Off the Cliff:

Protecting Jobs and Incomes Through the COVID19 Recession

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Off the Cliff...

One Year Before Peak = 100

1990 Recession

2020 Recession

Quarters

???
Off the Cliff...
Off the Cliff...
An Unprecedented Moment

• Whole parts of the economy are shutting down:
  – Retail, hospitality, arts & entertainment, personal service, airlines, other transport.

• Spillover impact spreading into other sectors:
  – Eg. Retail ➔ Wholesale ➔ Manufacturing

• Supply chains disrupted by travel and health restrictions.

• Other chain reactions will make it worse:
  – Consumer spending, business investment, exports.
What to Expect

• Loss of 2 million jobs (more?) in coming weeks.
  – Unemployment rate shoots toward 20%.
• Decline in GDP of 10% (more?) in June quarter.
• Immediate loss of incomes for workers, families, businesses, organisations.
  – Forcing them to stop spending, cut jobs.
• Unprecedented in history: a faster, steeper decline even than the 1930s.
• Key task: stop it from becoming a Depression.
OECD: Australian GDP declines 22% during the shutdown.
We’re All in This Soup Together
Government Response So Far

• Stimulus #1 (March 12): $17.6 billion
  – 75% business, 25% households: $750 to people on benefits; waive waiting period for JobSeeker.

• Stimulus #2 (March 22): $66 billion
  – 70% business, 30% households: double JobSeeker (to $1100/fn).

• Stimulus #3 (March 30): $130 billion
  – Wage subsidy to business ($1500/fn).

• Banking, credit and interest: throughout.
  – Lower interest rate, quantitative easing, govt loan guarantees & co-loans.
Wage Subsidy: Key Facts

• Employers (business, NFPs, community orgs) experience 30% revenue decline (50% if over $1 billion total revenue).
• Apply for wage subsidy for some or all of their affected workforce.
• Can get it whether they are actively working or can’t work.
• Flat-rate benefit: $1500/fn for each covered worker.
• Lasts for 6 months.
Wage Subsidy: Pros & Cons

**PROS:**
- Ambitious, powerful.
- Covers most workers (not all).
- Strong support for low-wage workers.
- Will prevent many stand-downs, dismissals.

**CONS:**
- Needlessly excludes short-tenure casual (1.1m) and non-Kiwi visa workers (1.1m).
- Replacement rate low for full-time (55%).
- Needs protections to prevent wage cuts, substitution, rorts, cherry-picking.
Don’t Say “Stimulus”

• Can’t think of what is required as counter-cyclical stimulus, for two big reasons:

1. We don’t **want** people to go to work and go out shopping. The goal is to **support** a temporary shut-down.

2. The problem is far too big to solve with normal counter-cyclical “smoothing.”
   – A normal recession ends with gradual recovery in business/consumer confidence/spending.
   – This one will require a massive rebuilding plan.
A COVID-19 “Marshall Plan”
A COVID-19 “Marshall Plan”

• Private sector will be too damaged to lead a “normal” recovery.

• Public sector must be prepared to lead a long-term reconstruction programme.

• Key elements:
  – Repair / strengthen health system.
  – Sustained public infrastructure investment.
  – Climate transitions (energy / transport).
  – Non-market housing.
  – Permanent expansion of public services, hiring.
  – Community development / entrepreneurship.
How Will We Pay For It???

• Expect public debt to grow rapidly (100%+ GDP).
  – Something to be celebrated, not feared.
  – Flip side of the coin of public investment.
• Post-WWII debt: 130% of GDP. No-one cared!
• Debt hawks have been quiet ... for now.
  – But get ready for another round of austerity.
• Financing this debt will be different & do-able:
  – Negative real interest rates.
  – Quantitative easing.
• Only constraint on what we can do: people.
Annual Wage Review

• Submissions closed last week (see ours).
• Another blast from the past: “This is no time to raise wages.” (Like they argued in 1930s.)
• Minimum wage awards have been more important to overall wage trends since 2017.
  – Without them, wage growth would still be <2%.
• Economy is already on verge of deflation.
  – A wage freeze would accentuate that risk.
• Need to press FWC to go ahead with a normal healthy increase.
## Measures of Inflation, 2008 v. 2019

<table>
<thead>
<tr>
<th>Inflation Measure</th>
<th>Year-over-year Growth (%)</th>
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<tbody>
<tr>
<td>Consumer Price Index</td>
<td>3.70%</td>
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<tr>
<td>GDP Implicit Deflator</td>
<td>7.26%</td>
</tr>
<tr>
<td>Wage Price Index</td>
<td>4.29%</td>
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</tbody>
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Source: Centre for Future Work from ABS Catalogues 5206.0, 6401.0 and 6345.0.

December Quarter: -3%!
What We Need

Immediate:
• Mobilise all possible resources into the health response (that has economic effects).
• Prevent mass unemployment.
• Inclusive income support to all those who need it.

After The Health Emergency Ends:
• Reconstruction plan led by government investment & expanded public services.
• Permanently fix safety net: include insecure work, maintain higher level of benefits.
• Utilise alternative financing; resist austerity.
Conclusions

• This will be an unprecedented, painful crisis.
• Many economic and political dangers at hand.
  – eg. Dictatorships returning in Europe (+ US?).
• But there is an opportunity, as well:
  – Recognise the value of so-called “menial” jobs.
  – Rediscover the importance of public services and infrastructure.
  – Create a new model of growth: public-led, democratic, focused on meeting human needs.
  – Permanently shift economic leadership.
Thank You!

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