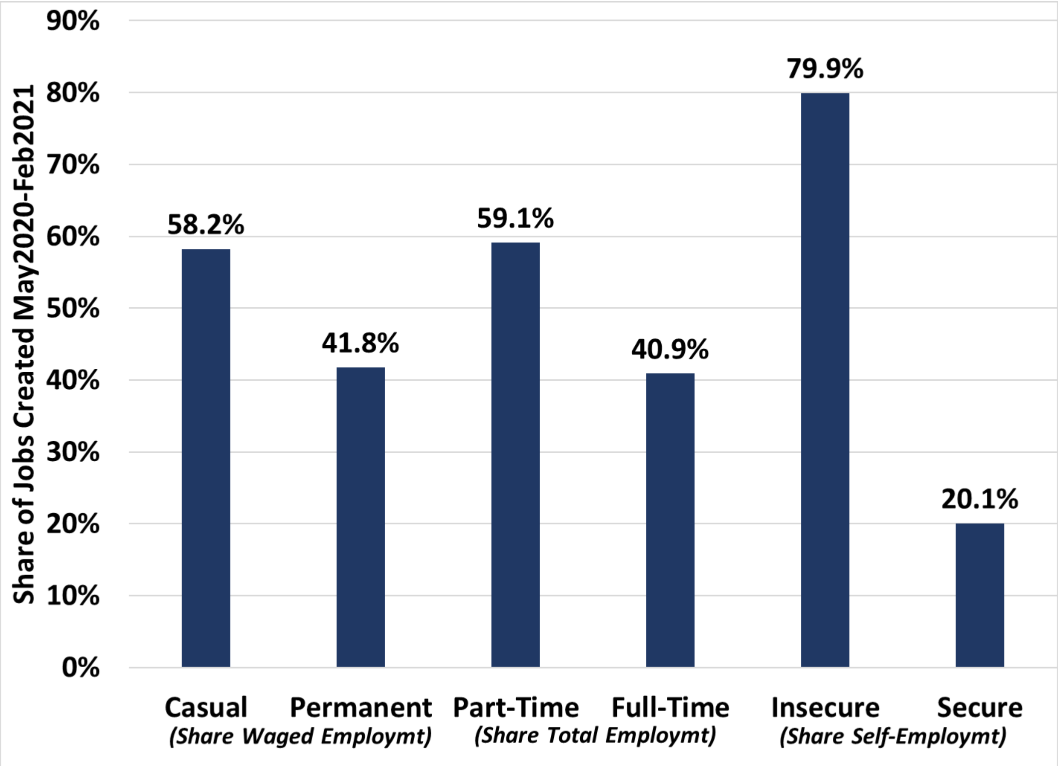
Employers and their allies might celebrate this undue concentration of pain as a logical, efficient result: in the infamous words of former Finance Minister Mathias Cormann, the ability to get rid of surplus labour quickly and costlessly is a 'design feature' of a casualised labour market. But that does not negate the incredible social and human suffering which results from imposing such a disproportionate burden on a group of workers who already experienced low and variable incomes, and chronic economic uncertainty. Making matters worse, the Coalition government arbitrarily excluded many of the most desperate workers (including a majority of casual workers, and almost all foreign migrant workers and international students) from income support and wage subsidy programs. Casual workers could only be covered by JobKeeper if they had been with their existing employer for at least one year; and migrant workers and international students (other than those from New Zealand) were excluded from all support programs. Moreover, the government's policy responses to the COVID-19 pandemic and resulting recession have justifiably been described as 'gender blind', as they have failed to consider, protect and support women.

Workers in insecure jobs bore the lion's share of dislocation during the initial stage of the pandemic. But now these insecure forms of employment are roaring back as the economy recovers from the downturn. Most of the new jobs that have been created since the trough of the employment recession in May are insecure jobs. Almost 60% of all new jobs created from May through February (most recent data available) are casual positions (see Figure 10). An even larger share of new jobs created in this time were part-time positions.10 Indeed, the share of part-time jobs in total employment, which initially declined during the COVID-19 shutdowns (due to so many part-time workers losing their jobs), came roaring back to set an all-time record high in October, of

10 Figure 10 illustrates the change in employment by status from May 2020 through February 2021, which is the most recent quarterly data available for casual and self-employment status. Part-time employment constituted 59% of new jobs created in that period. As of March 2021, however, that share grew further to 64% -- because full-time employment fell in March, while part-time employment grew strongly. So the current reliance on part-time work in the employment recovery is even worse than illustrated in Figure 10.

32.3%.11 A third dimension of the burgeoning insecurity in Australia's post-COVID employment rebound is also illustrated in Figure 10: the high proportion of new self-employment that consists of very marginal, insecure positions. Almost 80% of all self-employed positions created since the employment trough last May consist of individuals who either have no other employees3 (working on an own-account basis) and/or are not incorporated. These are highly precarious undertakings (including gig economy jobs), in which individuals have no access to normal entitlements and protections (including paid sick leave), and are highly vulnerable to economic shocks and fluctuations.

Figure 10. Growth of Insecure Work in the Recovery, to February 2021



Source: Calculations from ABS Labour Force Statistics, Table 1, and Labour Force, Detailed, Table EQ04.

The resurgence of insecure jobs in the aftermath of the pandemic is recreating extreme vulnerability for millions of Australians.[12] It is forcing many Australians to piece together a living from multiple part-time, insecure jobs: indeed, one-third of all jobs created between the June and December quarters in Australia last year were 'secondary' jobs, meaning that the person filling them was already working in another position.[13] And the proportion of those secondary jobs in total employment reached the highest share by end-2020 (7.2% of all jobs) in the history of ABS statistics on this issue. Multiple job-holding is not only stressful and insecure for affected workers; it also poses significant public health risks during a pandemic, because infected workers are more likely to transmit disease in multiple work locations.

This should be an opportunity to strengthen the underlying structure of Australian jobs: moving away from casual and other precarious forms of employment, and supporting the development of better, more stable positions. Instead, the Coalition government is doubling down on its embrace of insecure work as the new

11 The part-time share has since moderated slightly, to 32.1% as of March 2021.

12 Nahum and Stanford (2020) discuss the dominant role of insecure work in the employment recovery, and its worrisome economic and social consequences.

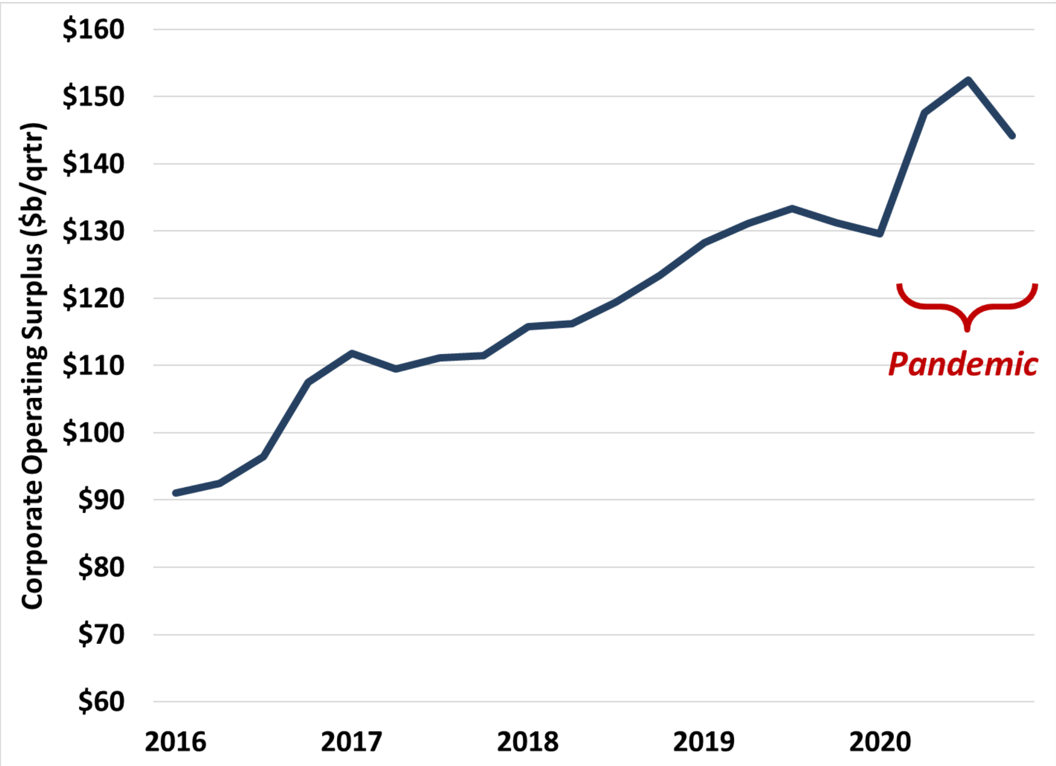
13 Calculations from ABS Labour Account, Table 1.

normal – typified by its newly-passed changes to the Fair Work Act which confirm and liberalise employers' ability to hire workers in casual arrangements for any job they desire.

