

Lessons from COVID-19 for labour market policy in Australia

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Presentation to ACE 2022, July 12 2022

1] Overview of paper

- **Three types of lessons**

- 1] A general lesson for policy-making in Australia
- 2] What has been learned about labour market policies (eg., Job Keeper)?
- 3] What are the implications of new knowledge on operation of the labour market in Australia for policy?

- **The approach taken**

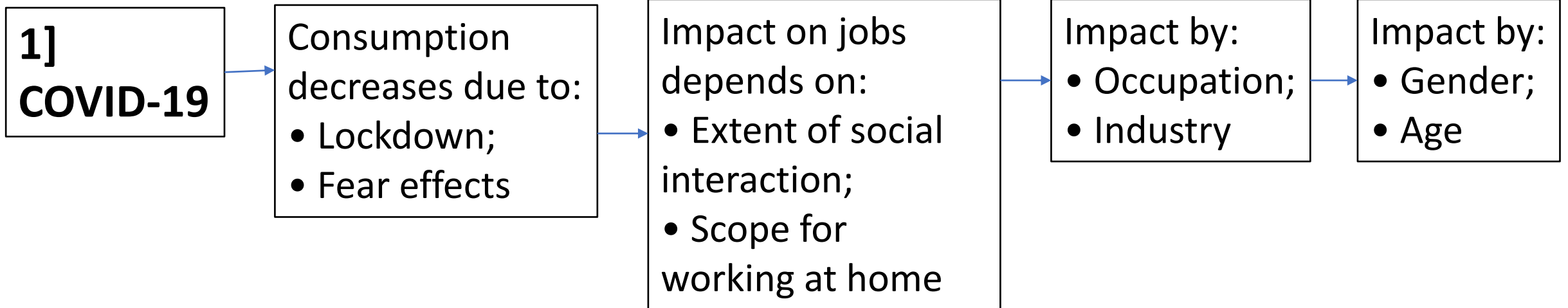
- Avoid judgements that ignore context (uncertainty; short time frames). But value in thinking about what might be done differently next time.

2] General lesson

- Establishing the drivers of a business cycle is a task that must be done anew for every cycle
- This time: **COVID-19 + government policy**

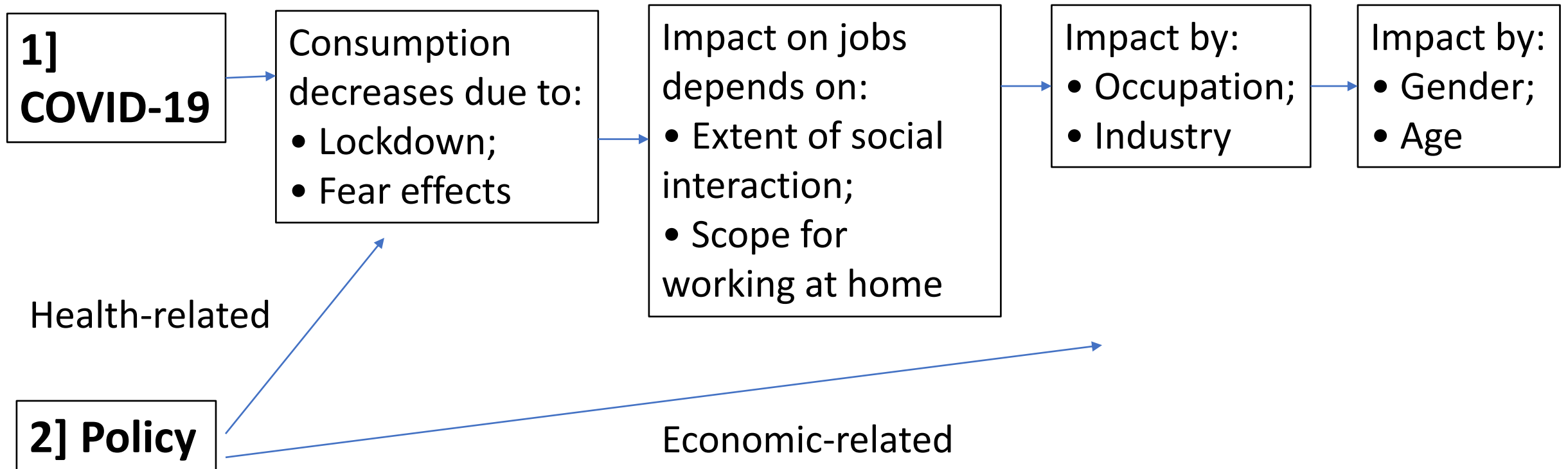
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Type of job	Per cent change (Feb to May 2020)
Low social contact + Low scope to work from home	-6.8
High social contact + Low scope to work from home	-13.3
Low social contact + High scope to work from home	-1.7
High social contact + High scope to work from home	-0.2

