SUBMISSION TO THE SENATE STANDING COMMITTEE ON ECONOMICS INQUIRY INTO THE ECONOMIC RECOVERY PACKAGE (JOBMAKER HIRING CREDIT) AMENDMENT BILL 2020 [PROVISIONS]

Per Capita
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About Per Capita

Per Capita is an independent public policy think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice. Our research is rigorous, evidence-based and long-term in its outlook.

We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

Executive summary

The Federal Budget of 2020 was undoubtedly the most important in living memory. When the COVID-19 pandemic hit, the economy shrank by 7% in two quarters, the fastest decline in recorded history. Over one million Australians were thrown out of work, and subsequently tens of thousands have shifted from full-time, secure employment into casual and insecure work.

While this crisis is unprecedented, so is the opportunity it presents for genuine economic reform. With so much of the economy shuttered, the government had a clear opening to reconfigure for the better the policy settings that guide our economic activity. Prior to the onset of the pandemic, and the subsequent deep global recession, Australia's economy was sluggish, with low productivity growth, record levels of insecure work and labour force underutilisation, a collapse in business investment and more than six years of wage stagnation.

After a six month delay due to the impact of the pandemic, the 2020 federal budget was an opportunity to craft the kind of economic reform that could address these endemic issues while also implementing urgent measures to restore jobs and incomes.

Unfortunately, the measures announced by the Treasurer on 6 October 2020 included little by way of genuine reform to restore an economy that could provide genuinely secure and well-paid jobs, and reverse years of economic decline to deliver growing living standards for working Australians. The opportunity to rebuild a more prosperous and inclusive economy, in which sustainable growth could be shared more equitably among the Australian people, was missed.

The $4 billion JobMaker Hiring Credit Scheme (the Scheme) is an example of the lack of vision and ambition for Australia's future that characterized the budget as a whole. While apparently focused on the laudable goal of restoring employment to young workers who have been particularly hard hit by job and income losses in 2020, its design means that it almost certainly will not encourage the necessary corrections to the labour market that are needed to reverse the decline in job security and living standards that have plagued young Australians for more than a decade, and is in fact likely to entrench and exacerbate them.

Of more immediate concern, Per Capita has significant doubts as to whether the Scheme will deliver the 450,000 jobs the government anticipates over the next 12 months. The Scheme does not guarantee the creation of any jobs, as would a program of direct government job creation in the public sector. Instead the scheme operates with an overreliance on the private sector to lift employment numbers, and actually incentivises employers to give preference to low quality jobs.

The Scheme's design will encourage insecure, casual employment, and reduce the prospect of the creation of permanent full-time jobs, which our economy desperately needs to lift wages and productivity. There are perverse incentives built into the Scheme that mean older workers in permanent full-time positions may be replaced by young workers on casual and part-time, fixed-term contracts.

Further, the Scheme fails to take account of the disproportionate impact of the recession on women's employment, and will likely make it harder for women with childcare responsibilities to reenter the labour force. Combined with other "gender-blind" elements of the federal budget, the Scheme is likely to contribute to a widening of the employment and income gaps between men and women in the labour market.

Finally, the Scheme's design, in which employers are reimbursed the hiring credit after engaging a new employee, will disadvantage small businesses, especially those who have been shut down for extended periods of time due to the pandemic and who are, as a result, far less likely to be able to cover the additional payroll costs required to take on new workers until the hiring credit is provided.

Summary of Recommendations

We recommend that:

- The funding allocated to the JobMaker Scheme be redirected to a government employment program, with priority given to the recruitment of directly and permanently employed public sector workers in aged care, disability care and early childhood education and care.

Failing this, the Scheme should be adjusted to maximize the value of the public investment in private sector job creation by encouraging secure, long-term employment for young Australians. Such adjustments should include:

- Reserving at least 60% of the hiring subsidy to apply only to new permanent part- or full-time jobs, to reduce the likelihood that the majority of jobs created will be casual and fixed-term contracts;
- For the remaining 40% of the hiring subsidy, tapering payments by the number of hours worked to encourage full-time employment;
- Increasing the subsidy to the full $200 per week to companies providing permanent contracts to workers over the age of 30;
- Creating a "returning to work" exemption from the $100 reduction in the hiring credit for women over 30 returning to work after childbirth or childcare; and
- Providing small firms with a three-month line of credit to allow them to engage in the Scheme.