The unbalanced nature of the pandemic and the subsequent recovery is also apparent in the distribution of costs and benefits between classes: that is, between businesses and their workers. By this measure, the COVID-19 pandemic has imposed a dramatic form of 'shock doctrine' on Australia's economy. The ongoing shift in power and wealth toward business in Australia took a giant additional step during the COVID-19 crisis. Despite accumulating an unprecedented share of income over the past generation, business took the opportunity during the pandemic to grab even more. They were helped mightily in this effort by Commonwealth government policy: which emphasised the provision of generous subsidies and supports to business (like JobKeeper, emergency loans, investment subsidies, mass purchases of airline tickets, and more), but with few if any strings attached in terms of what businesses were required to do in return. The result was the pocketing of billions of dollars in public transfers, in many cases by highly profitable corporations, with no change in company behaviour. Meanwhile, the government's continuing efforts to suppress labour costs (discussed below) further fattened profit margins.

Incredibly, the 2020 downturn was the first recession in Australia's history in which company profits actually *increased.* Normally in a recession, company profits experience a deeper proportionate downturn: this is because business revenues are undermined by falling sales, and firms cannot downsize employment or operating costs fast enough to keep pace. The result is lower profits (or outright losses) incurred until either the economy recovers or the company has downsized. In the 2020 recession, however, Australian company profits, perversely, actually grew. As illustrated in Figure 11, company operating surpluses surged even as the economy fell into recession and close to 1 million Australians lost work.

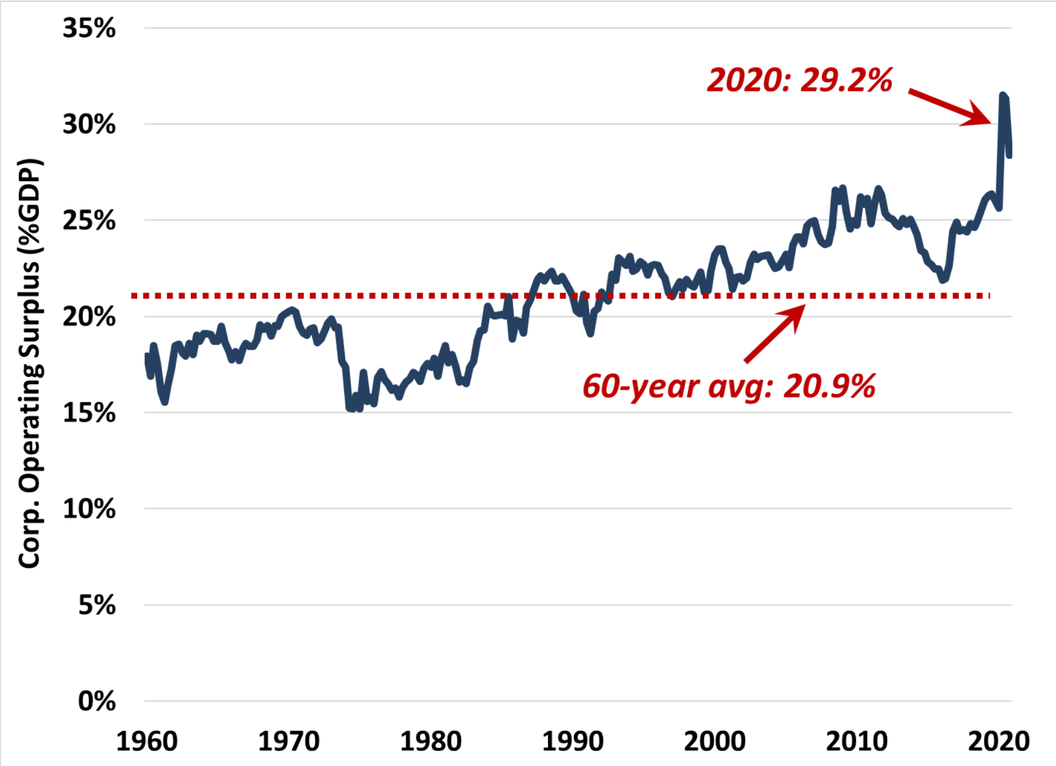
Figure 11. Corporate Operating Profits, 2016-2020



Source: Calculations from ABS National Income Accounts, Table 7.

Boosted by JobKeeper subsidies, other government aid, and strong sales for many items (such as groceries) despite the pandemic, corporate operating profits surged to $575 billion for 2020 as a whole – up almost 10% from 2019. As a share of total GDP, business profits hit their highest level in recorded history in 2020 – representing 29% of national output (see Figure 12). Normally the profit share falls during a recession. This time, however, big business's share of the economic pie expanded dramatically, even as Australians experienced unprecedented dislocation.

Figure 12. Corporate Profit Share, 1960-2020



Source: Calculations from ABS National Income Accounts, Table 7.

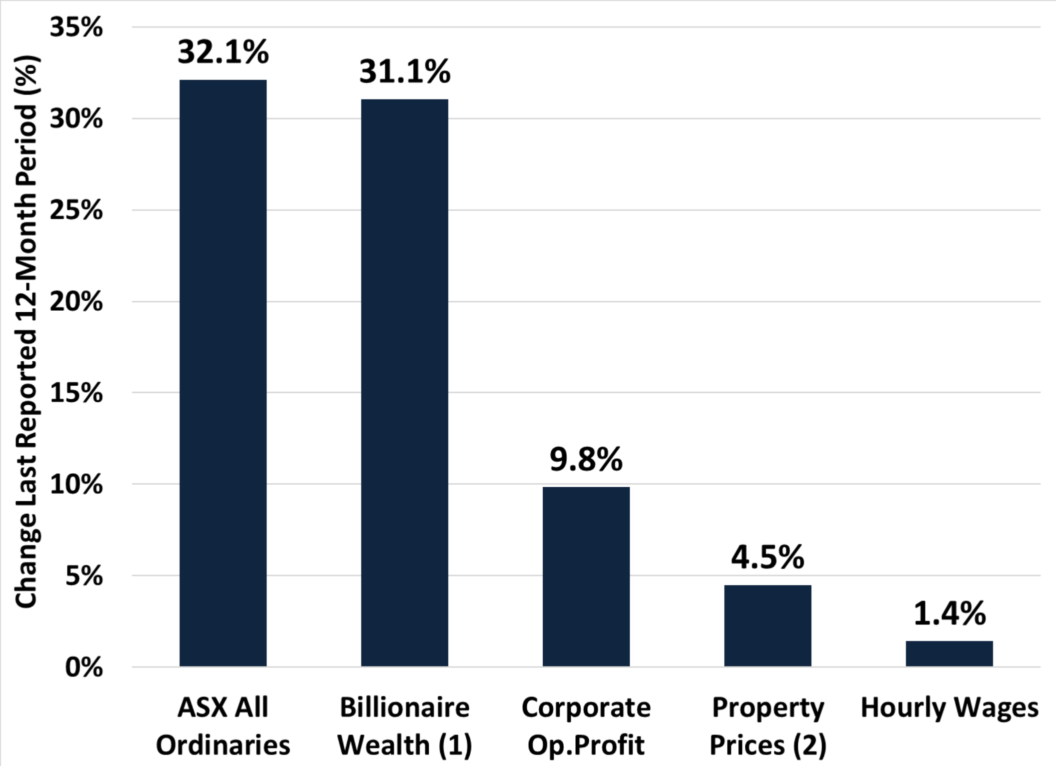
The pandemic was thus a perverse culmination to a long historic period of rising profitability in Australia, as business benefited from many favourable policies – including lower labour costs, deregulation, subsidies, and various tax incentives and preferences. The share of corporate profits has almost doubled since the mid-1970s. That expanding slice of the pie has been almost perfectly offset by sustained shrinkage in the share of output going to workers (discussed further below). Small business's share of total GDP[14] has also declined over this period, to less than 10% in recent years. In short, thanks to growing corporate power, the long-run stagnation of labour costs, and active government assistance, the current wealth of companies is far outside of the normal distributional expectations of Australian society. Business and government seized on the crisis of the pandemic to bring in measures that shifted power and income still further to big businesses and the wealthy who primarily own them. And instead of demanding that corporations share the wealth – via higher wages, higher taxes, and lower prices – the Coalition government celebrates and ratifies this concentration of wealth and power, and tells the rest of us to wait for our share to trickle down.

In sum, the unequal impact of the pandemic has had a dangerous effect on the fabric of Australian society. Millions of Australians suffered painfully: from residents of under-funded, badly-regulated aged care homes whose lives were in jeopardy, to workers in insecure jobs who bore the brunt of the downturn, to

14 Measured in the national accounts by 'mixed income.'

migrant communities who were abandoned to their own devices as the pandemic hit, to women confronting unmanageable family responsibilities (and all-too-often domestic violence) as work shifted to our homes. Meanwhile, some Australians barely noticed the economic effects of the pandemic – thanks to their relatively protected jobs and home situations. And a few profited mightily, thanks to strong profits, soaring stock markets and property prices, and business subsidies ultimately paid for by the taxpayer.

Figure 13. Growth in Latest Reported 12-Month Period



Source: Calculations from ASX, Forbes magazine, ABS, and Core Logic data.
1. In $A terms, top 30. 2. 5-city aggregate.