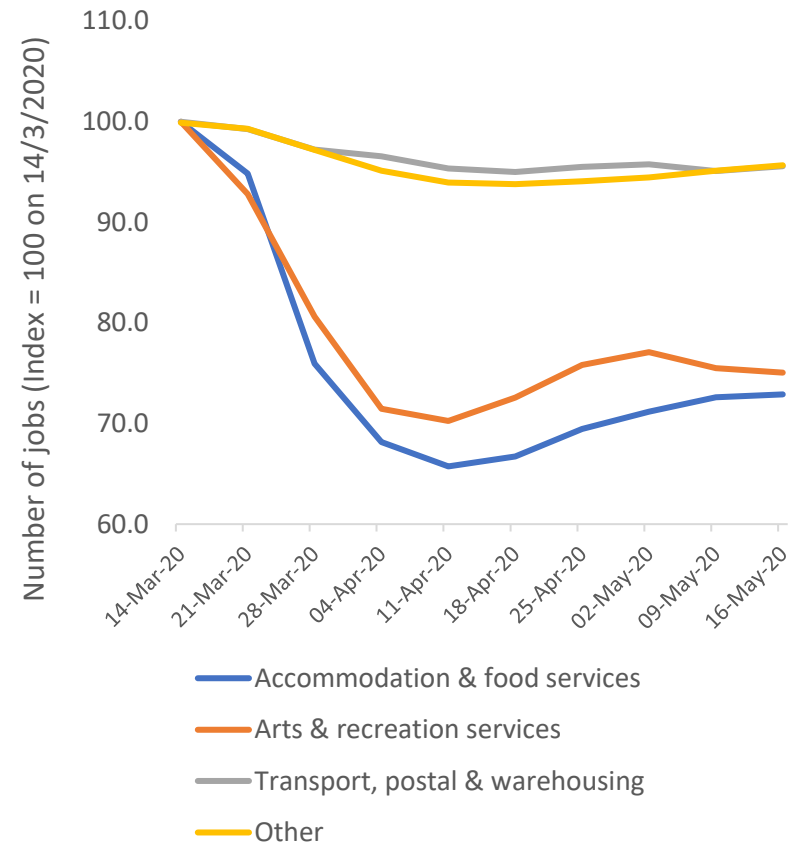


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By industry

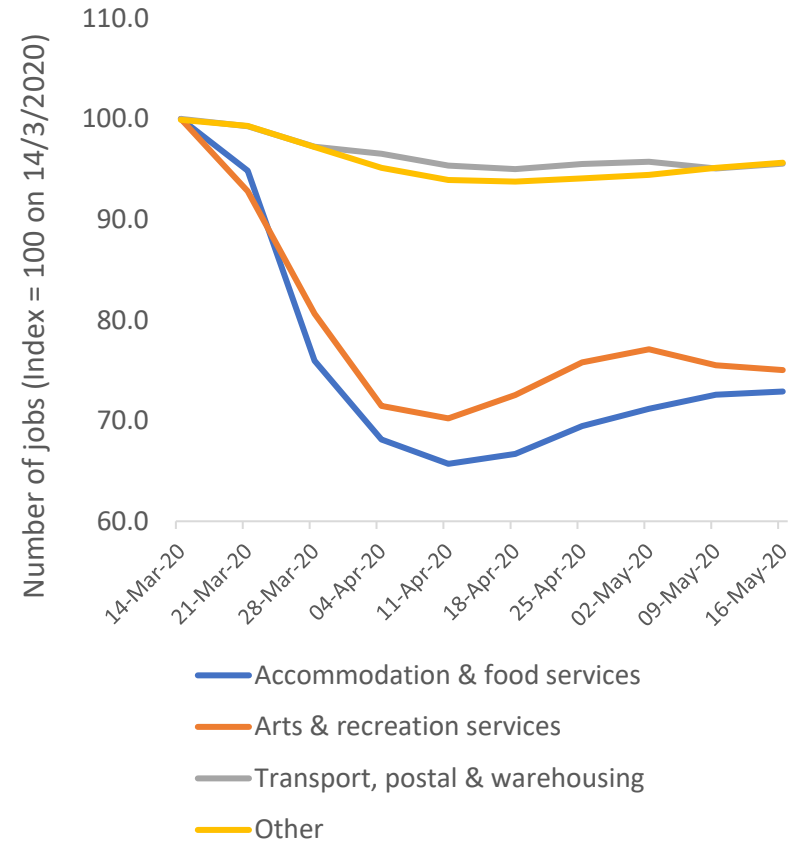


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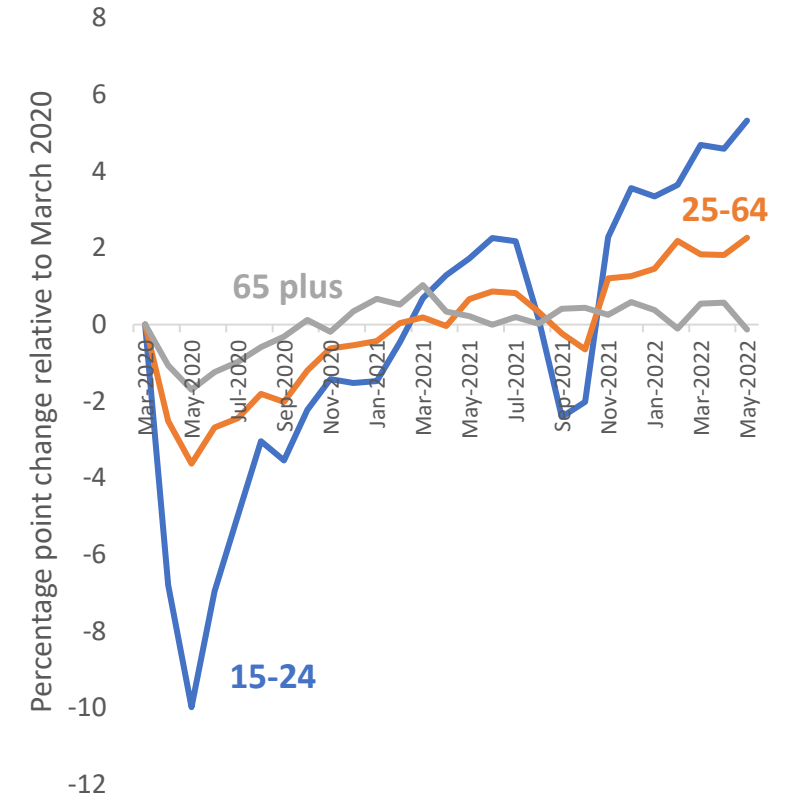
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By age



3] COVID-19 policy lesson 1: Job Keeper

- **Main features:**
- Who payment made to?
- Employer eligibility
- Worker eligibility
- Size of payment
- Duration of payment
- Details of delivery
- 3 phases of policy: Mar-Sept 2020; Sept 2020-Jan 2021; Jan-Mar 2021.

