

# Off the Cliff:

## *Protecting Jobs and Incomes Through the COVID19 Recession*

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*Webinar, 1 April 2020*



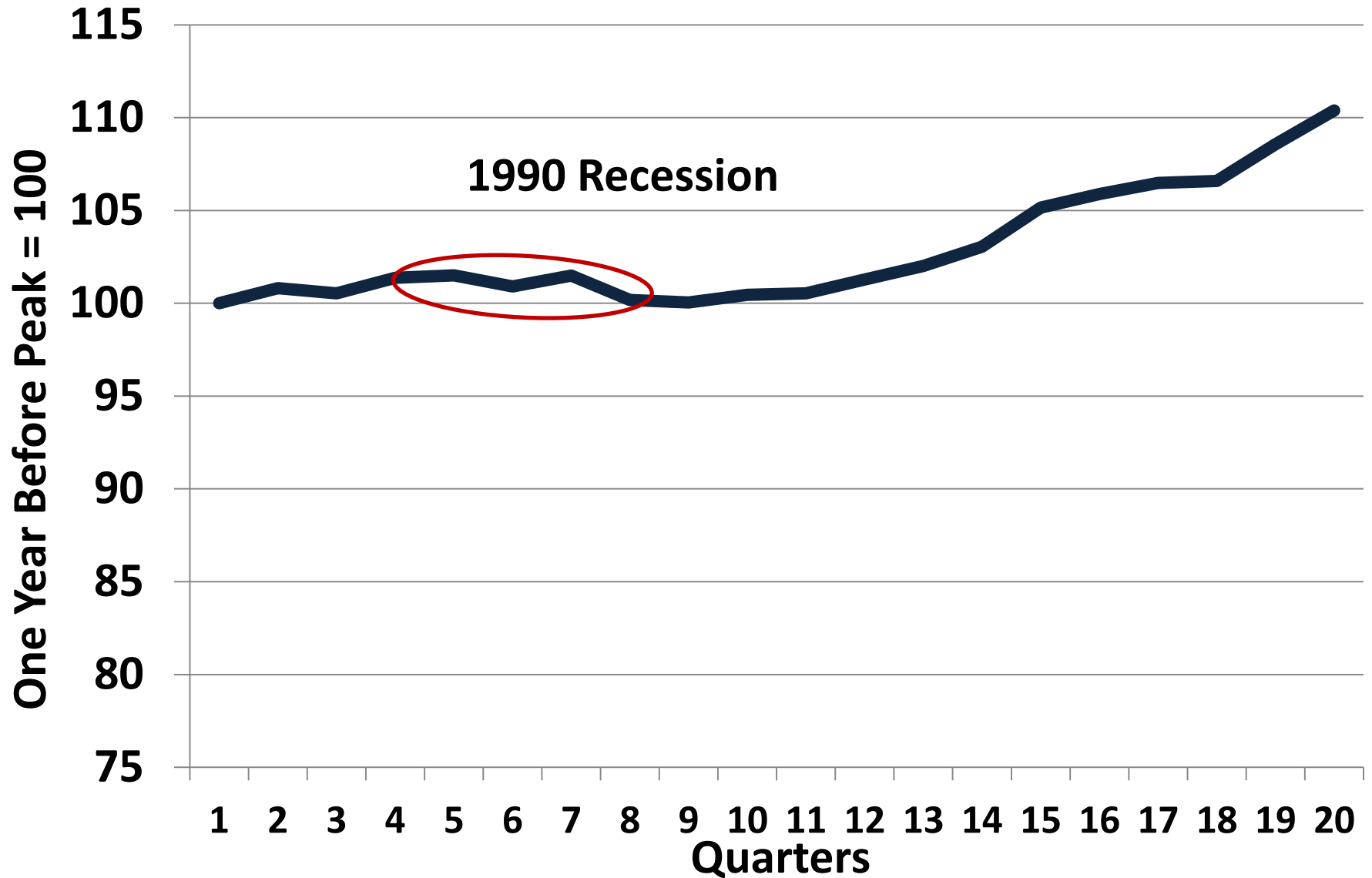
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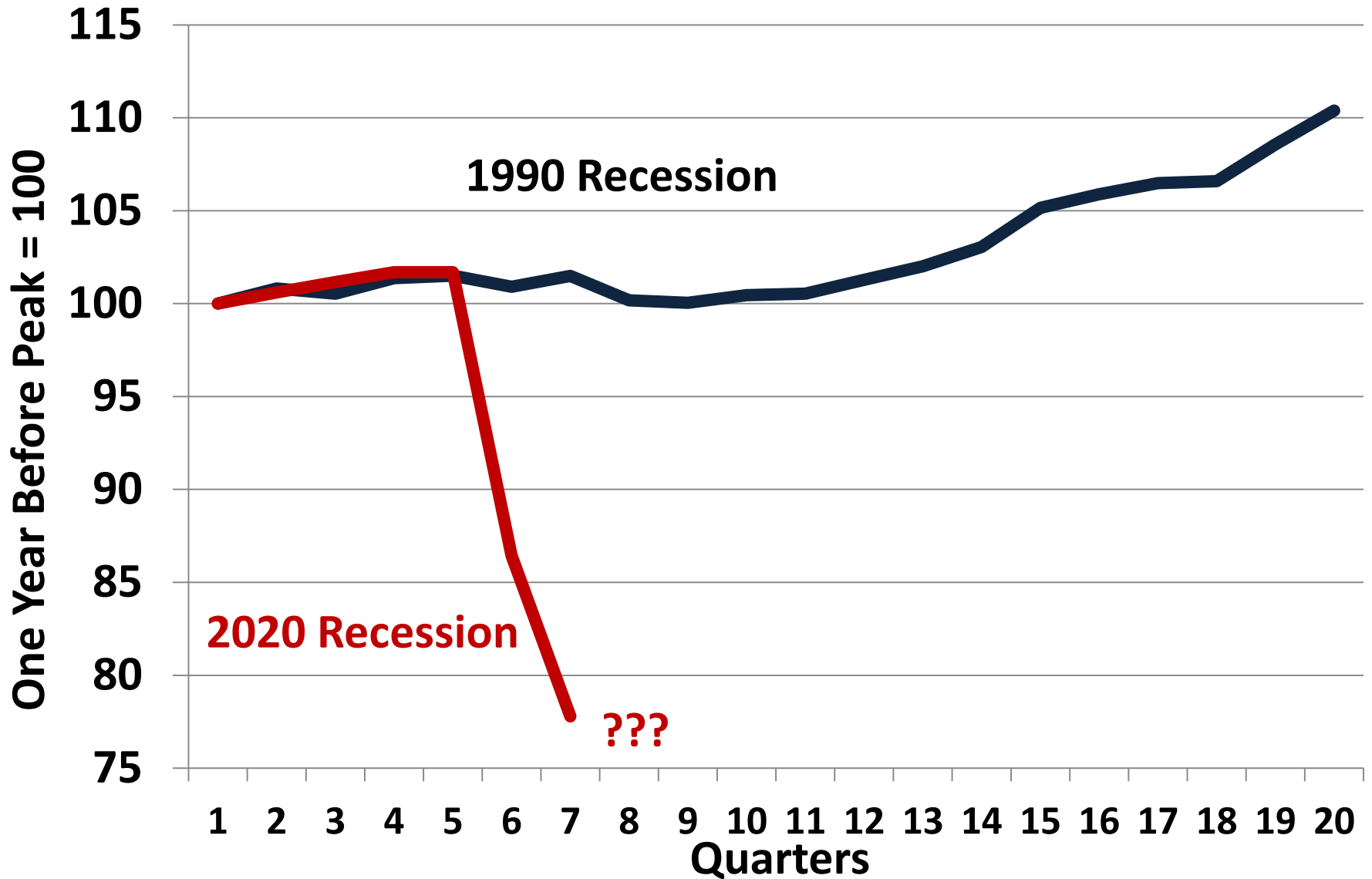