Figure 13 shows the night-and-day differences in the experience of the pandemic as endured by average workers, compared to the rich and powerful who exert so much influence over our economy and our politics. Company profits grew 7 times faster than hourly wages through the pandemic. Share prices soared, thanks to ultra-low interest rates and strong business profits. The wealth of Australia's 30 richest billionaires soared in step: shockingly, those 30 individuals and families have accumulated $50 billion in extra wealth, even as the rest of Australia struggled to survive the pandemic. Most shocking of all: the Coalition government has no intention of compelling the ultra-rich to give something back to the society that ultimately produced their wealth. Instead, it wants to cut their taxes – through misguided Stage Three tax cuts that will deliver almost all of the 'savings' to the richest tenth of society (including those billionaires[15]). There is no doubt that the Stage Three tax cuts will also widen gender inequality, since men account for most of the high-income earners who will receive the benefits (Grudnoff, 2020). These income tax cuts will fail to stimulate the sustained economic recovery that Australia needs, and they will deepen structural economic inequity between men and women.

15 A breakdown of the distributional effects of the Stage Three tax cuts, planned by the Coalition to take effect in 2024, is provided by Grudnoff and Richardson (2018) and Karp (2020).

Thanks to the effective public health response which has controlled community contagion of COVID-19, Australia now has within its grasp an encouraging opportunity to re-open the economy and return to full life. To make the most of that opportunity, and to ensure that the resulting recovery is balanced and inclusive, these extreme imbalances in the economy and labour market need to be acknowledged and addressed. An economic strategy that fosters the accumulation of billionaire wealth and corporate profits, while suppressing labour compensation and accelerating the shift to insecure forms of employment, will always be economically fragile and socially divisive. With this budget, the Commonwealth government needs to recognise that this growing personal and structural inequality is a problem – and then commit to addressing it, with powerful policies to share income, wealth and power.

Two Visions of Leadership

Unfortunately, instead of working to build a more balanced and inclusive economy as Australia recovers from the pandemic, the Coalition government has celebrated and reinforced the inequality that has been so visible throughout the pandemic. Its reflexive response to any economic problem seems always to focus on shifting more income, power, and freedom to big business and high-income individuals. When all you have is a hammer, everything looks like a nail: and in the Coalition's eyes, everything in Australian society can be solved by granting still more power and privilege to the business sector.

This pattern was followed consistently by the Federal Government throughout the pandemic. The major features of the government's responses include:

- Despite initial reluctance, and pressed hard by unions and social advocates, the government implemented major income support and wage subsidy programs to support jobs and households early in the pandemic. These measures were powerful and critical. But the government designed them in as business-friendly a manner as possible: for example, allowing JobKeeper benefits to be pocketed by companies with very strong profits, some of whom even effectively paid the money out in dividends to shareholders or bonuses to executives. Then, obsessed with deficit reduction, government removed those measures too soon.
- In addition to these general measures, the government also announced generous targeted subsidies to favoured particular segments of the business community: such as tailored policies to benefit the gas industry, Qantas and other airlines, home builders, and others, always without binding performance requirements to ensure broader economic and employment benefits. Economic history shows that government support for private firms can be an effective strategy to build strategic industries and create good jobs – but only when that assistance is tied closely to clear and enforceable performance targets.
- Throughout its response to the pandemic, the government also revealed its reflexive focus on trying to suppress labour costs and liberalise casual work. This further contributed to soaring profits, and shifted more of the cost and risk (including the risk of future shocks) to workers.

In sum, the government has maintained a consistent pro-big business orientation throughout all of its pandemic policy interventions. The underlying philosophy is that government should focus on helping business, and the benefits will then trickle down. This faith is not consistent with the observed reality of a generation of trickle-down policies: redistributing economic income and power in favour of big business does not lead to faster growth or better living conditions. It just leads to very wealthy corporations.

There is a fundamental contrast between this worn-out doctrine of business-led growth, and a more balanced and inclusive vision of how the economy can recover from the pandemic. Australia needs a more balanced, people-led approach. The fundamental motivating goal of government policy should always be to meet human needs: supporting decent jobs, strong households, healthy communities, and a sustainable environment.
This always requires a focus on improving the quality and quantity of work – since decent work is the vital ingredient that underpins all of our economic progress. It doesn't assume that business and markets are always the best way to get things done: in some cases, markets (properly structured and regulated) can be effective, but in many cases they are inappropriate, inefficient, or destructive. A people-led economic strategy invokes all of the levers and tools of government – fiscal and financial powers; regulations; direct public provision and investment; industrial and innovation policies; training and education; social policies; trade policy; and more – in an aligned, consistent effort to expand Australians' opportunities to work and produce, and then use the fruits of our labour to lift living, community and environmental standards.

A timely example of a people-led approach to economic development and recovery was provided by the ACTU's proposal for a National Economic Reconstruction Plan, announced during the worst months of the pandemic (ACTU, 2020a). This proposal predicted Australia would require continuing support and leadership from active government policies for several years after the pandemic, to achieve a full quantitative and qualitative recovery in our economic and social potential. And today, despite the encouraging progress that has been made in recent months, the need for continued pro-active leadership by government remains clear. As described above, significant parts of the economy remain damaged and underutilised, and the recovery so far has been almost entirely dependent on a post-lockdown surge in consumer spending that cannot single-handedly lead the economy to full recovery. The rebound in consumer spending must be reinforced with active measures to strengthen household incomes (particularly wages, discussed below), address gender inequality and boost public and private investment in physical and social infrastructure, modern high-value industries, and renewable energy and environmental protection.

Our plan last year identified specific measures in five targeted areas of the economy that we argued would be particularly important in fostering a strong, balanced and inclusive recovery. Those measures did not, on their own, constitute a full and comprehensive reconstruction plan that we argued is required. But they provided concrete, practical examples of a people-led approach to economic recovery that can achieve more robust, shared economic gains. And the vision of inclusive reconstruction must also be supported with other policies reflecting the economic, social and environmental priorities of all Australians: building our economic capacities, while leaving no-one behind. For example, the ACTU last year also published a comprehensive analysis of the continuing crisis of gender inequality in Australia's economy and society (ACTU 2020b), that included several targeted measures to close the gender pay gap, improve safety for women (both at home and at work), and support women with top-quality public services and care. Similarly, the ACTU's proposals in the recent legislative review of industrial relations legislation (ACTU, 2021) identified important reforms required in Australia's systems of labour market regulation and collective bargaining, to ensure that workers have the ability to share fully in the economic gains of a future recovery. In short, a people-led vision of economic and social development implies an active and powerful role for government and public policy in shaping growth and distributing its gains – rather than simply enriching and empowering those at the top, and hoping the benefits will trickle down.

Our National Reconstruction Plan described how new investment, employment, and opportunity could be fostered to lead Australia toward full post-COVID recovery, using five strategic sectors of the economy as examples. Those five sectors included: early child care end education, training and vocational education, a comprehensive strategy to support a recovery in domestic travel and arts activity, a powerful commitment to investments in public infrastructure, and a well-rounded plan to revitalize Australian manufacturing. A summary of the measures we proposed is provided in Table 2. We estimated that, combined, these policies would create or preserve over 1 million jobs, and inject $165 billion in badly needed purchasing power into the economy over three years. Our expectation was that these measures would need to be sustained for some time – at least three years – to lead the all-around reconstruction of the economy after COVID-19.

Table 2: Five Sectors, Different Visions

Sector	ACTU Reconstruction Plan	Coalition
Early Childhood Education and Care	A national Early Child Education and Care strategy, including: $2.5b capital investment fund, permanent free childcare, ongoing funding of Universal Access (for all 3- and 4-year olds), and expanded transitional payments; stronger quality standards and better wages and working conditions for staff.	Provide temporary free childcare for 3 months, but then remove it even as the pandemic continued; exclude childcare workers from JobKeeper.
Training and VET	A Training for Recovery plan to provide nationwide Free TAFE programs in priority subjects; direct a minimum of 70% of public VET funding to TAFEs; provide $3b for capital improvements in TAFES; and subsidies for apprentices tied to permanent job-creation.	JobMaker scheme provides $200 per week for hiring an unemployed person under 30, and $100 for 30-35 year olds. By March only 609 jobs were created, and the scheme allows employers to replace permanent workers with short-term placements, no guarantee of permanent work.
Travel, Arts, and Hospitality	A Rediscover Australia strategy to promote domestic tourism and special events until international borders open: including $500m Commonwealth sponsorship of arts and special events; more Australia Council funding; extended income supports for arts workers; and payroll tax offsets for domestic travel and overnight accommodation.	Most of a $250 million fund to support the arts was unspent as of March 2021. Subsidised air tickets were offered only for specific destinations in safe or marginal electorates.
Infrastructure & Construction	Partner with states to rebuild public infrastructure investment to 6.5% of GDP, adding $30b annually to capital spending on physical and human infrastructure projects; include strong Australian content rules and community benefit targets for apprentices and hiring from targeted groups.	Announced many new projects, but reduced real Commonwealth capital spending by 5%; overall public capital investment (all levels) remains stagnant at 5% of GDP; provided grants for private residential construction projects over $150,000.
Revitalising Manufacturing	A Sustainable Manufacturing Strategy to foster investment, jobs, and exports from advanced manufacturing sectors; includes zero-interest long term loans, accelerated depreciation bonus for energy conservation investments, creation of new Sustainable Manufacturing Clusters, and a Superpower Investment Fund to spark new projects.	Establish a task force to consider ways to strengthen domestic manufacturing, but refocus the plan on subsidies for the domestic gas industry.

Source: Compilation from ACTU (2020), media reports, government budget documents.