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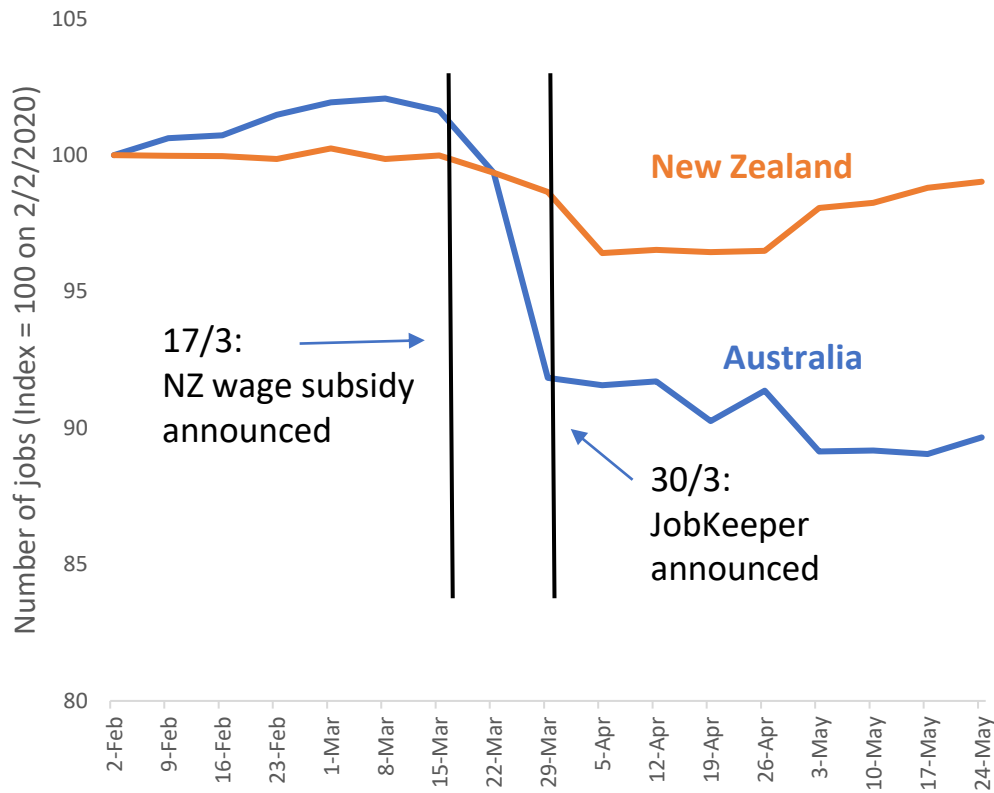
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- **How to judge success:**
 - 1] Macro effects
 - Immediate AD effects
 - Job matching effects
 - 2] Distributional impacts
 - Social insurance for potential job losers
 - Overall effects
 - 3] Fiscal cost

3] COVID-19 policy lesson 1: Job Keeper

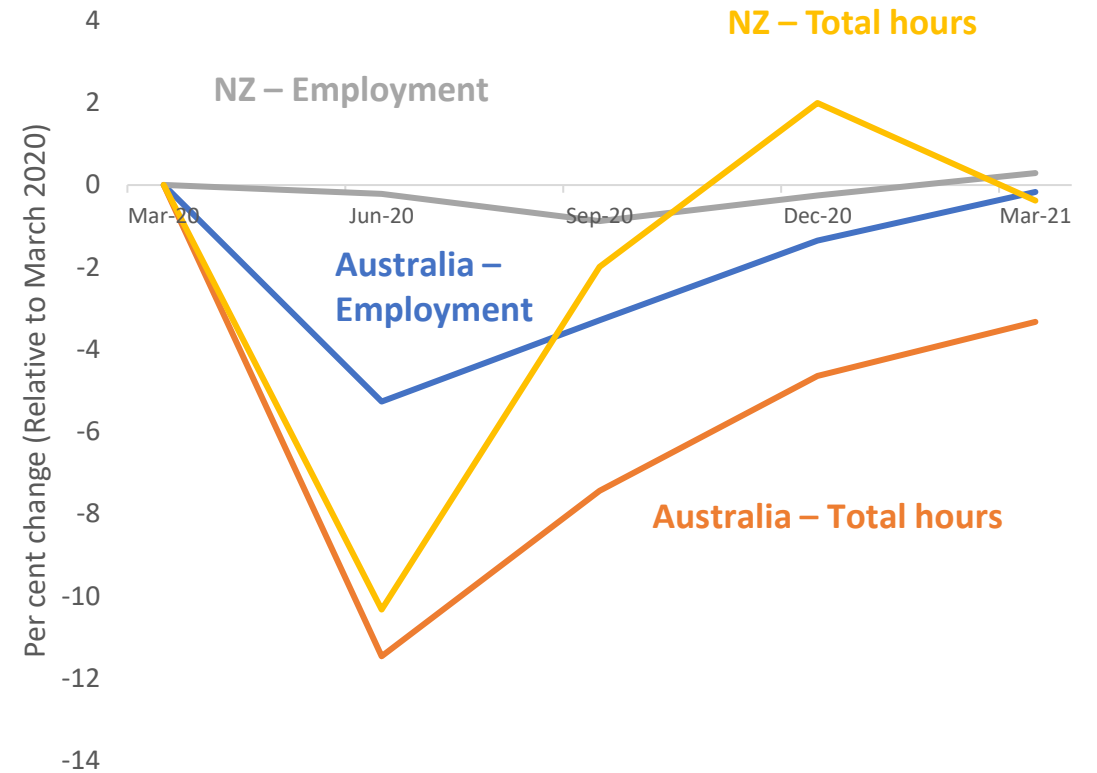
- **Outcomes:**
- 1] Macro outcomes
- Effects on AD via spending + multiplier; via confidence
- Number of jobs saved (5-6%). High cost per job-year saved (\$100,000-\$150,000). But don't know which jobs saved. Role of recall unemployment/OLF. Effect of timing of introduction of policy.

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Number of jobs, Australia and New Zealand, 2 February to 24 May 2020



Per cent change in employment and actual hours worked, Australia and NZ, quarterly, 2020/March to 2021/March, sa