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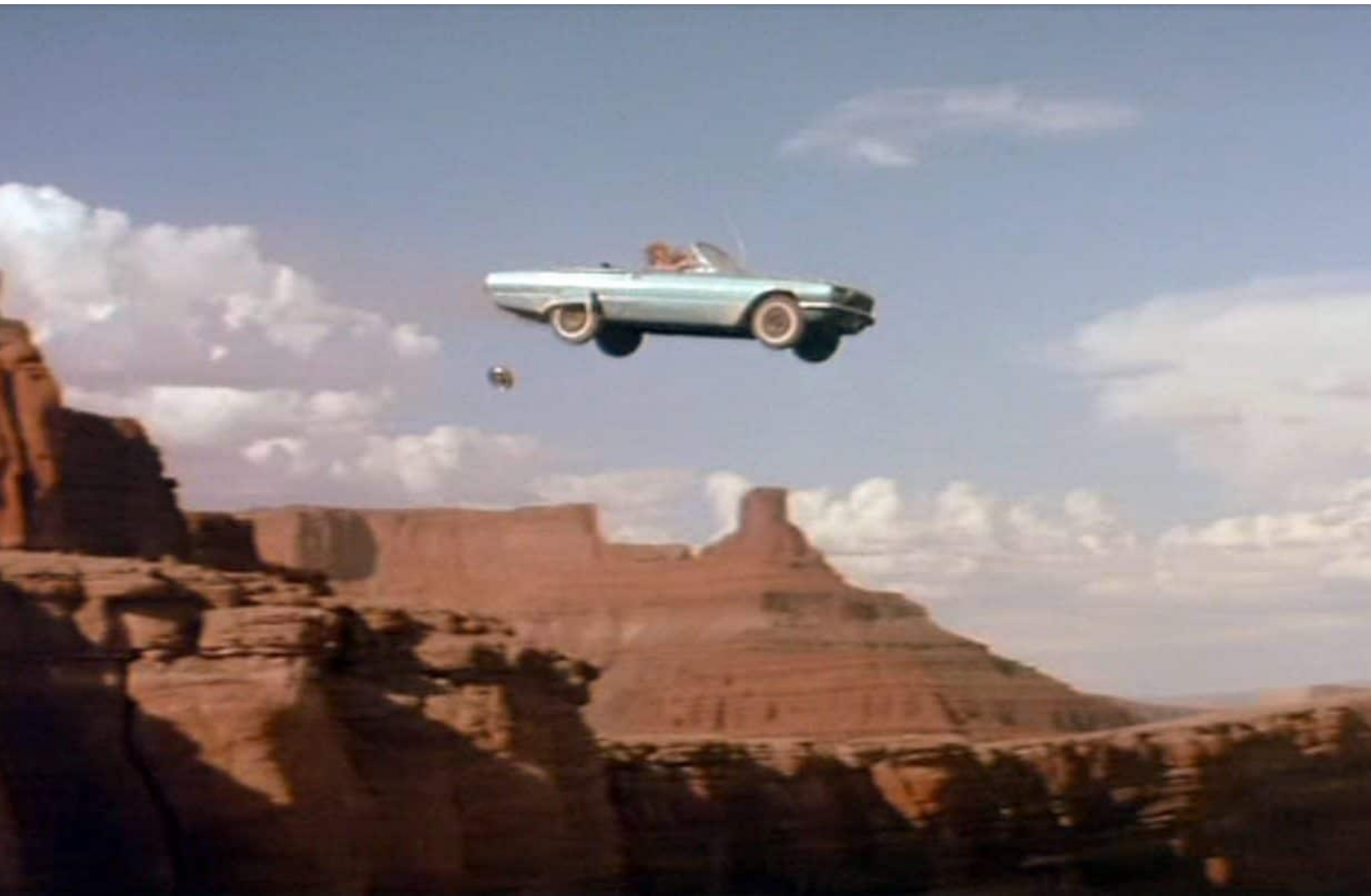
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# An Unprecedented Moment