There is a close historical analogy to a similar vision of sustained public sector leadership and national reconstruction that guided Commonwealth policy at the conclusion of World War II. Even before hostilities ended in that epic conflict, the government was already laying the groundwork for a multi-dimensional national reconstruction effort: creating and staffing a Department of National Reconstruction, boosting funding for economic and social programs after the war (rather than shifting into austerity), and leading Australia into an extraordinary generation of expansive, inclusive economic growth. At that time, our leaders responded to an overarching crisis with a spirit of nation-building, ratifying with its deeds the stirring belief that "we are all in this together." In the current Coalition government's case, unfortunately, that is just a slogan: there is nothing in its response to the pandemic that reinforces our ability to get through this pandemic, and its aftermath, together.

It is instructive to note that the Coalition government actually identified the same five broad sectors for targeted actions as part of its evolving response to the pandemic. In this regard, our selection of these strategic priorities has been ratified by the government's own approach: they accepted that these areas were crucial priorities for the recovery. However, that is where any similarity between the two approaches ends. In every case, the Commonwealth government's actions in each area reflected the same guiding philosophy described above: a business-led vision, consisting of generous, no-strings-attached handouts to private companies, a reliance on private markets, and an ongoing infatuation with disciplining and penalising the workers who make these industries work.

Table 2 also summarises the major elements of the Coalition government's policy responses in each of the same five areas:

- Instead of building out high-quality, accessible early childcare and education as a permanent and necessary feature of our social infrastructure (as is the case in most industrial countries), the government rolled out a no-strings-attached free-fee program, equally available to for-profit providers, but only for three months. The government then snatched the program back almost as soon as it started, leaving many thousands of families in the lurch – and perversely penalised childcare workers by inexplicably excluding them from the JobKeeper program.
- In the area of vocational training, the government announced several subsidy scheme[16] that impose weak conditions on firms receiving the funds. The programs will also channel funds to private VET providers instead of focusing on higher-quality, public programs (particularly TAFEs). Unlike the ACTU's proposal, the youth job subsidy (JobMaker) has no requirement on supported employers to create permanent jobs. Even the government's own Treasury staff predicted employers would use the scheme to replace full-time permanent jobs with multiple part-time subsidised youth positions (see Ziffer, 2021); that would produce only ongoing recycling of short-term placements and no permanent employment improvement. At any rate, very few employers bothered to participate: as of late-March, just 609 young people were receiving the subsidy (Karp, 2021). The government's measures have not even slowed the precipitous decline in apprentices and traineeships that has occurred on its watch: commencements in the September 2020 quarter (most recent data) were down 23% from the previous year, and completions down by 17% (NCVER, 2021).
- Particularly bizarre was the government's effort to support a rebound in domestic travel (despite continued uncertainty from localised outbreaks and state border closures) and the arts and entertainment sector – which was the hardest-hit part of the whole economy. The government announced a hurried and arbitrary scheme to pay half the cost of 800,000 air tickets to selected domestic travel destinations. This amounts to an enormous gift for Qantas and other airlines, which have continued to downsize and outsource their Australian workforces despite the government aid. Moreover, the regions

16 Including Supporting Apprentices and Trainees (SAC), Boosting Apprenticeship Commencements (BAC), and JobMaker.

selected to qualify for the program have a clear correlation with electorates targeted by the Coalition (Karp and Visontay, 2021). This indicates a uniquely repulsive combination of corporate welfare and political pork-barreling (reminiscent of the callously self-serving manipulation of public monies reflected in the 'Sports Rorts' scandal). Meanwhile, an arts subsidy program announced with great fanfare during the early stages of the pandemic has been mostly unspent (MEAA, 2021).

- In the area of infrastructure investment and construction, the government has issued a blizzard of announcements and ribbon-cutting ceremonies throughout the pandemic, symbolising its supposed emphasis on accelerating shovel-ready projects and supporting construction-related jobs. Here, too, the government's reliance on unconditional handouts to business and high-income households, and its emphasis on political optics rather than reality, is apparent. Its HomeBuilder scheme initially provided subsidies of up to $25,000 for residential renovation or construction projects costing at least $150,000; the program was extended in 2021, at a reduced rate of subsidy (up to $15,000 per project). The government claimed the program would spark $30 billion in incremental private construction activity, but given the limited number of applicants and the fact that property prices have grown strongly during the pandemic, this is not believable. Meanwhile, the urgent need for affordable public and community housing (which could have directly created more work; see CHIA, 2020) was ignored by the government. Despite many announcements and photo-ops, the actual level of government capital spending on infrastructure actually declined during the pandemic: national government capital spending declined by 5% from 2019 to 2020[17]. The government's failure to actually accelerate infrastructure spending thus perversely contributed to a deeper recession. Meanwhile, despite all the photo-ops with construction executives, employment in the construction sector was one of the hardest hit: as of February, construction employment was 30,000 jobs lower than before the pandemic.
- The gap between rhetoric and reality is possibly the widest in the case of Australia's long-struggling manufacturing sector. Sensing a change in public mood in the wake of shortages of medical equipment, supplies, and now vaccines, Coalition leaders suddenly began speaking of the need to 'build things in Australia' again – marking an about-face from their past practice of ignoring the strategic importance of manufacturing and daring global manufacturers to leave the country. The government appointed a high-profile task force (composed of business, union, and educational leaders) to develop a plan for resuscitating domestic manufacturing capability after the pandemic. The whole process, however, became extremely narrowly focused, and instead of the critical range of supports needed to transform our manufacturing industry became concentrated on a call for public subsidies for the gas industry, on the dubious claim that more gas production and pipelines would reduce energy costs for Australian manufacturers[18]. The government's 'Modern Manufacturing Strategy' purported to support vocational training in key skills required for advanced manufacturing, but was bedeviled by the same weaknesses as the other elements of the JobMaker scheme. The proof is in the pudding: manufacturing output declined another 2% in Australia in 2020 (despite the supposed commitment to domestic sourcing), and another 20,000 manufacturing jobs disappeared. Here a major opportunity to align post-COVID economic recovery with efforts to reduce emissions and achieve UN sustainable development goals was completely missed. Oxford University research for the UN Environment Program found that while Australia had a relatively large pandemic recovery package, we allocated the smallest proportion of that recovery expenditure to efforts to improve environmental protection or reduce emissions (United Nations Environmental Program, 2021).

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17 Calculations from ABS National Income Accounts Table 2; chain-linked data.

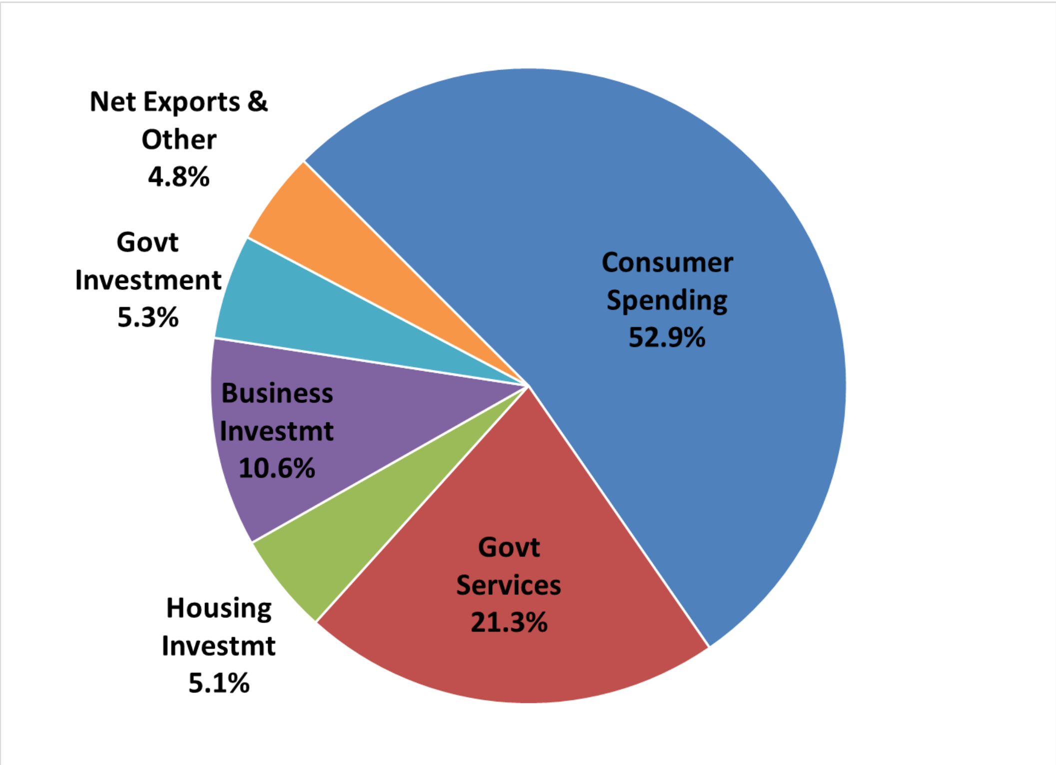
18 Gas prices for manufacturers have doubled in the last decade even as Australian production tripled, because of the negative impact of unconstrained LNG exports on domestic prices; calculations from ABS, Producer Price Indexes, and Dept. of Industry, Science, Energy and Resources, Resources and Energy Quarterly.