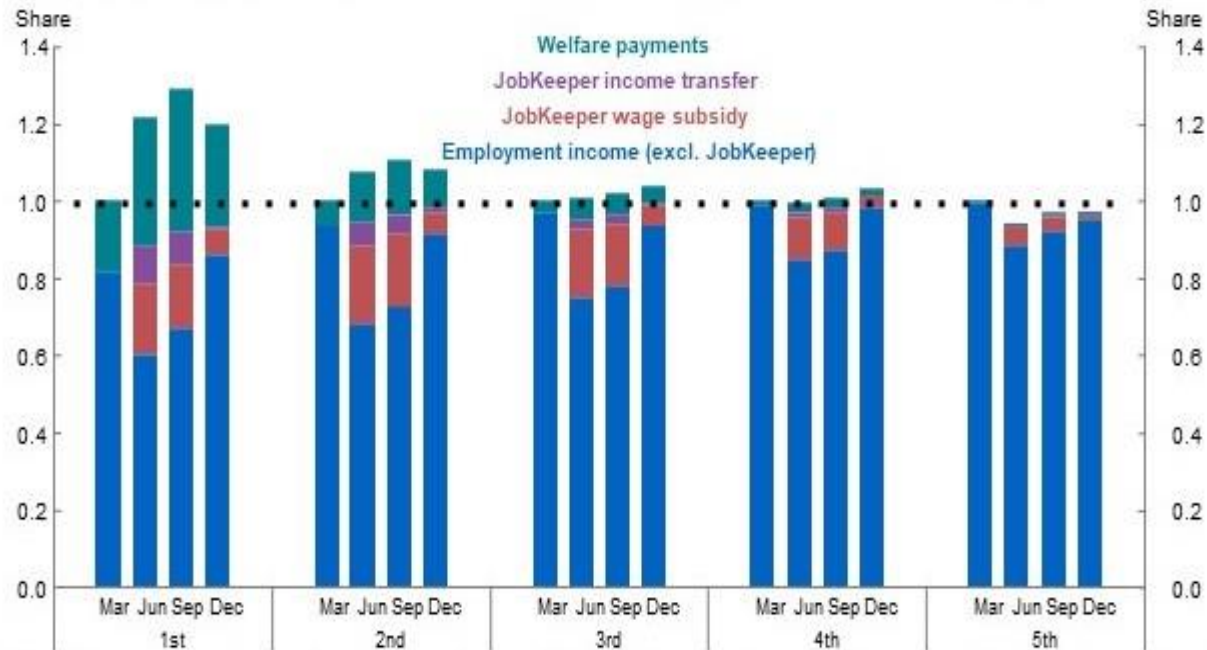
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- 2] Distribution
- Underpinned income of workers who would have lost employment (cf. Existence of Job Seeker; Evidence that jobs saved were higher earners (with other methods of income smoothing?))
- Large proportion paid as subsidy to business means overall impact likely to be regressive.

3] COVID-19 policy lesson 1: Job Keeper

Figure 17: Income sources as share of March quarter income, by quintile

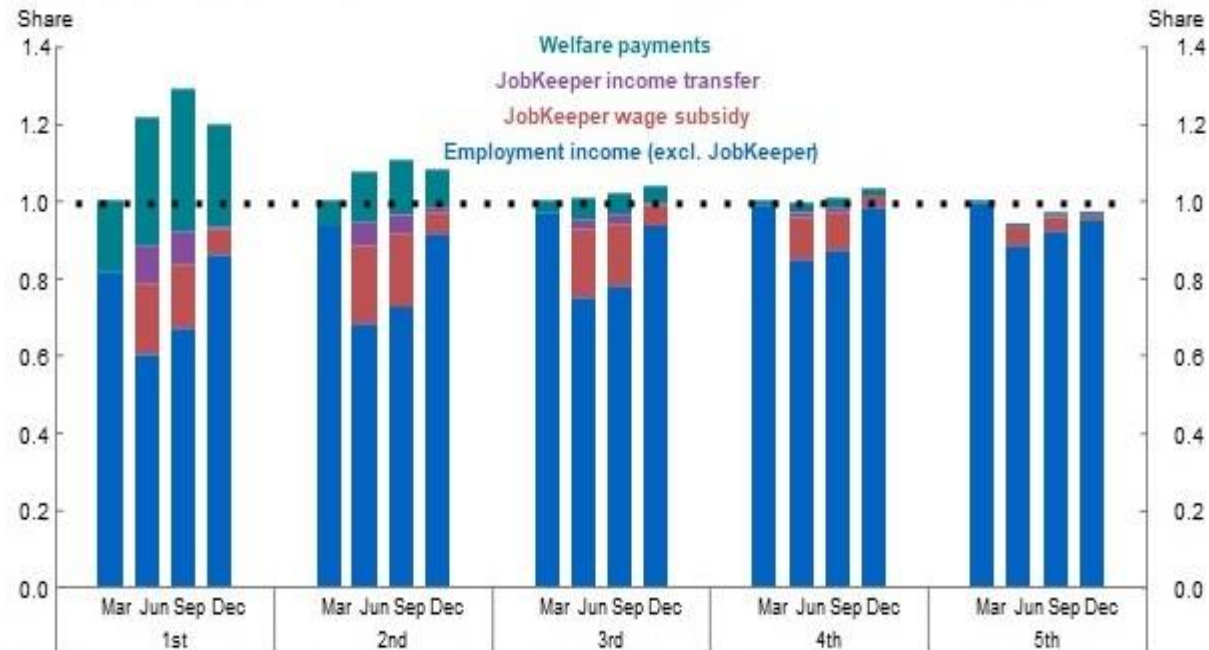


Note: Only covers employment and welfare income. Business, investment or other income excluded. Workers assigned income quintile based on 2019 wage and salary income. As such those without wage income in 2019 are excluded. Source: Treasury analysis of Labour Market Tracker Data and ABS Australian National Accounts: National Income, Expenditure and Product (Cat. No. 5206.0).

Source: Australian Treasury (2021), Insights from the first 6 months of Job Keeper, Figure 17.