Further, we recommend that the current rates of the JobKeeper wage subsidy and JobSeeker unemployment benefit be maintained until at least the end of the 2020-2021 financial year, until the medium-term impact of the recession and its effect on employment, particularly for prime aged and older workers, is better understood and the effect of the JobMaker Scheme can be assessed.

Finally, we recommend that the Government urgently revisit the design and implementation of the Restart Wage Subsidy aimed at supporting employment for older workers. Without effective support for employers to hire and retain older workers, they are likely to be even further disadvantaged by the implementation of the JobMaker Scheme.

Perverse incentives distorting labour market outcomes

Exclusion of candidates by age

Research shows that, if labour market entry of the young long-term unemployed is delayed by a year, the probability of finding a job in the following two years declines from 60% to 16% for men and from 47% to 13% for women.[1] Other research has found that those graduating from vocational education and training during a recession have a higher risk of unemployment even five years later.[2] The impact of economic scarring is not only on the rate of employment, but on earnings, with one study finding that an extended period of unemployment early in someone's career lowers wages by between 13% and 21% at the age of 42.[3]

The government, then, is right to be concerned about young and prime aged workers. Given that they are the demographic group most affected by job and income losses in the current recession, and the group most likely to suffer the long-term consequences of economic scarring, targeting young workers is a critical element of any economic recovery program.

However, support for younger workers should not come at the expense of older workers, which will almost certainly be the result of the exclusion of anyone over the age of 35 from the government's centrepiece private sector employment incentive scheme.

Many labour market experts have expressed concern that the JobMaker hiring credit will pit young workers against old, and lead to a wholesale dumping of older workers in favour of subsidised young workers. [4] COTA, the peak policy body representing older Australians, is already reporting that older workers are being laid off in preparation for the JobMaker programme.[5]

The Human Rights Commission found in 2018 that 65% of Human Resources professionals consider candidates over 50 as "too old".[6] Such age discrimination within Australian business will be exacerbated by the incentives provided under the Scheme to hire only workers under the age of 35. The experience of previous recessions has shown that workers aged over 50 who lose their jobs during a recession are far less likely to return to secure, permanent employment, resulting in scarring of a different sort towards the end of their working lives.

Under current federal government policy settings, it is likely that there will be a significant cohort of older workers detaching from the labour force altogether after having withdrawn a considerable sum from their superannuation fund under the government's early release scheme. Unable to compete with subsidised younger workers, a substantial number of older Australians will likely be

[1] Cockx, B. and M. Picchio (2011), 'Scarring effects of remaining unemployed for longterm unemployed school-leavers', IZA Discussion Paper No. 5937, Bonn, Institute for the Study of Labor
[2] Nordström Skans, O. (2011), 'Scarring Effects of the First Labor Market Experience', IZA Discussion Paper No. 5565, March.
[3] Gregg, P. and E. Tominey (2005), 'The wage scar from male youth unemployment', Labour Economics vol 12(4):487-509.
[4] https://www.abc.net.au/news/2020-10-15/older-workers-face-unemployment-crisis-exacerbated-by-jobmaker/12767752
[5] https://www.thesenior.com.au/story/6975083/jobmaker-sees-older-workers-dumped-by-employers/
[6] https://humanrights.gov.au/our-work/age-discrimination/publications/employing-older-workers-2018

forced into early retirement, depleting their savings until they are old enough to receive the Age Pension. This will put further pressure on Australia's ability to fund the pension.

Particular impact on older women

Women have been significantly more affected by the COVID-19 recession than in any previous economic downturn. Whereas women accounted for around 25% of job losses in the 1990s recession, that proportion has doubled now.[7] Mothers have been more likely to leave work in order to take on increased domestic and caring responsibilities over the past eight months, meaning that women workers in their late 30s and 40s returning from child rearing or maternity leave will find it harder to compete with younger workers who attract a wage subsidy under the Scheme. Many Australian women with child care responsibilities work in part-time and casual jobs in retail and hospitality, which they fit around their domestic duties. The design of the Scheme will make it impossible for such women to compete with younger workers for these jobs.