In not one of these five vital areas of Australia's economy, therefore, did the Coalition government's unconditional business-led approach produce significant or genuine improvements. The government's policies were always focused on demonstrating its commitment to supporting business autonomy and profits: delivering significant public monies (and in so doing contradicting its supposed faith in the virtues and efficiency of private markets), but with no guarantees of jobs, investments, or public benefits. Hence the government's measures were ineffective, and in some cases counterproductive. In essence, the government agreed with the ACTU that these five sectors should be important priorities for Australia's recovery from the pandemic. But its unwillingness to challenge businesses, and hold them to account for their use of public support, has squandered the opportunity to grow investment and employment in these sectors – and thus strengthen the overall recovery. A people-led approach, that elevates concrete and guaranteed employment and social outcomes to the top of the list of criteria for economic interventions, would have done so much better. It is well past time to reorient Australia's economic policy focus away from doing things that supplement business profits (and provide announcement opportunities for politicians), to doing things that actually create decent jobs and improve our communities and environment.

Rebuilding Australian Wages: Funding Recovery

The discussion above highlighted the near-total reliance of Australia's post-COVID economic rebound on a burst of consumer spending. Since the trough of the COVID-19 recession, increased consumer spending accounts for almost all of the increase in real GDP. Even in normal circumstances, consumer spending is the largest segment of total aggregate demand in the economy. In 2020, for example, consumer spending accounted for 53% of total national expenditure (see Figure 14). The recycling of household incomes (most of which come from employment) into consumer spending is a vital and normal feature of a healthy economy. But the extreme dependence of the current recovery on consumers highlights some underlying vulnerabilities which must be tackled as the economy enters the next phases of recovery. In particular, the post-lockdown surge in consumer spending – fueled by an understandable outburst of optimism, pent-up demand, and (for some households) excess savings – will not last for long. If consumer spending is to play its proper role in supporting the recovery on an ongoing basis, the purchasing power of Australian consumers must be strengthened. And that means, first and foremost, giving them significant and regular wage increases.

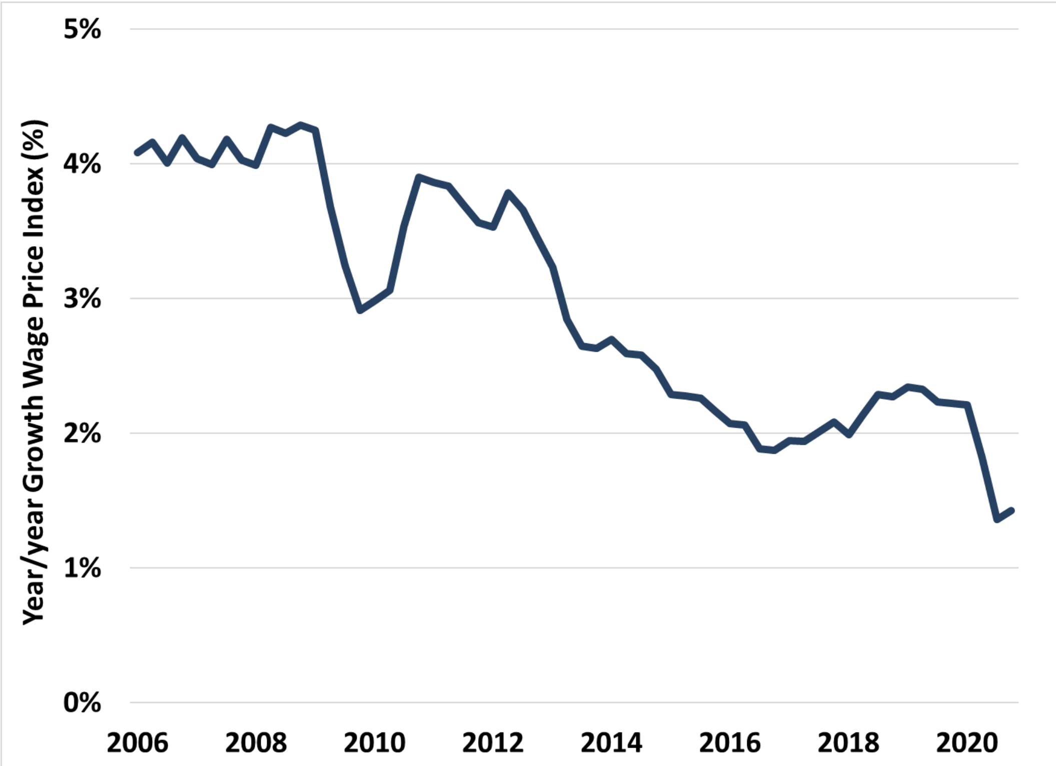
Figure 14. GDP by Expenditure by Sector, 2020



Calculations from ABS National Income Accounts, Table 3.

Australian wage growth was setting postwar record lows for years before the pandemic hit. Since 2013, wages decelerated dramatically from their normal pace (of 3-4% per year, or even higher in good years). Wage growth (measured by the ABS's Wage Price Index) fell by almost half, averaging just 2% per year since 2015 (see Figure 15). That was already the slowest sustained period of wage growth in Australia's postwar history – so any attempt to blame COVID-19 for the miserable state of Australian wages should be immediately rejected. The deceleration in Australian wages in this period was the worst of any major industrial country.[19] The problem has been obvious for many years. And repeated government assurances that this was just a temporary problem, and would be automatically fixed by market mechanisms and lower unemployment, were hollow. Indeed, in each year's federal budget, the government predicted an imminent rebound in wage growth – and each time, that prediction was wrong.[20]

Figure 15. Australian Wage Growth, 2006-2020



Source: Calculations from ABS Wage Price Index.

The sustained weakness of Australian wages has contributed to the dramatic shift in the distribution of income in Australia (between households, and between factors of production) that was detailed above. At 2% per year, nominal wages (on average) have barely kept up with consumer price inflation, implying virtually no improvement in real wages for Australian workers in the better part of a decade. But labour productivity has continued to grow in this period – albeit unevenly and unimpressively, as a result of the failure of government to properly nurture innovation, investment, and the growth of high-value industries in Australia. The combination of flat real wages with rising productivity translates into a falling labour share of total output. (It also directly drives the increase in profits detailed above.) Indeed, in 2019, before the pandemic hit, labour compensation (including superannuation contributions) had declined to just 47% of GDP – the lowest since the ABS began collecting this data in 1959.

19 As documented by Stewart, Stanford and Hardy (2018), Chapter 2.

20 Ongoing forecast errors in Coalition budget projections of wage growth are compiled by Centre for Future Work (2019).

This generation-long erosion of labour compensation reflects the cumulative effect of deliberate policies to repress wages, disempower workers, and fatten profit margins. By 2019, labour's share of the economic pie had declined by about 10 percentage points compared to the mid-1970s. Not coincidentally, the share of corporate profits in GDP increased by 10 percentage points during this exact same period. The erosion of workers' share of the wealth they produce has thus translated directly into the unprecedented and unbalanced growth of corporate profits over the last generation. If workers' share of GDP had remained at those 1970s levels, combined labour compensation (in wages and super) would have been $200 billion higher in 2019 than it was – translating into $15,000 in additional income, on average, for each and every employed Australian.

The ongoing structural shift of power and income from workers to employers is a fundamental and planned feature of Australia's recent economic history. It explains so much about the negative changes in our society, our politics, and our culture – including growing inequality, growing anger and division in our communities, and the chronic stagnation of the overall economy. This problem has been made worse still by the pandemic – and reversing this trend, with a pro-active, multi-dimensional effort to empower workers to demand and win better wages, and a fairer share of their output, must be a priority of the recovery from this catastrophe.

Wage-suppressing policies disproportionately affect women and exacerbate gender inequity, as women are more likely to be in low-paid, award reliant employment. One of the key reasons for the gender pay gap is that the Australian workforce is highly gender segregated, with industries and occupations dominated by women characterised by high levels of award dependency, lower wages and fewer protections. This is one of the reasons that during the 15-year period between 2006 and 2021, Australia has plummeted from 15th to 50th place in the World Economic Forum's *Global Gender Gap Report*.

Of course, with the shock to labour markets experienced during the pandemic, Australia's already-record-low wage growth slowed even further. During the worst months of the crisis, wages did not grow at all. On a year-over-year basis, wage growth slowed to 1.4%, by far the weakest since the ABS began gathering these statistics. By other measures, too, wage growth slowed to unprecedented lows – including in collective bargaining wage settlements, which fell to the slowest in the history of enterprise bargaining, partly due to wage caps and other austerity imposed in the public sector. Again, this is not a cyclical issue, and cannot be blamed on COVID-19. It reflects the culmination of the long-term change in the balance of economic and political power in our society, which has been a central goal of policy through most of the last generation. Many analysts expect wage growth to get even weaker, despite the partial recovery in the economy: Deloitte Access Economics (2021) forecasts further slippage to just 1.1% next year.

Wage growth must be lifted back to normal levels (of at least 3.5% per year) to support the continued growth of consumer spending, which has been about the only source of post-COVID economic recovery so far. Reserve Bank Governor Philip Lowe has also endorsed this as a target for wage growth (see, for example, Lowe, 2018). He has argued that for his Bank to achieve its mandated 2.5% inflation target (which it has missed, from below, for several consecutive years) wage growth must accelerate to around 3.5%; combined with trend productivity growth of around 1%, this implies a rate of increase in unit labour costs consistent with the inflation target and stable factor shares. The beneficial impacts of stronger wages for consumer spending, aggregate demand, and hence job-creationreinforce the argument for stronger wages.