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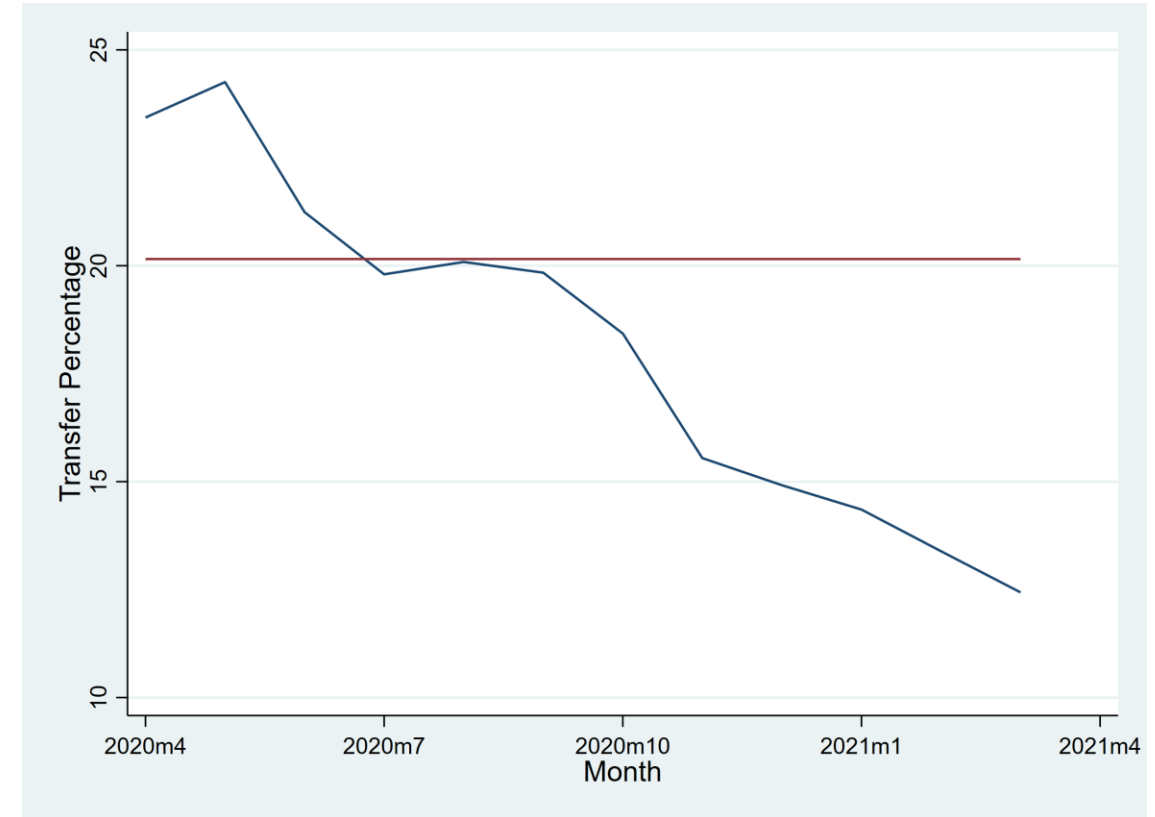
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Job Keeper payments received by employees as an income transfer



Source: Watson, Timothy, Juha Tervala and Tristram Sainsbury (2022), 'The Job Keeper payment: How good are wage subsidies?', Figure 12.

3] COVID-19 policy lesson 1: Job Keeper

- **Lessons**

- Objective should be for a better targeted (cheaper) program without losing impact
- Impact depends on timeliness and certainty of payment
- Hence JK with clawback unlikely to work
- Should consider Short-Time Work (or just increased Job Seeker payments) + Targeted payments to firms
- Having administrative systems that allow these policies to be implemented is critical

4] COVID-19 policy lesson 2: Job Seeker Supplement

- **Main features**
- 1] Supplement to Job Seeker payment;
- 2] Expanded eligibility (eg., sole traders; waiving waiting period etc.)
- 3] Payment conditionality on assets, partner income etc. changed
- 4] Suspension of mutual obligation and job search requirements

	Supplement per week	Total payment per week
27 April 2020 to 24 September 2020	\$275.00	\$562.85
25 September 2020 to 31 December 2020	\$125.00	\$412.85
1 January 2021 to 31 March 2021	\$75.00	\$362.85

4] COVID-19 policy lesson 2: Job Seeker Supplement

- **Outcomes 1:**
- Main evidence from US Federal Pandemic Unemployment Compensation
- Likely to have been an important source of macro stimulus via effect on consumption
- Little evidence of negative impact on job search activity
- But is the limited impact on job search explained by special conditions? (Low LD; Health considerations; Role of recall; Limited duration of payment; Macro consumption effects offset job search effects)

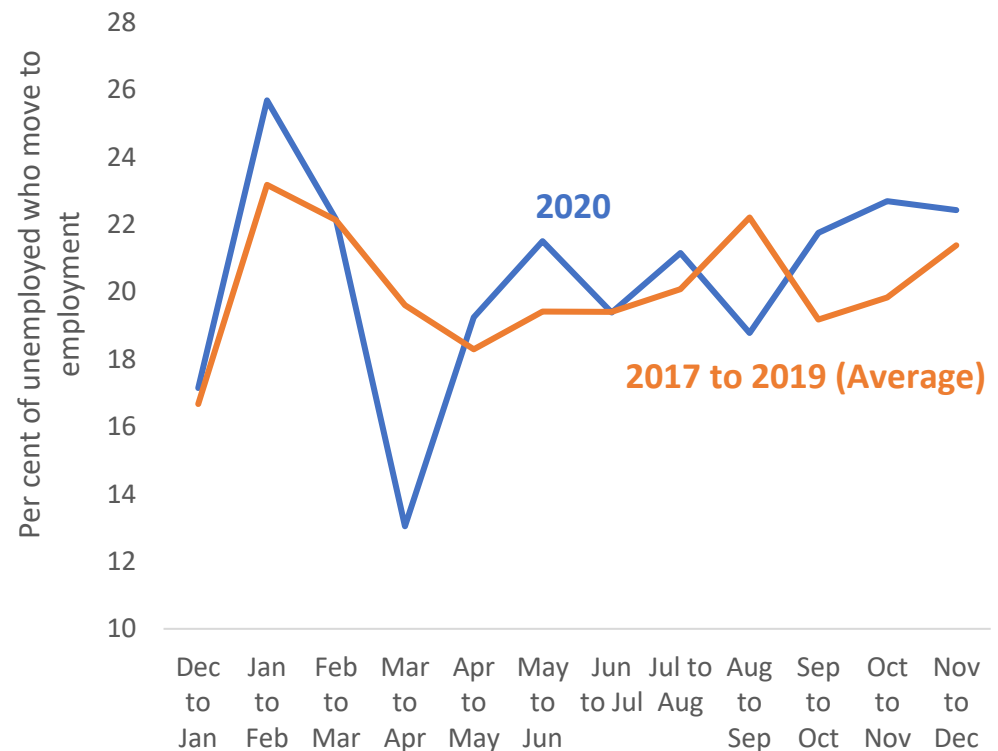
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- Evidence for Australia
- Survey evidence of:
 - Positive effects on recipients' spending (on necessities)
 - Reduced recipients' financial stress and improved mental health
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Monthly rate of flow from unemployment to Employment, 2020 compared to 2017-19



4] COVID-19 policy lesson 2: Job Seeker Supplement

- **Lessons:**
- Increasing unemployment benefits as a counter-cyclical measure
- 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
- Design issues:
 - What magnitude of downturn needed to introduce supplement?
[Rules or discretion?]
 - Size of payment?
 - Timing of payment? (Eg., one-off or one-going?)