In keeping with the general failure of the 2020 budget to adequately recognise the impact of the current recession on women's labour force participation, this age discrimination built into the JobMaker Scheme will almost certainly have a disproportionate impact on older women. Women over are the fastest growing group of Jobseeker recipients, having grown from just 5% of all those receiving unemployment benefits in 2001 to 20% in 2019.[8] The exclusion of one in five unemployed workers from the Scheme vastly undermines its efficacy in restoring full employment.

The Scheme will exacerbate and entrench insecure employment

Given that there is no relationship between the number of hours worked above the stipulated minimum of 20 hours per week and the amount of hiring subsidy provided to employers, the Scheme will potentially encourage employers to spread work between as many employees as possible.

This may be a deliberate design feature of the Scheme, aimed at getting as many people aged under 35 as possible off income support and into some form of employment over the next 12 months. Such an outcome would certainly reduce headline unemployment numbers more quickly than would otherwise occur in a program contained to private sector employment, but it will only exacerbate the trend of rising underemployment and record rates of underutilization, or "slack", that has characterized the labour market, particularly for younger workers, at least since the Global Financial Crisis (GFC) more than a decade ago.

As previous Per Capita research has shown, underemployment in Australia prior to the crisis was already above 13% according to the International Labour Organisation, far higher than most other OECD countries, while the youth underemployment rate was close to 30%.[9]

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[7] Jericho, G. (2020, September 27). In this recession, low-paid women and those without a degree are being hit hardest in Australia. The Guardian.

[8] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Publications/Research_reports/JobSeeker_Payment

[9] See Lloyd-Cape, M, 2020, Slack in the System: the economic costs of underemployment

Increasing the attractiveness of part-time and casual employment of young workers will exacerbate and entrench this harmful trend, further reducing the chances of young Australians to achieve economic security and the long-term living standards enjoyed by their parents and grandparents.

Reduced job switching

One of the criteria for JobMaker program is that the worker "Must have been the recipient of the JobSeeker payment, Youth Allowance (other) or Parenting Payment for at least one month out of the three months prior to when they are hired".

While this stipulation is aimed at ensuring the Scheme is used to hire people who are currently unemployed, it should be noted that it will likely reduce job switching by existing workers who are ineligible for the scheme and, as such, will find themselves uncompetitive candidates for new jobs. As noted on multiple occasions, including by the Productivity Commission, low rates of job switching are strongly associated with lower productivity and suppressed wage growth.[10] A review of the Scheme's operation after 12 months will be necessary to ensure it does not further reduce and entrench the already low rates of job switching in the Australian labour force.

Higher rates of job churn

As the duration of the Scheme is just one year, there is an inherent incentive for participating employers will to close positions after 12 months, and then reopen them with slightly different job titles and descriptions in order to hire new employees on lower, non-subsidised rates of pay.

This design feature heightens the likelihood of increased churn as people enter and exit entry level jobs under the Scheme and then, after 12 months, are let go, returning to JobSeeker in order to requalify for the JobMaker Scheme.

[10] https://www.pc.gov.au/research/ongoing/productivity-insights/recent-productivity-trends/productivity-insights-2020-productivity-trends.pdf

Design flaws that undermine the Scheme's efficiency

New jobs not guaranteed

The JobMaker Scheme contains additionality criteria that require that there is an increase in:

- the business's total employee headcount (a minimum of one additional employee) from the reference date of 30 September 2020; and
- the payroll of the business for the reporting period, as compared to the three months to 30 September 2020.

While such conditions have likely been designed as a safeguard to prevent companies from firing workers and rehiring them under the Scheme, they are an insufficient measure to ensure that all jobs eligible for support under the Scheme are genuinely new positions.

For example, because the stipulated minimum hours of employment to qualify for the scheme are just 20 per week, an employer could retrench one full time (40 hour per week) worker and hire two subsidized part-time or casual workers on a marginally increased hourly rate and still meet the additionality criteria under the Scheme. This is particularly likely to affect award-wage, full time workers over the age of 35, who will be at risk of retrenchment in favour of two subsidized younger employees.