In short, supporting a rebound in wage growth to normal levels is an essential precondition to sustained inclusive recovery. But the Coalition government's response on this issue has been nothing short of perverse and self-destructive. Instead of invoking its numerous policy levers to strengthen wage growth, the government has reverted to its knee-jerk tendency to do whatever it can, no matter the economic context, to suppress labour costs and thus further boost profit margins for its supporters among employers and financial investors. During the pandemic, the Coalition government has taken the following actions to suppress wage growth:

- Its submission[21] to the Fair Work Commission's annual minimum wage review (which affects, directly or indirectly, the wage increases of as many as one-third of Australian worker[22]) pressures the Commission against implementing a significant wage increase despite the post-COVID recovery in employment. The submission repeated old arguments that higher wages will reduce employment, which have been largely rejected by modern economists.[23]
- The government imposed a new, even tighter cap on wage increases for Commonwealth public servants, once again overriding normal enterprise bargaining arrangements. The policy will limit wage increases (previously capped at 2% per year) to the same pace as the average growth in the ABS's Wage Price Index for private sector employees (see Department of Prime Minister and Cabinet, 2021). At present this implies a cap on federal wage gains of 1.36%.[24] Given the demonstrated negative impact of restrained public sector wage settlements on private sector wage growth (through demonstration and macroeconomic effects,[25] this policy sets up a perverse race-to-the-bottom between the public and private sectors over who can keep wages lowest. Private sector employers will be emboldened by the new, stricter benchmarks set by governments (which are the largest employers in the country) to downgrade their own wage offers, which in turn (under this policy) will lead to still-stricter public sector caps. Apart from its counter-productive macroeconomic consequences, the tightened wage cap is a slap in the fact to Australia's public servants (a majority of whom are women), who sacrificed so much to support Australians through the pandemic. Instead of encouraging more wage suppression, government should use its status as a large employer to set a positive model for behaviour in the rest of the labour market.
- During the pandemic government convened a series of round-table discussions on industrial relations matters, involving many stakeholders (including the ACTU and numerous affiliated unions). Despite sincere efforts by the unions to reach agreement around innovative proposals to respond to COVID-19 and strengthen wage-setting and other industrial outcomes, the government abandoned attempts to build a consensus[26] and instead embarked on a divisive effort to push through a long list of business-friendly changes to industrial legislation, under leadership of now-departed IR minister Christian Porter. While most of those measures, appropriately, were blocked in the Senate, one important change was passed that will further weaken wage growth in coming years. A new provision cementing the right of employers to hire workers on a casual basis in any position they desire to do so, with very weak opportunities for permanent conversion, and the retroactive stripping of legal entitlements confirmed in recent court cases, will undoubtedly expand the use of casual employment arrangements in the future. Workers in casual jobs (the majority of whom are women) have very little bargaining power to demand higher wages, since they always worry about getting more hours, and more stable schedules. Indeed, average wages for workers in casual jobs are far lower than for permanent workers. For both reasons, the continuing expansion of casual employment will inevitably translate into even weaker aggregate wage growth.[27]
- The government's decision to eliminate the JobKeeper and Coronavirus Supplement programs, which provided vital backstops to employers, employees, and the unemployed, will result in the loss of jobs (both directly, due to cancellation of wage subsidies which protected many jobs, and indirectly through the loss of purchasing power) and increase the desperation of those seeking work. This will also heighten the downward pressure on wages, as employers exploit underutilised labour markets to cut labour costs.

21 See Government of Australia (2021).

22 See Centre for Future Work (2020) for more evidence on the growing importance of minimum wages in overall wage determination.

23 See Stanford (2021) for a review of the changes in economic theory on minimum wages.

24 Calculations from ABS Wage Price Index to December 2020.

25 See Henderson (2018) for discussion of these spillover effects of public sector wage caps.

26 The government was influenced by pressure exerted within its own ranks by more extreme elements of the business community; see Hannan (2021).

27 The implications of this measure for wage growth are explored in detail in ACTU (2021) and Pennington and Stanford (2021).

In all these ways, the actions of the Coalition government have made the stagnation of Australian wages, already a crisis long before coronavirus arrived on our shores, even worse. By putting the greed of its business backers ahead of the need for a balanced, inclusive recovery, the government is undermining and ultimately jeopardizing continued recovery. Its claim that strong profits will 'trickle down' to the rest of society in the form of robust employment and wage gains has never previously come to pass – and that recipe will not work this time, either.

Instead of still more efforts to suppress wages and shift income toward profits, Australia needs a deliberate, powerful and sustained effort to empower workers to demand more, not compel them to accept less. The government has many tools at its disposal to accomplish this:

- It should argue for substantial increases in the minimum wage, to meet a living wage threshold at which full-time workers can at least meet and exceed poverty benchmarks.
- It should abandon its efforts to police trade union activity and repress workers from enjoying their rights to freely organise, bargain collectively, and take industrial action. It should also implement measures which provide all workers across all sectors with opportunities to participate in bargaining to lift wages.
- It must get its own house in order, by eliminating arbitrary and punitive wage caps, encouraging those state governments with wage caps to drop theirs, and restoring normal collective bargaining rights for its own public sector workers.

The Weaponisation of Debt

In the presentation and aftermath of the 2021-22 Commonwealth budget, we can expect an amplification of long-standing rhetoric about the dangers of government deficits and accumulated public debt. These arguments largely fell silent during the worst phases of the pandemic – and with good reason. First, Australians faced a clear and present danger from the disease and all its consequences, and they rightly expected their governments to do everything possible to protect them, regardless of the cost. Traditional arguments about 'fiscal restraint' and 'balancing the budget' would have fallen on deaf ears.

Second, government proved in the pandemic that budgets are no barrier to mobilising whatever resources are required to meet the public's needs. Especially at the Commonwealth level, government faces virtually no limit on the financial resources it can bring to a national emergency. Backed by its taxation powers, the central bank (which in 2020 joined other global central banks in injecting new funds into the economy through large purchases of government bonds), and an independent currency, the national government could allocate unprecedented resources to programs like JobKeeper and the Coronavirus Supplement, not to mention the vital on-the-ground response of our acute care and public health infrastructure. State governments do not have as much fiscal flexibility as the Commonwealth, but they too rightly abandoned traditional preoccupations with balancing their budgets in the face of the urgent health and social emergencies in their states.

In short, the experience of the pandemic has decisively refuted, in real time, old arguments that government is constrained by 'fiscal prudence' from undertaking necessary investments in the economic, social and environmental well-being of Australians. When government chooses to, it can dedicate enormous funds to essential priorities. And when it does not do so, this reflects its choices and priorities – not some binding economic or fiscal limit. The fact that, during an unprecedented national emergency, government could implement a new policy measure (the Coronavirus Supplement) that, virtually overnight, lifted some 470,000 Australians out of poverty,[28] confirms that enormous problems can be successfully tackled if we have the collective will to do so. The fact that the same government then chose to throw most of those same Australians back into poverty by withdrawing the program, once again in the name of 'fiscal restraint,' also sadly confirms that the existence of poverty is a matter of choice and priority, not an economic inevitability. Meeting Australians' immediate needs for secure work, living wages, quality public services, and a liveable environment must be the ultimate 'anchors' of government fiscal policy, not meeting arbitrary and counter-productive budget targets. Government proved in the pandemic it can mobilise massive resources when it chooses to. It must continue to do just that, with an aim to achieving a full recovery from this catastrophe.

Fiscal conservatives are now frantically trying to stuff the genie back into the bottle. It has been proven that balanced budgets are no limit to government's ability to solve critical problems. But that is a dangerous notion (in their minds), because it would whet the appetite of Australians for more action on vital priorities: like job-creation, better public services, affordable housing, environmental protection, and more. So the old slogans about 'looming fiscal crisis' and 'hitting the debt wall' are being dusted off in preparation for the budget. The Treasurer and his colleagues will once again try to weaponise the issue of government debt, to rebuff legitimate demands for more government action in the uncertain years ahead. Australians should ignore that fear-mongering.

Yes, the Commonwealth government (and to a much lesser extent the states) incurred unprecedented deficits during the worst months of the pandemic. This is not a 'failure' of some kind: rather, it is proof that government did its job. Large deficits are the flip side of the massive public investments which were made in health, safety, and income supports as the pandemic gripped the country. They translated into the delivery of real resources to fight COVID-19: including hospitals, clinics, quarantines, contact tracing, and (sadly delayed) mass vaccinations.

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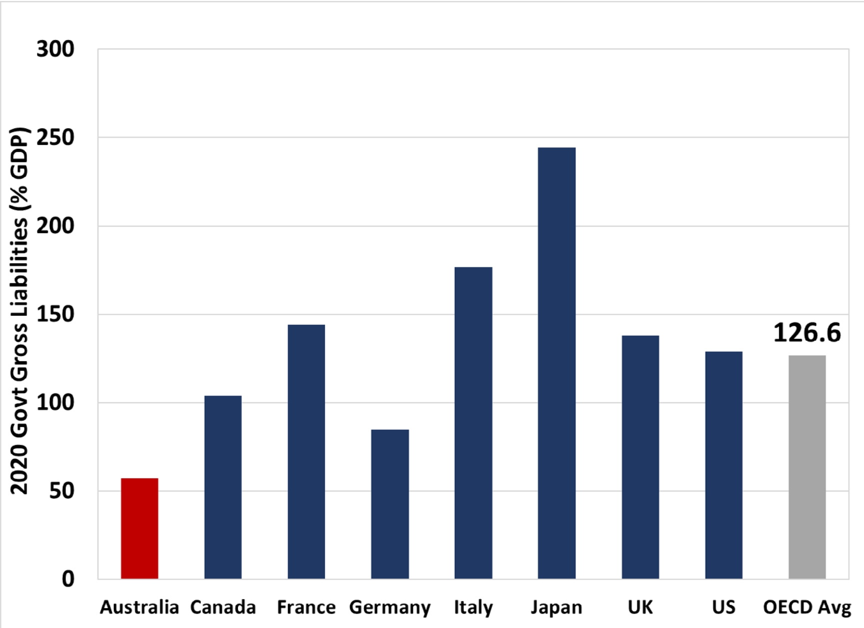
28 As estimated by Grudnoff (2021).

