

Sunday, 22 March 2020

Key Points on the second Fiscal Stimulus

- **70% of today's announcement goes to business:** Only around 30% of today's measures go to households in the form of increased social security payments.
- Around two-thirds of the \$189 billion in total measures consists of measures to support credit flows and business lending. While that's important, it doesn't constitute a direct government injection.
- **Too slow, too small and not enough for households;** There are three tests by which this package will be judged: does it hit the right targets, is it big enough and is it in time?
 - As we saw with the first tranche the primary benefits go to business rather workers. Around 70% of today's measures go directly into the hands of business.
 - Like with measures previously announced today's assistance that is aimed at supporting people in employment lacks sufficient **conditions** on employers to keep workers in jobs.
 - Given the unorthodox way in which the government has linked this assistance to tax withheld it has the risk of being **regressive** and favoring the retention of higher income workers. More conditions should have been targeted at those with low and middle incomes.
 - The stimulus is not as big as the Government is claiming – **66b**.
 - Given this is a global depression, the package is not big enough. This package is less than 3% of GDP. Due to the severity of the downturn the package should have been bigger.
 - It's late: we are one of the last countries to have announced larger measures. The Government should have been quicker in their response.

1) The Government is helping people out of work but not to stay in work

- What the Morrison government is calling a "wage subsidy" is a tax diversion that is a payment to business.
- There is no conditionality on business to keep workers employed.
- This may have adverse effects. It could favour the retention of high-income earners and employers could still sack lower paid workers even as they receive the subsidy
- This will not prevent jobs being lost and wages be maintained relative to better designed system.

Details of the measure

- The Government is providing up to \$100,000 to eligible small and medium sized businesses, and not-for profits (including charities) that employ people, with a minimum payment of \$20,000. Under the enhanced scheme from the first package, employers will receive a payment equal to 100 per cent of the tax withheld from their salary and wages bill (up from 50 per cent), with the maximum payment being increased from \$25,000 to \$50,000. In addition, the minimum payment is being increased from \$2,000 to \$10,000. The payment will be available from 28 April 2020.
- The payment will be delivered by the ATO as an automatic credit in the activity statement system from 28 April 2020 upon employers lodging eligible upcoming activity statements. Eligible employers that withhold tax to the ATO on their employees' salary and wages will receive a payment equal to 100 per cent of the amount withheld, up to a maximum payment of \$50,000. It's a tax diversion not a wage subsidy

Our response

- This part of the program is less promising than the increase in income support payments for workers and households. The package is better at supporting people who lose their job, than it is at keeping them in their job in the first place.
- The overall value of the incentive for employers to keep people on the job is small – scaled to how much income tax was deducted from those workers. On average, it's approximately 20% for a median-wage worker – and much less for low-wage workers (who pay less income tax). That won't be enough to motivate most small businesses, whose revenues are evaporating, to keep people on staff.
- Larger employers do not receive any support. And even medium-sized firms will not get meaningful support: for a company with \$5 million turnover, for example, the benefit (capped at \$100,000 per firm) amounts to a tiny share of their overall costs.
- There are many problems and unintended consequences with the program's design. For example, it provides a larger incentive for firms to keep higher-wage workers, than low-wage workers – that's regressive. And since there are no direct conditions placed on the aid, employers could still sack workers even as they receive the subsidy – even making workers redundant near the end of a tax period, while keeping the tax payments that those workers contributed before losing their jobs.
- Compared to the measures being taken in many other countries (such as the UK, where the government is directly covering 80% of the wages of any workers who would otherwise be made redundant), this policy is confusing and inadequate.
- The government needs more powerful and direct measures to keep Australians working.

2) Increased support for workers who lose their jobs or are on low incomes.

- **The Measure**
 - The JobSeeker Payment (formally Newstart) will be doubled through the introduction of a temporary (6-month) \$550 a fortnight 'Coronavirus Supplement'.

This will be paid to all existing and new recipients of the JobSeeker Payment, Youth Allowance jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit.