5] COVID-19 policy lesson 3: Job Maker

- **Main features:**
- \$200 per week to employers who hire eligible jobseekers aged 15 to 29; and \$100 per week for jobseekers aged 30 to 34. Up to 12 months
- Jobseekers eligible if have been on an income support payment for at least 1 month in the past 3months
- For businesses to claim the hiring credit, a job had to be additional to its headcount on September 30 and increase its payroll above the quarter prior to September 30
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- **Outcome:**

- Take-up of the program was exceptionally low, only about 1 per cent of the intended number of 450,000 recipients.

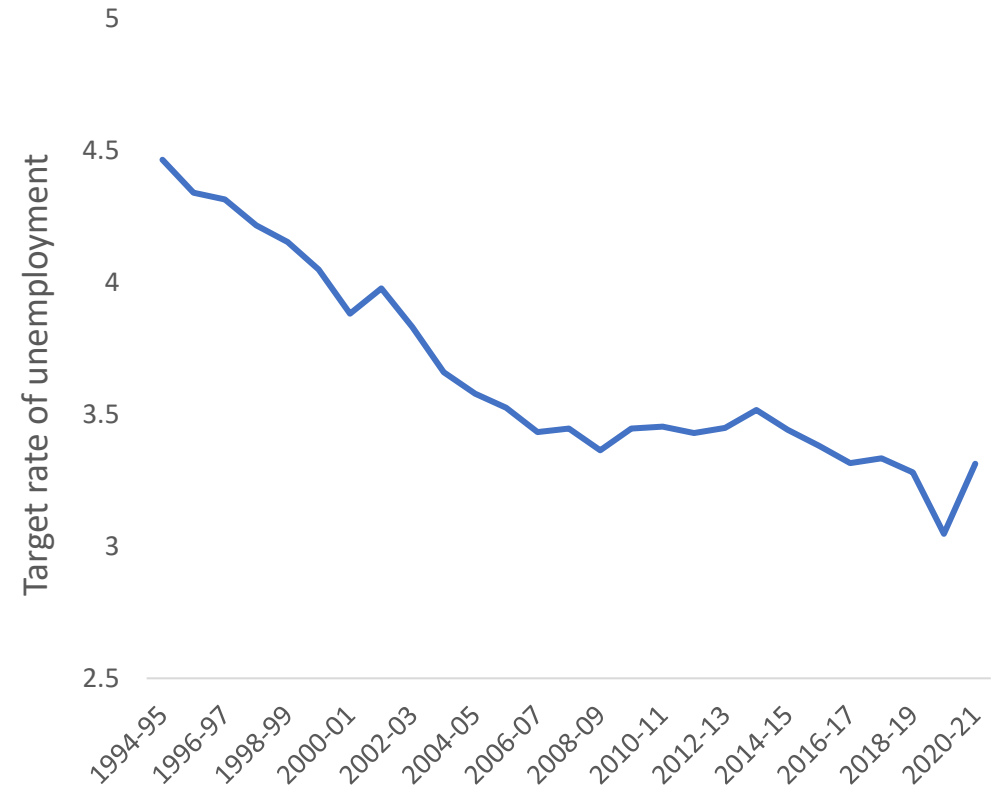
- **Lessons:**

- Policy well-designed **but**
- 1] Sensitivity of take-up of wage subsidy schemes to the state of the labour market;
- 2] How a policy's impact can depend on the existing set of policies

6] Labour market policy lesson 1: The NAIRU

- 1] Before COVID-19:
 - The meaning of the rate of unemployment has changed -> Need to adjust for under-employment
 - Other reasons for thinking inflation pressures are lower (eg., wage-setting institutions)
- 2] Hence NAIRU now likely to be in the range of 4 per cent

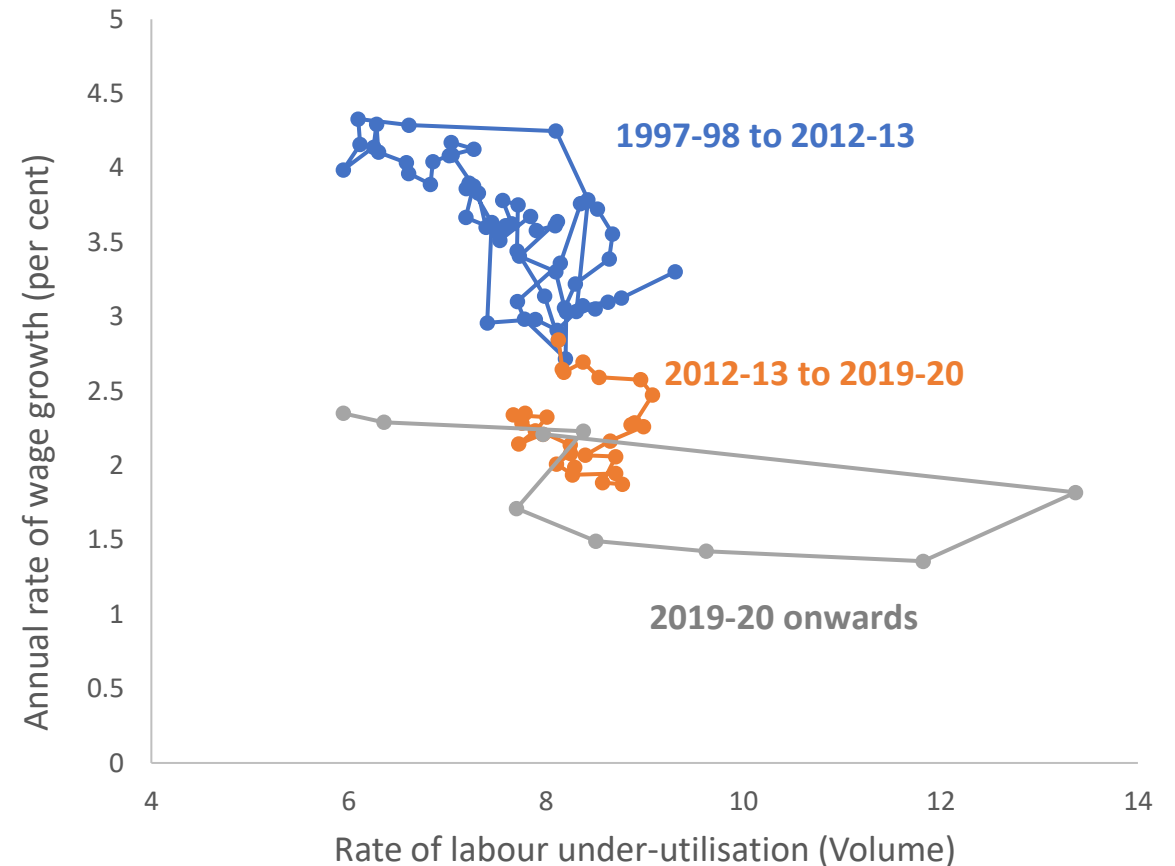
- **Rate of unemployment corresponding to 5 per cent rate of labour under-utilisation, 1994-95 to 2020-21**