As the Scheme will be rolled out to replace the current JobKeeper subsidy as it is reduced and eventually withdrawn entirely by March 2021, the risk that (particularly older) workers who have remained attached to their employers under JobKeeper will be displaced by subsidized younger workers under the JobMaker Scheme is significant. This could lead to workers with dependent families, who have struggled to remain solvent throughout the most acute period of the pandemic and economic crisis, will find themselves unemployed in favour of younger, cheaper workers just as the economy is expected to start recovering.

Potential for rorting

The implementation JobKeeper program provides a useful guide as to how employers may react to the JobMaker Scheme, given the similar administrative application of both programs.

Even with the stipulation that companies in receipt of JobKeeper must have shown a decline in turnover of 30%, many employers have claimed JobKeeper despite seeing an uptick in economic performance, due to the requirement that they only had to show a qualifying decline in revenue in one month. [11]

Furthermore, JobKeeper has been plagued with up to 15,000 cases of employers rorting the system, with taxpayer funding being diverted to pay executive bonuses and dividends to shareholders rather than to secure existing, and create new, jobs for workers. [12] This distortion of the wage subsidy program was enabled by a lax regulatory structure that included no eligibility

[11] https://www.ato.gov.au/General/JobKeeper-Payment/In-detail/Actual-decline-in-turnover-test/?anchor=Step4
[12] https://www.mybusiness.com.au/tax-accounting/7440-ato-hit-with-thousands-of-jobkeeper-rort-tip-offs

requirements in relation to suspending or reducing dividend payments, leading the AFR to dub the scheme “DividendKeeper”.[13]

Absent stricter eligibility criteria, the JobMaker Scheme will almost certainly encourage similar corporate behaviour, with unscrupulous employers applying creative accounting in order to maximise their hiring subsidy without creating genuine, long-term employment opportunities for workers.

Poorly targeted to support small businesses

The design of the Scheme requires the Australian Taxation Office to calculate hiring credits to employers, 12 weeks in arrears. Such an arrangement naturally favours large companies that can absorb the upfront costs, while small businesses may struggle to take on higher payroll commitments, even in the short term. This is especially true for many of the small retail and hospitality businesses that have experienced a period of extended shut-down due to the pandemic, and who would otherwise be the most likely employers to hire young workers under the Scheme.

If the economy is still shrinking or stagnant, and consumer demand still weak, at the time of the Scheme’s implementation, as is predicted by the government’s own Treasury estimates, workforce expansion for many small businesses, as noted earlier, will be impossible, regardless of the wage subsidy on offer. Conversely, large businesses who have been less affected by the recession will have a greater capacity to avail themselves of government support.

Effectively, the design of the Scheme will promote assistance to companies that need it the least. A huge proportion of the hiring subsidies under the Scheme are likely to flow to employers such as Coles, McDonalds and Woolworths who already employ young people, on part-time and casual contracts, with a high degree of job churn.[14]

The $200 a week hiring subsidy for new employees aged between 16 and 30 will effectively reduce the $15/h wage of a young part time worker to just $5, increasing the likelihood of a “McJob”[15] led response to the pandemic, rather than a genuine economic recovery driven by the creation of good, secure and well-paid jobs upon which young people can build a good life.

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[13] https://www.afr.com/politics/federal/jobkeeper-becomes-dividendkeeper-20200810-p55kc0
[14] https://www.afr.com/work-and-careers/workplace/wage-subsidy-could-reward-major-retailers-fast-food-giants-20201007-p562s5
[15] http://world-psi.org/sites/default/files/documents/research/mcjobs_report_final.pdf

What are the alternatives?

The federal government's determination to pursue a private sector-led recovery, and eschew a direct role for government in job creation, is the least efficient approach to restoring full employment and economic growth after a deep recession such as that which now besets the Australian economy.

As well as the JobMaker Hiring Credit, which is a wage subsidy to encourage private sector employers to hire unemployed young people, the government's supply-side solutions to a demand side economic collapse risks deepening and extending this recession, and causing great harm to Australian working families.

