Lessons from COVID-19 for labour market policy in Australia

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Extended Abstract

Background

COVID-19 has brought a different type of business cycle, a series of disturbances to labour market activity of a scale and type not seen before, and new and previously untried policies. Inevitably then, much can be learned from the episode about the Australian labour market. This paper suggests lessons from a vantage point looking back over the 24 months since the onset of COVID-19.

Lessons relating to three main topics are considered:
• Outcomes from labour-market related policies introduced to deal with COVID-19;
• The implications for labour market policy of new knowledge on how the Australian labour market operates; and
• General implications for policy.

Brief overview of the Australian labour market during COVID-19

This section describes the main developments in the Australian labour market since the onset of COVID-19: (i) the evolution of aggregate outcomes (hours worked, employment, labour force, the rate of unemployment and wage growth); (ii) outcomes by industry, occupation and employment status; (iii) outcomes by gender and age of workers; and (iv) how adjustment has happened.

Lessons from policies we tried

This section reviews what we have learned about labour market policies introduced to deal with COVID-19: JobKeeper, the JobSeeker Supplement Payment and JobMaker. A brief summary of the details of each policy is provided and the evidence available thus far on the impacts of the policy on labour market outcomes is presented and evaluated. Lessons for future application of the policies are suggested.

The JobKeeper wage subsidy program operated for 12 months from March 2020, providing a per worker payment to employers who experienced specified losses in revenue (Cassells and Duncan, 2020). The program provided a large amount of stimulus to economic activity and mostly likely reduced the extent of downturn due to COVID-19 by underpinning confidence (Treasury, 2021). Some studies have estimated

that the program saved a large number of jobs (Bishop and Day, 2021; Watson et al., 2022). However, some commentary suggested that the policy could have been better tailored to the state of the economy and that it had little effect on the speed of employment recovery (Borland and Hunt, 2022).

An important response to COVID-19 by the Australian government was to provide a supplement to income support payments. The newly named unemployment-related payment, JobSeeker, was initially increased by $275pw to $562.85pw.[1] Limited analysis undertaken for Australia suggests that the policy increased household consumption without a major negative impact on job search and flows into employment (Borland, 2021a; Klein et al., 2021; Botha et al., 2021). A much larger body of research on the US Federal Unemployment Compensation Payment has reached similar conclusions on the impact of an unemployment-related supplement payment (Borland, 2021). The lesson appears to be that increasing unemployment benefits as a counter-cyclical measure to deal with a major economic downturn can provide something of a free lunch: Macroeconomic stimulus with favourable distributional effects, and without the negative effect on employment that might have been thought to usually occur via reduced job search.

The JobMaker Hiring Credit, a wage subsidy program targeted at younger jobseekers with a recent history of income support, was introduced in October 2020 to deal with concerns that COVID-19 was having a much larger adverse effect on young than older age groups, and that delayed entry to work for young could cause long-term scarring effects (Frydenberg, 2020; Andrews et al., 2020; Borland, 2020a). Assessed against standard criteria for judging wage subsidy schemes, the JobMaker Hiring Credit seemed well designed (Borland, 2020b). Despite this, take-up of the program was exceptionally low, only about 1 per cent of the intended number of 450,000 recipients (Graham, 2021). Two main lessons come from this outcome. First, it shows the sensitivity of take-up of wage subsidy schemes to the state of the labour market. With the labour market recovering so strongly in the months immediately following introduction of the policy, employers apparently found the benefit of the subsidy payment to be outweighed by the administrative cost of applying. Second, it reveals how a policy's impact can depend on the existing set of policies; with anecdotal evidence that the low take-up of JobMaker was explained by businesses not wanting to be seen to be 'greedy', at a time when there was significant public criticism of JobKeeper having gone to businesses seen as not deserving of that payment.

[1] Paid commencing on April 27, 2020. Subsequently the supplement was decreased to $125pw from 25 September to 31 December 2020; and to $75pw from 1 January to 31 March 2021.