They translated into the provision of tens of billions of dollars of support to Australian families and businesses trying desperately to cover costs and stay viable. Those deficits, literally, translated into money in the pockets of Australians. Surprisingly, aggregate household savings actually increased in Australia during the pandemic, despite the resulting economic shock: partly because spending initially declined (due to retail closures and shattered consumer confidence), and partly because the government income supports offset (in aggregate[29]) much of the lost income that Australians experienced due to job loss and other shocks. Far from being 'burdened' by crushing government debt, Australians are actually *richer* because of the deficit-financed measures that were implemented in the pandemic: the government's debt, literally, is an asset for the private sector.

Figure 16. Gross Government Debt (All Levels), Selected OECD Countries

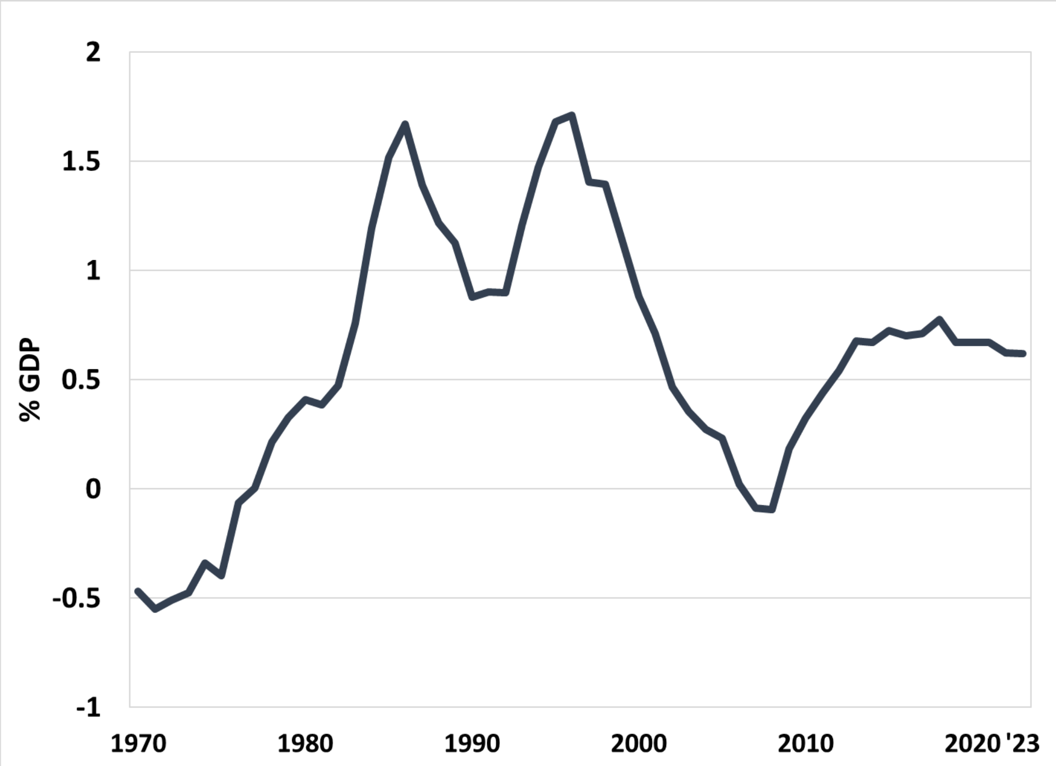


Source: OECD Economic Outlook Database.

And despite those large deficits, the capacity of Australia's government (again, especially at the Commonwealth level) to continue providing extraordinary income supports and services to Australians is unquestioned. Australia's government debt is very small by international standards: less than half the average for all OECD countries (see Figure 16). Australia's debt is tiny compared to countries like Japan: where accumulated debt now equals 250% of GDP, yet the government has continued to provide essential services and supports to its population, without experiencing any kind of 'debt meltdown.' Indeed, Japan's COVID-19 response is widely recognised as among the world's most effective. There is no credibility to arguments that Australia is somehow heading for financial or economic disaster if we don't rapidly reign in the deficit. To be sure, last year's enormous deficit will not be repeated: many pandemic-related expenses would naturally fall off (even without unnecessary austerity measures, like the government's cancellation of JobKeeper and the Coronavirus Supplement), and revenues will naturally rebound as the economy regains momentum. But until such time as Australia reaches a point of true full employment, with every willing worker occupied to their full potential in decent, productive work, reducing the deficit must never be the top priority. The true 'fiscal anchor' which should guide government decisions, including in the upcoming 2021-22 budget, must be to protect the health and livelihoods of Australians. In many cases that means spending more public money, not less.

29 The increase in aggregate household savings should not be taken as evidence that the income support payments were somehow extravagant or unnecessary. Millions of individual Australian families experienced lower incomes and drew down their personal savings – including, perversely, the 3.5 million Australians who withdrew $36 billion from their superannuation funds under the government's misguided early release program (see APRA, 2021). So the resilience of aggregate household savings through the pandemic hides the severe financial stresses experienced by many households.

Figure 17. Commonwealth Government Net Interest Payments

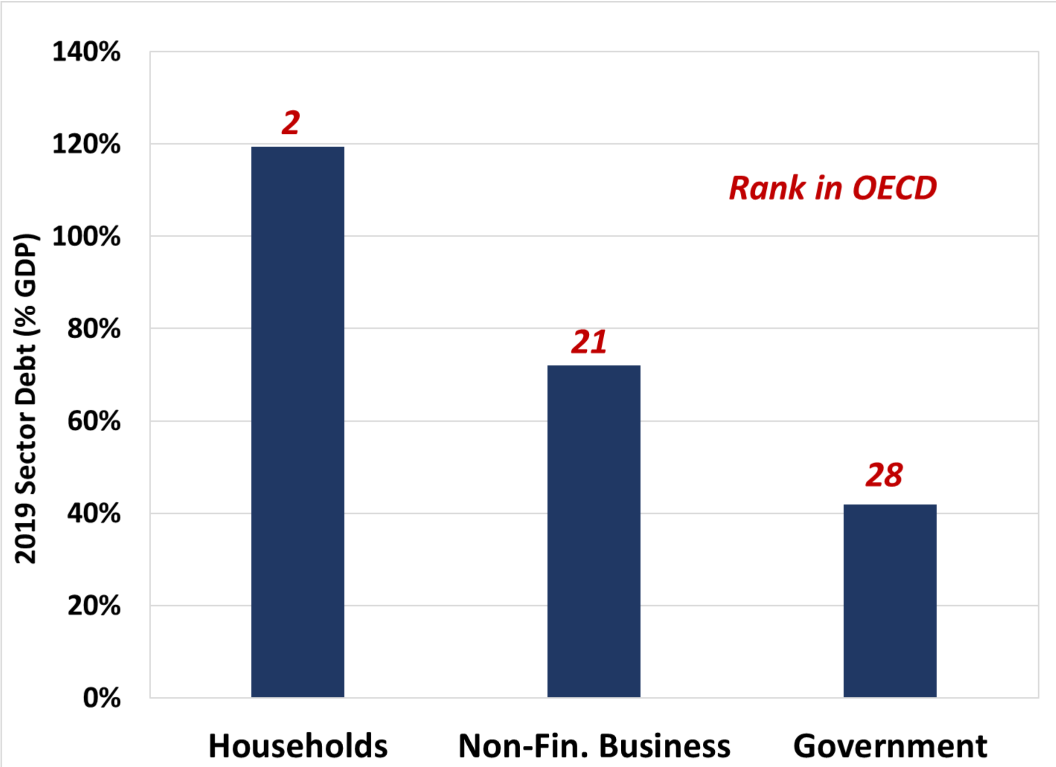


Source: Commonwealth Budget Papers.

The government has ample fiscal capacity to manage those deficits moving forward, thanks to record-low interest rates and the actions of the Reserve Bank (whose bond purchase program has supported low interest rates and facilitated the government's fiscal response to the pandemic). Indeed, interest rates on most maturities of government debt are negative in real terms – meaning that nominal interest rates are lower than expected inflation, so that government will pay back less in real terms than it borrowed. In this sense, the government literally 'saves' money by borrowing. Commonwealth interest payments are equal to around 0.7% of Australian GDP, much lower than in past years, and have not increased by this measure despite last year's deficits (see Figure 17). Low interest rates (including savings resulting from the roll-over of previous bonds at now-lower rates) are offsetting the increase in the total amount of debt, so aggregate interest payments are not growing in relative terms. Low interest rates offer an extraordinary opportunity for government to borrow more, not less, and to invest those funds in infrastructure (both physical and human) and services that enhance the well-being and future productive capacity of our society.