- This will allow a person receiving the full JobSeeker Payment to receive at least \$1100 a fortnight. This is approximately 75% of the minimum wage.
- The JobSeeker payment is available to anyone earning less than \$1086.50 a fortnight (for a single person), even if they are technically still employed (stood down) or are working reduced hours casually or as a sole trader. As long as you meet this income requirement (varies based on circumstances) you can access the income support system and receive the full \$550 supplement per fortnight (though you will receive a lower JobSeeker payment as usual). Both the waiting period and the asset tests for payments have been waived.

- **Our view**

- The increase to the JobSeeker payment, for which we have long argued, is a welcome move to ensure that workers who lose their jobs or are stood down due to Coronavirus are not left in financial ruin. We are concerned that the Government has made good decisions to support people left jobless, or with their incomes significantly reduced, but is not doing enough to prevent people becoming unemployed.

3) Regulations on Bankruptcy Protection and Liquidation

- The package will incrementally raise the thresholds before creditors can challenge insolvent companies, and personally protect company directors for operating while insolvent. This is an inadequate response to the desperate conditions that many businesses will face in coming months.
- The government should have followed the lead of other countries, and indicate that business insolvencies (as well as personal foreclosures, bankruptcies, and evictions for households and renters) will be prohibited during the period of the coronavirus crisis.

4) Valuing the Total Package

- The government's claims that their overall support is equivalent to 10% of Australia's GDP, and hence constitutes one of the larger support packages implemented in the world, are not credible. Around two-thirds of the \$189 billion in total measures consists of measures to support credit flows and business lending and broader 'monetary' measures announced by the RBA. While that's important, it doesn't constitute a direct government injection (akin to the doubling of the Jobseeker benefit, and other household income measures). Businesses may or may not take up the lending (many will be unable to manage more debt), and those new debts still have to be paid back.
- The actual injections of government spending through both packages are much smaller: less than 3% of GDP across the two packages. That's small, by international standards. And the government will have to do more.

- The policies skew toward businesses rather than households (just 30% of today's announcement, and 25% of the previous one, go to households), and the lack of conditions placed on the business aid, means the support will be less beneficial for Australians in desperate straits. This will fail to address the demand side issues in terms of maintaining household consumption which will be critical to ensuring business activity and investment.

SUPERANNUATION

Details of the measure

- Workers are able to access \$10,000 before 1 July and \$10,000 from 1 July from their superannuation fund, through a mechanism administered by the ATO from mid-April.
- Tax is not payable on the withdrawn amount and it will not affect other payments, like Newstart
- You are eligible if you are unemployed, receiving other Government benefits, or since 1 January have been made redundant, working hours have been reduced by 20 per cent or more, or for sole traders experiencing a 20 per cent reduction in revenue.

Our response

- Accessing super should be a last resort but the Government is using it as one of its first responses. The Government should immediately legislate for special leave for all workers affected by the crisis and put in place rigorous measures to keep workers in jobs. Greater wage subsidies are needed now not a raid on workers' retirement savings.
- Workers who are the most affected are being asked to do the heavy lifting to support our economy by draining their super balances. Rather than sharing the load, low-income workers, those in insecure work, and the recently retrenched are being asked to use their super to get by.
- These are extraordinary times and super funds have a role to play to keep roofs over workers' heads. This is not business as usual. There should be an iron-clad commitment to rebuilding the retirement savings of affected workers by plugging the gaps in the system, accelerating the increase to the SG, and making super equal for women.

Age	Median Super Balance - Men	Median Super Balance - Women
20-24	\$5,924	\$5,022
25-29	\$23,712	\$19,107
30-34	\$43,583	\$33,748
35-39	\$64,590	\$48,874
40-44	\$99,959	\$61,922
45-49	\$145,076	\$87,543
50-54	\$172,126	\$99,520
55-59	\$237,022	\$123,642
60-64	\$270,710	\$157,049