- 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.

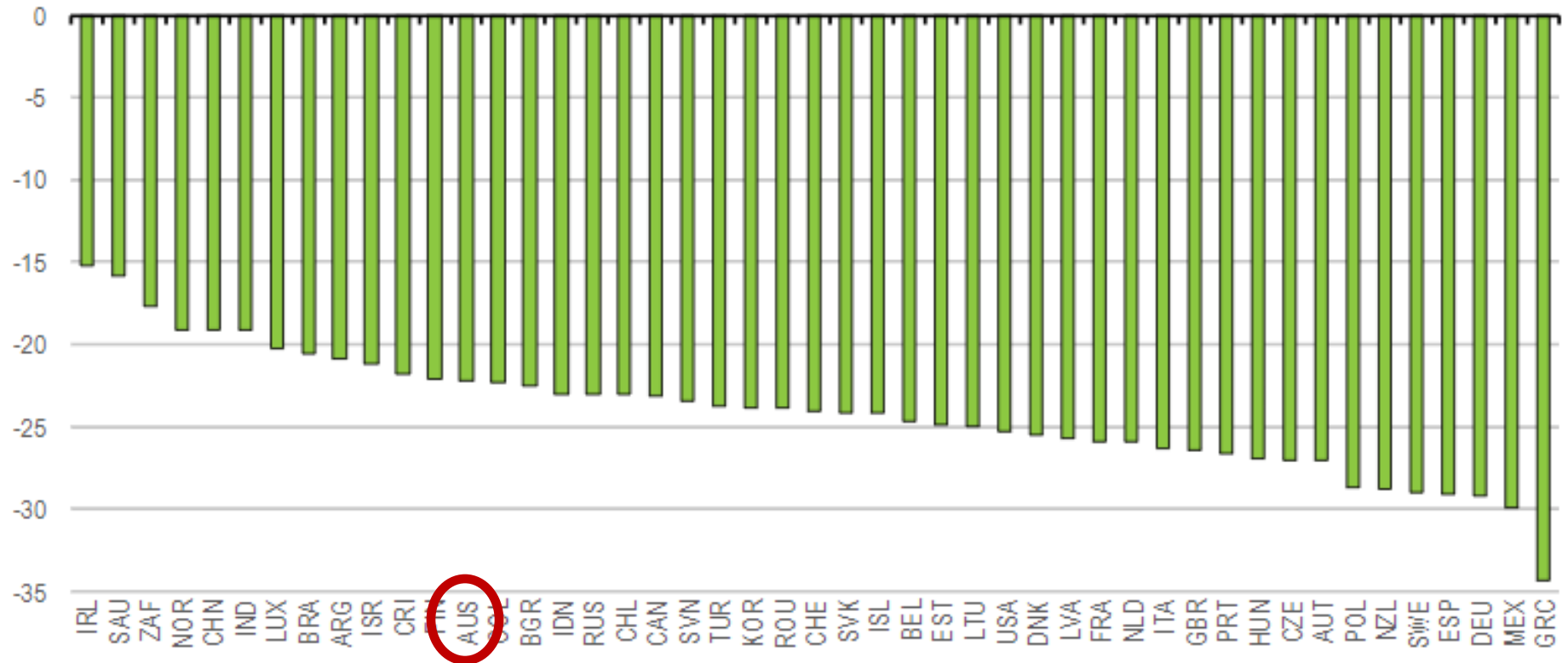
# What to Expect

- 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.



**Figure 2. The potential initial impact on activity of partial or complete shutdowns on activity in selected advanced and emerging-market economies**

Per cent of GDP at constant prices



***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 \$1billion 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.