6] Labour market policy lesson 1: The NAIRU

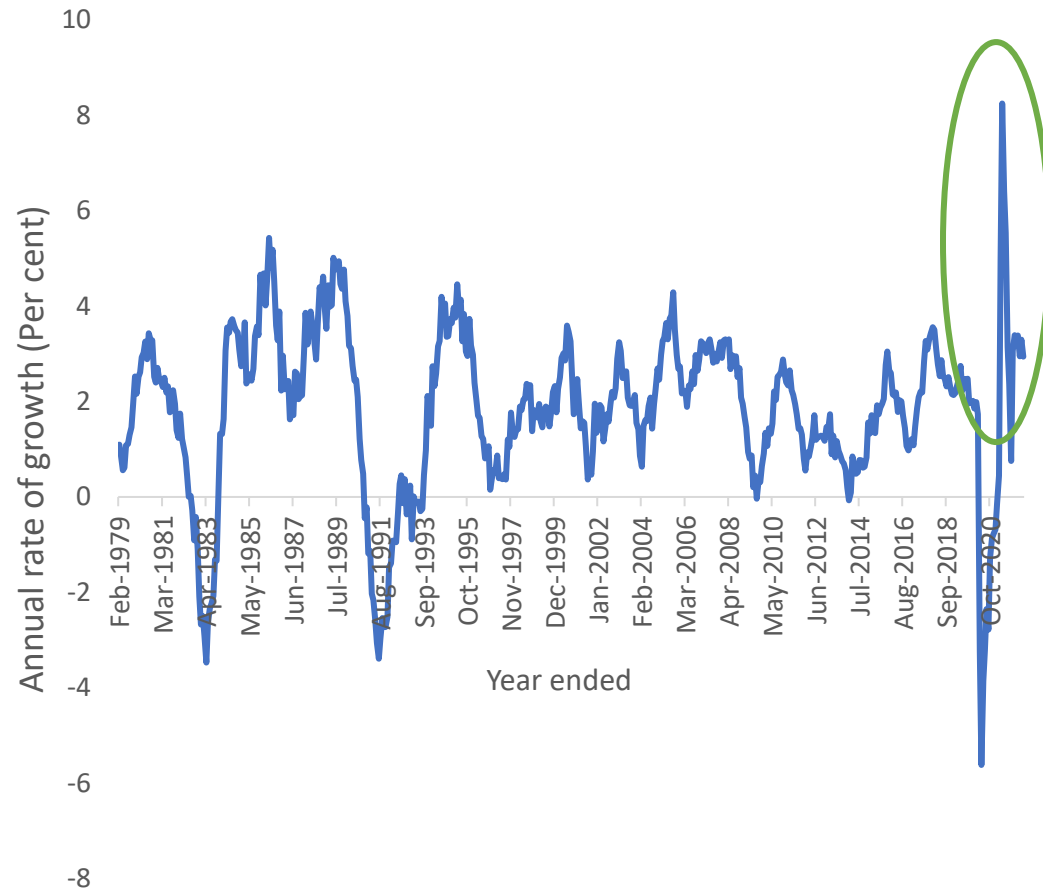
- 3] Experience of COVID-19:
 - Confirms possibility of getting rate of unemployment to 4 per cent without break-out in wage inflation
 - Likely delay in impact of demand on wages due to current wage setting institutions + uncertainty about longevity of labour shortages + time lag in expectations adjustment