Lessons we learned about the labour market that are relevant for policy

This section reviews lessons for policy that come from how the Australian labour market has operated since the onset of COVID-19.

The first and major lesson is about the natural rate of unemployment in Australia. In the decade prior to the onset of COVID-19 the rate of unemployment in Australia hardly moved. In March 2010 the rate was 5.4 per cent. Ten years later in March 2020 it was 5.3 per cent. In between, it moved in a narrow range from 4.9 to 6.4 per cent. Much of the failure to move the rate of unemployment lower was a choice made by policy makers – supported by the belief that the natural rate of unemployment was around 5.5 per cent.

But the onset of COVID-19 has meant that the question of 'What does recovery look like?' has had to be confronted. At the same time, the massive stimulus provided by macro policy to economic activity – which has brought a rate of unemployment of 4 per cent without any rapid increase in wage inflation – has clearly demonstrated that the natural rate of unemployment is much lower than 5.5 per cent. Two main factors explain why the natural rate of unemployment has moved lower in recent years: first, the steady shift in the composition of labour spare capacity towards under-employment means that any given total level of labour under-utilisation is associated with a lower rate of unemployment today than previously (Borland, 2021b); and second, other structural changes such as decreasing union influence and opening of product markets to international competition are likely to have reduced the rate of wage inflation at any level of demand. Research by Treasury and the RBA is now reporting lower estimates of the natural rate of unemployment, in the range of 4.5 to 5 per cent (Ruberl et al., 2021).

A second lesson relates to whether policy reform is needed to address issues of flexibility and security in the labour market. The extent and pace of adjustment in employment during COVID-19, and how that has been facilitated by existing institutional arrangements (for example, via the Fair Work Commission), is a powerful indication that the Australian labour market does not lack flexibility. Instead, outcomes such as the heavy impact of COVID-19 on casual employees, and the failure of wages in jobs where employees were at risk of contracting COVID-19 to adjust in response, has established the need for greater attention to security.

A third lesson relates to the impact of immigration on labour market outcomes in Australia. The closing of international borders due to COVID-19 provides (close to) a natural experiment for studying the impact of immigration, especially for temporary visa holders, the category most affected (I use the term 'close to' because as well as affecting labour supply via immigration, COVID-19 has also caused at time a large decrease in labour demand). The experience of COVID-19 – primarily the switch in the hospitality sector from being the focus of claims of under-payment and wage theft to a sector paying $1000 sign-on bonuses - appears to confirm the conclusions generally drawn about the impact of immigration on wages in Australia (for example, Coates et al., 2021). In aggregate it is difficult to discern any effect of immigration, most likely due to offsetting effects on labour supply and labour demand. But within narrower labour markets where labour supply of immigrants is concentrated (such as hospitality) there can be negative effects on wages, presumably offset by positive effects on wages in narrow labour markets where labour demand effects from immigration predominate (such as housing).

What else we learned that is relevant to policy making

This section reviews a variety of more general lessons for policy-making from COVID-19.

One lesson relates to the drivers of business cycles. Knowing what is causing an economic cycle is essential for knowing what policy response is required. COVID-19 has been an important reminder that establishing the drivers is a task that must be done anew for every business cycle – with the course of the virus being the main determinant of fluctuations in the aggregate labour market over 2020-21 (Borland and Charlton, 2020).

A second lesson is the distinction between correlation and causality when it comes to judging the influence of policy. The dominant public commentary on the reason why COVID-19 brought a decline in labour market activity was that it was all about the lockdowns imposed by government. Yet research undertaken in the United States and Australia finds that much of the negative impact was due to households voluntarily withdrawing from consumption activities due to fear of contracting COVID-19 (Borland, 2020c; Choy, 2021).

A third lesson is that preparation for crises matters. An example is how existing systems for paying benefits to individuals/households determined the type of policies that could be used to respond to COVID-19.

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