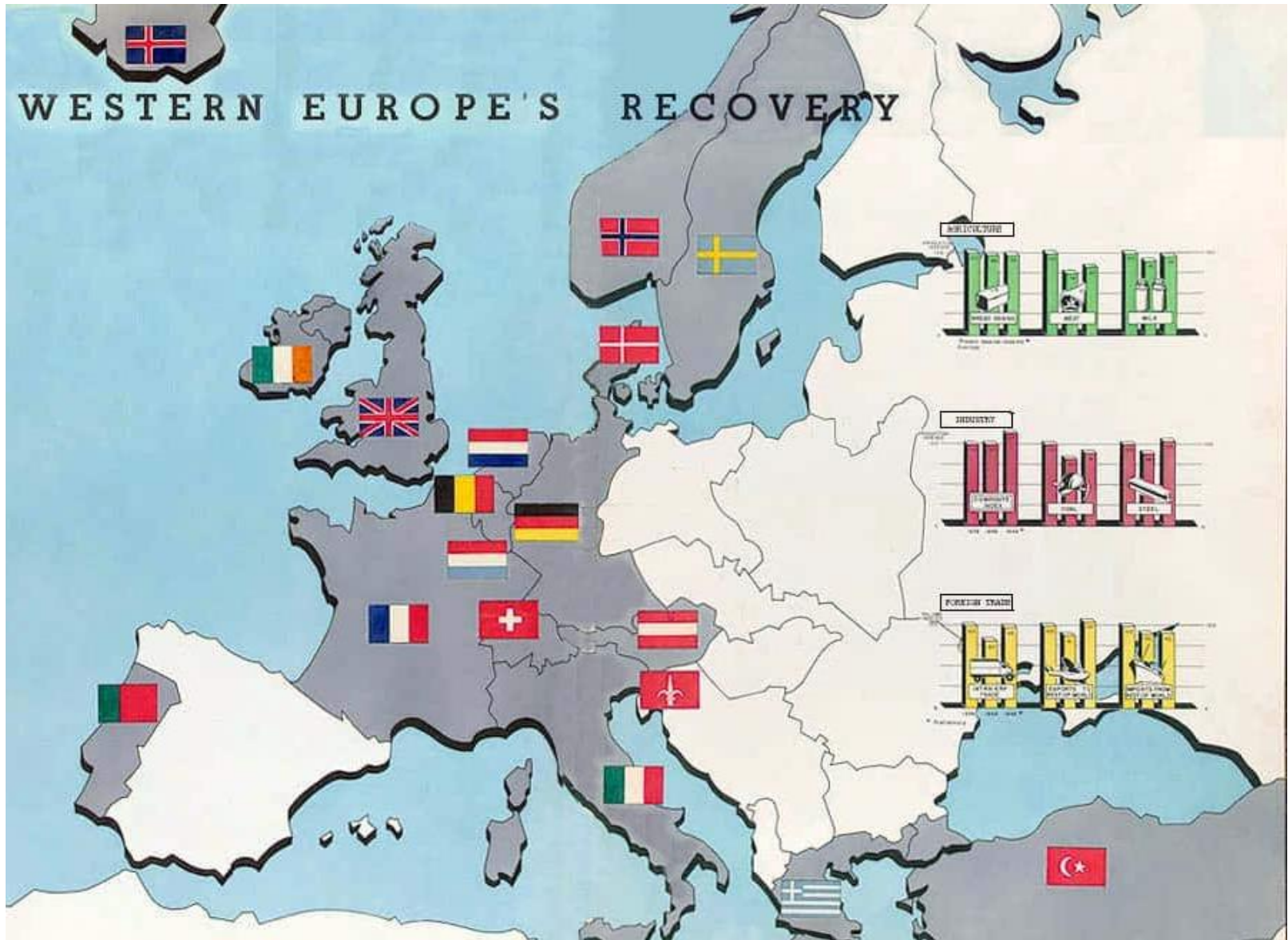
## CONS:

- 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

Inflation Measure	Year-over-year Growth (%)	
	Dec. 2008	Dec. 2019
Consumer Price Index	3.70%	1.84%
GDP Implicit Deflator	7.26%	2.22%
Wage Price Index	4.29%	2.22%

**December  
Quarter: -3% !**

Source: Centre for Future Work from ABS Catalogues 5206.0, 6401.0 and 6345.0.

# 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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