The budget response to the recession is focused on reducing taxes and other costs to business, rather than providing direct support to households through the extension of income support and the creation of public sector jobs.

Research by the International Monetary Fund (IMF) has found that tax cuts produce lower fiscal multipliers than actual fiscal spending. They estimate that public spending multipliers are as much as ten times as large as tax multipliers in a recession.[16] This is partly due to the propensity of households and businesses to save in the face of economic uncertainty, particularly in a recession as deep and pervasive as this.

Arguing for direct fiscal investment in the Australian economy is not a recipe for a "big state" approach to the economic recovery; in fact, it is the most efficient way to restore private sector investment and employment. Assuming a conservative multiplier of 1.5, direct government spending on public infrastructure, both physical and social, and the creation of public sector jobs would have created additional private sector activity of $2 billion. As such, the JobMaker Scheme offers relatively low bang for the taxpayer's buck.

Public sector employment is one area where government investment can be guaranteed to create immediate high-quality jobs. Traditionally, this has been one of the most powerful tools wielded by governments during recessions to ensure that consumer confidence and demand is maintained, and also to prevent wide-spread, long-term unemployment from setting in across the economy. In fact, recessions are a rare opportunity to recruit high quality candidates to the public sector who may previously have opted for higher paying jobs in the private sector.[17]

For example, the $4 billion of funding for the Scheme could have been used to directly employ 50,000 full-time Level 1 early childcare and education workers for two years. Alternatively, for an additional $1billion of investment, the costs of childcare for working families could be subsidized to 95%, lifting women's workforce participation and providing a return of more than $11billion in increased GDP annually.[18]

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[16] https://www.imf.org/en/Publications/WP/Issues/2016/12/31/A-Simple-Method-to-Compute-Fiscal-Multipliers-41627
[17] https://www.tandfonline.com/doi/abs/10.1080/01442872.2013.875142
[18] https://grattan.edu.au/report/cheaper-childcare/

Recommendations

Firstly, we suggest that, with unemployment forecast to remain well above 6% for at least the next two years, and anticipated ongoing weakness in consumer demand; and noting the inherent weaknesses and perverse labour market incentives in the design of the JobMaker Scheme, it is too early to withdraw JobKeeper, and to further reduce the rate of JobSeeker, in favour of the Scheme.

Both JobKeeper and JobSeeker should be maintained at their current rate until at least the end of the 2020 – 2021 financial year, until the medium-term impact of the recession and its effect on employment, particularly for prime aged and older workers, is better understood.

Given the inherent design flaws in the JobMaker Scheme as outlined in this submission, we further recommend that the funding allocated to the Scheme be redirected to a government employment program, with priority given to the recruitment of directly and permanently employed public sector workers in aged care, disability care and early childhood education and care.

Failing this, the Scheme should be adjusted to remove perverse incentives that encourage insecure employment and discrimination against older workers, and limit the attractiveness of the Scheme to small business employers. This approach will maximize the value of the public investment in private sector job creation by encouraging secure, long-term employment for younger Australians.

Such adjustments should include:

- Reserving at least 60% of the hiring subsidy to apply only to new permanent part- or full-time jobs, to reduce the likelihood that the majority of jobs created will be casual and fixed-term contracts;
- For the remaining 40% of the hiring subsidy, payments should be tapered by the number of hours worked to encourage more hours of employment;
- Increasing the subsidy to the full $200 per week to companies providing permanent contracts to workers over the age of 30;
- Creating a "returning to work" exemption from the $100 reduction in the hiring credit for women over 30 returning to work after childbirth or childcare; and
- Providing small firms with a three-month line of credit to allow them to engage in the Scheme.

Finally, we recommend that the Government urgently revisit the design and implementation of the Restart Wage Subsidy aimed at supporting employment for older workers, which has outlaid less than half of its funded expenditure, and created just over one quarter of anticipated jobs since its announcement in 2014, more than half of which lasted for less than six months. This program has utterly failed to get mature Australian workers into jobs over the last six years, and is likely to be even less effective when the JobMaker Scheme is in operation, providing employers with incentives to give preference to younger workers.