Borrowing to finance long-lived, productive investments is the exact same rationale that leads other parts of our economy – notably businesses and households – to also take on debt. Indeed, despite recent large deficits, the public sector is the least indebted part of Australia's economy. Australian households are carrying three times more debt (relative to GDP) than the government, largely due to astronomical property prices (see Figure 18). Private businesses are carrying almost twice as much. Moreover, while Australia's public debt is small relative to other countries (ranked 28th among the 36 countries of the OECD as of end-2019), our households are among the most indebted in the world – ranked 2nd only behind Switzerland). In that regard, trying to reduce government debt at the expense of programs (like income supports) which strengthen the financial position of Australian families is perverse: it will only shift the risk and cost from government (which has unlimited financial capacity, and pays lower interest rates than any other borrower) to individuals (many of whom face dire financial challenges, and pay much higher interest rates).

Figure 18. Gross Debt by Sector as Share GDP, End-2019



Source: Calculations from Bank for International Settlements, Credit to the Non-Financial Sector.

In sum, the undue focus on public debt reflects a political agenda (trying to restrain government's footprint and dampen public expectations of good service), not an economic necessity. The coming effort by the Coalition government to once again weaponise exaggerated fears of public debt to justify needless austerity can and should be firmly rejected. The deficit is no excuse for government to abandon its responsibility to protect the interests of Australians.

Conclusion: An Equitable, People-Led Recovery

Australians are grateful for our generally effective health response to the pandemic (led by state governments), which achieved one of the lowest rates of infection in the world. Our initial economic rebound has been positive and encouraging – if incomplete and unbalanced. Our situation would be even stronger if more emphasis was placed on ensuring a recovery that leaves no-one behind, and addresses the fractures in Australia's economy and society that were evident before the pandemic hit.

If government now reverts to normal practice – more handouts to friends in business, with no strings attached, and confrontation with anyone who demands better (unions, women or anti-poverty advocates, for example) – then we can expect to stumble through the coming months and years. No plan, no vision, no attempt to build cohesion or solidarity across society. Just another opportunity for government to widen and even celebrate the divides in society, and lash out at its critics. That's not how Australia will defeat the pandemic and everything it exposed.

The measures we need include the following:

- The Commonwealth must continue extraordinary income supports for workers and sectors who still need it (including sectors that are still suffering badly like tourism, the arts, air transportation, and higher education). The cancellation of JobKeeper and the Coronavirus Supplement will undermine the employment recovery in coming months. They will hit especially hard in those sectors which have yet to fully recover from last year's downturn. Job Keeper should be available for any workers at businesses still suffering because of the pandemic and recession.
- The government must also genuinely ramp up its activities in the real economy: including a permanent expansion in vital public and community services, and a genuine and sustained program to improve public infrastructure (both physical and social infrastructure). One urgent priority within this theme is the necessity to finally address Australia's failure to implement a free, universal and high-quality system of early childhood education and care, to underpin women's stronger labour force participation and employment[30]. Another priority must be a strong start to implementing the recommendations of the Royal Commission on Aged Care Quality and Safety, which will require major public investments in staffing, training, and regulation – investments which would strengthen post-COVID job-creation and improve the lives of our elders.
- Australians have been angered by the recent exposure of shocking episodes of sexual assault and harassment, occurring even within our own Parliament. The ongoing crisis of gender inequality and violence has an economic dimension, as well as its enormous human costs. Women's inferior economic position – with lower participation, lower earnings, and concentration in insecure jobs – damages our society and economy and has the very real effect of limiting their capacity to leave abusive jobs or relationships. The continued failure to provide women (and all parents) with adequate social supports, most critically an accessible high-quality early childhood education and care system, continues to suppress women's participation and employment below levels typical of other developed countries, and robs Australia's economy of hundreds of billions of dollars in income and productivity. This budget must take gender equality seriously in economic and fiscal terms, not with token appointments and shallow statements of regret. Measures to support women's participation, wage equality, and key services (including ECEC) should be central to the government's plan for continuing economic recovery.

30 The ACTU (2020a) proposed roll-out of a national ECEC program as a core element of our National Economic Reconstruction Plan.

These must include in addition to significant investment in ECEC, an expanded 26 week Paid Parental Leave scheme, 10 days paid family and domestic violence leave and the urgent implementation of all 55 recommendations in the Respect@Work report. The ACTU provided a comprehensive agenda for these required actions in our major report, *Leaving Women Behind: The Real Cost of the Covid Recovery* (ACTU, 2020b).

- An important component of a national infrastructure strategy must be a renewed emphasis on affordable public and community housing. There are already signs that ultra-low interest rates, a necessary response to the recession last year, are causing the emergence of another 'bubble' in property prices. This will make housing even less affordable for many families (especially young families), and creates risks of future financial instability when housing prices turn down. A strategy to build affordable housing would create jobs now, dampen speculative pressures in property prices, and support sustainable housing arrangements for tens of thousands of Australians[31].
- Australia needs an ambitious strategy to support investment, both public and private, in the key strategic industries of tomorrow, and start to rebuild Australia's advanced economic capacities. Obvious targets for this type of sectoral development planning include advanced manufacturing, medical equipment and technology (including rebuilding Australia's capacity to develop and manufacture vaccines[32]), new renewable energy technologies, digital technologies and products, and more.
- Investing in efforts to achieve net zero emissions across the economy and the energy transition that is accelerating around the world are also vital components of national reconstruction. Enormous opportunities exist for the expansion of renewable energy systems, the production of equipment and materials for those projects, and the use of Australia's unmatched endowment of renewable energy to enhance the competitiveness of our manufacturing and other export-oriented sectors. Government must support this transition by committing to clear renewable energy and emissions reduction targets, confirming policy parameters (so long-term investments can be made with more certainty), and co-investing in new technologies and projects. An ambitious and comprehensive strategy to support fair employment transitions in existing fossil fuel industries, including a commitment to no forced redundancies and generous retirement, training, and redeployment provisions, must be central to this effort. Australia is increasingly falling behind our trade partners and competitors on emissions policy, which will damage our future economic performance. The most recent national emissions inventory found that, despite the persistent claims of the Government about "meeting and beating" targets, we are only on track to cut emissions by 22% by 2030, well short of our Paris Agreement target of 26-28% and significantly less ambitious than the targets of the US, the EU, Canada, Japan and many other nations. With the vast majority of our trading partners also committing to net zero emissions, our laggard status is a major threat to our export industries and our future economic prosperity as the world increasingly demands low emissions goods and services.
- Consumer spending has been vital to the recovery so far, but it cannot continue to make progress unless the financial foundation for household consumption is solidified – and that means lifting wage growth from its current record-breaking doldrums. Direct government measures to boost wages to underpin future consumer spending, so critical for restoring macroeconomic momentum, include removing public sector wage caps, increasing minimum wages and Award rates to living wage thresholds, and making collective bargaining accessible for all workers (including effective collective multi-employer bargaining).
- Complementary to the effort to lift wage growth, the government must also take measures to improve job stability, and rein in the surge of insecure and casual work which has dominated the employment recovery since COVID-19. The government's new legislation regarding casual work, which allows employers to hire on a casual basis for any position they refer (and retroactively strips workers of

31 See CHIA (2020) for an ambitious and positive proposal for expanding affordable housing construction.

32 The announcement that the Victoria state government will co-invest in new capacity to manufacture mRNA vaccines is very encouraging in this regard; see Murray-Atfield (2021).

previously-confirmed entitlements) must be abandoned, and replaced with a definition that reflects genuine conditions of fluctuating or temporary work. The pandemic proved that insecure jobs, and the denial of basic entitlements (like paid sick leave, annual leave and superannuation) to millions of workers constitutes more than just an unfair burden for workers in those jobs; it also undermines public health, by compelling those people to continue working regardless of the health consequences. Paid sick leave for all workers must be introduced as a basic right, so we are better prepared for the next pandemic. Government can lead the way in stabilising jobs by creating secure quality jobs and reversing the outsourcing of many crucial public and human services.

The 2021-22 Commonwealth budget will be a critical point in determining the nature and direction of Australia's post-pandemic recovery. Australia cannot afford another installment of typical Coalition trickle-down policy – based on unconditional handouts to cronies in business, austerity for the rest of Australians, and a misplaced faith in the capacity of a business-led economy to provide opportunity and security for the whole of society. A people-led strategy for all-round recovery from COVID-19, that addresses the long-standing fractures in our economy and society that were evident long before the pandemic, is essential to lead Australians through the remaining stages of this historic crisis. While the recovery in employment and output since last winter is encouraging and welcome, it cannot lead to complacency or chest-thumping by the government: the recovery still has a long way to travel, and it is held back by major structural weaknesses (most notably continuing stagnation in wages, investment, and job quality) that could easily throw the economy back into recession. Our proposals to mobilise real resources in income supports, public services and infrastructure, modern industry-building strategies, environmental transitions, and all-round economic and social equality, could put Australia on a path of sustained expansion and rising living standards. That's what happened when more visionary leaders launched Australia's national reconstruction after the conclusion of the Second World War. And it could happen again – but only if our government puts people first in its economic and fiscal decisions.

We will judge this budget based on whether it supports Australians to work, in decent jobs for fair pay, protects us from the challenges that are still ahead of us, and builds the spirit of shared endeavour that is crucial to a stronger, fairer Australia.

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