- **Phillips curve, 1999/3-1998/3 to 2022/1-2021/1, Australia**



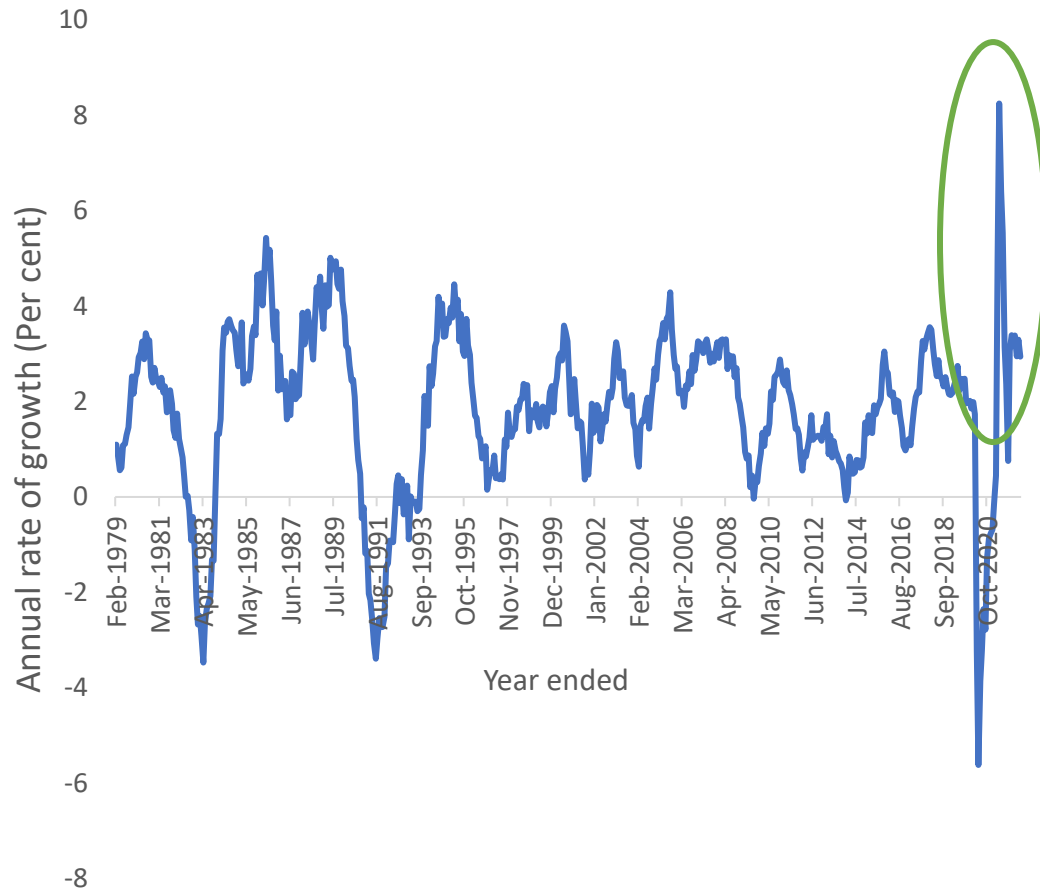
7] Labour market policy lesson 2: Flexibility and security

Employment growth



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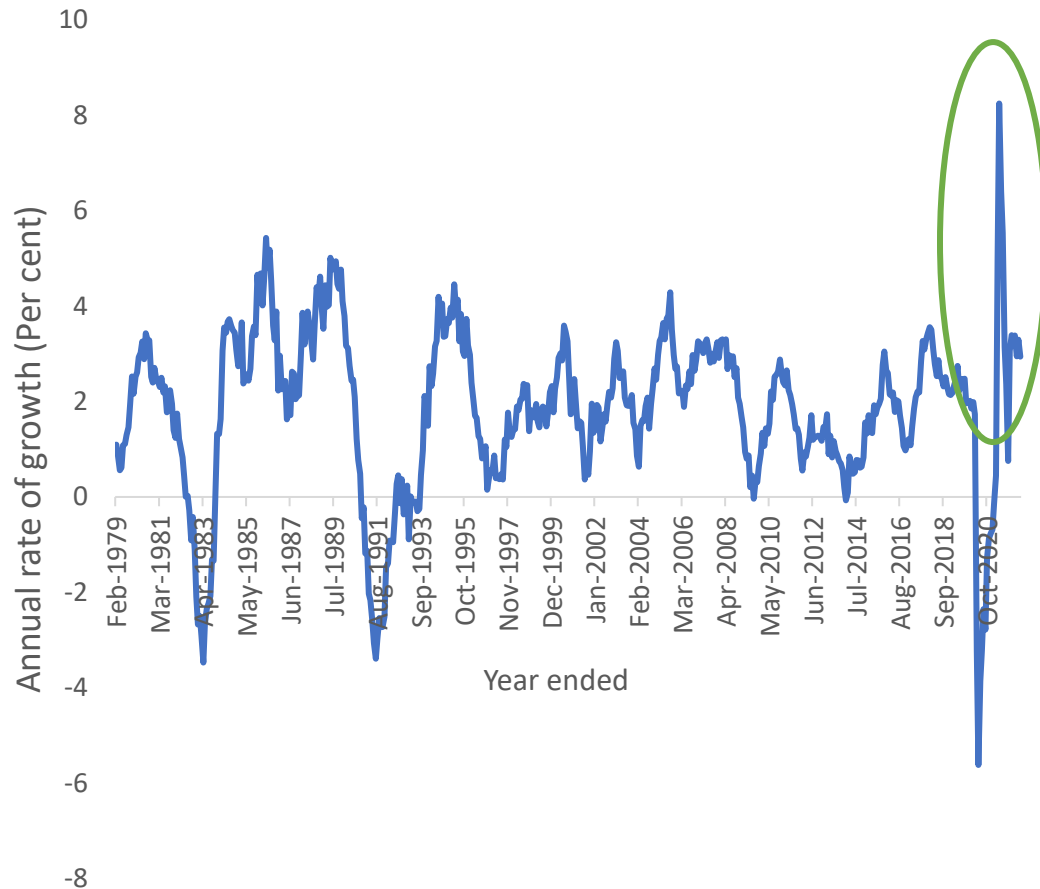


How adjustment happened

	March to May 2020	May to Sept 2020	Sept 2020 to May 2021
Change in:			
Employment	-1148.0	609.4	701.6
Zero hours work	292.2	-167.7	-142.3
Unemployed – With job connection	101.0	-80.5	-23.0
OLF – With job connection	301.4	-205.3	-91.5
Unemployed – No job connection	92.1	90.0	-201.7
OLF – No job connection	361.3	-245.9	-243.2

7] Labour market policy lesson 2: Flexibility and security

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7] Labour market policy lesson 2: Flexibility and security

- 1] Strong evidence of labour market flexibility
 - Pace of employment growth
 - How it happened
- 2] But less evidence of security
 - i] The need for hazard pay
 - ii] The precariousness of casual employment (We have been having the wrong argument)

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- **Impact of COVID-19 on casual and permanent employment, 2019 to 2021**

	2019-2020	2019-2021
Permanent		
Tenure less than 12 months	-17.6	+9.8
Tenure 12 months and above	+4.2	+0.99
Total	+0.64	+2.42
Casual		
Tenure less than 12 months	-20.9	+4.6
Tenure 12 months and above	-4.8	-14.7
Total	-11.36	-6.82

8] Labour market policy lesson 3: Immigration

- 1] Closing of international borders close to a natural experiment on impact of migration flows (but not exact due to impact of COVID-19 on demand)

Temporary migration (stocks)

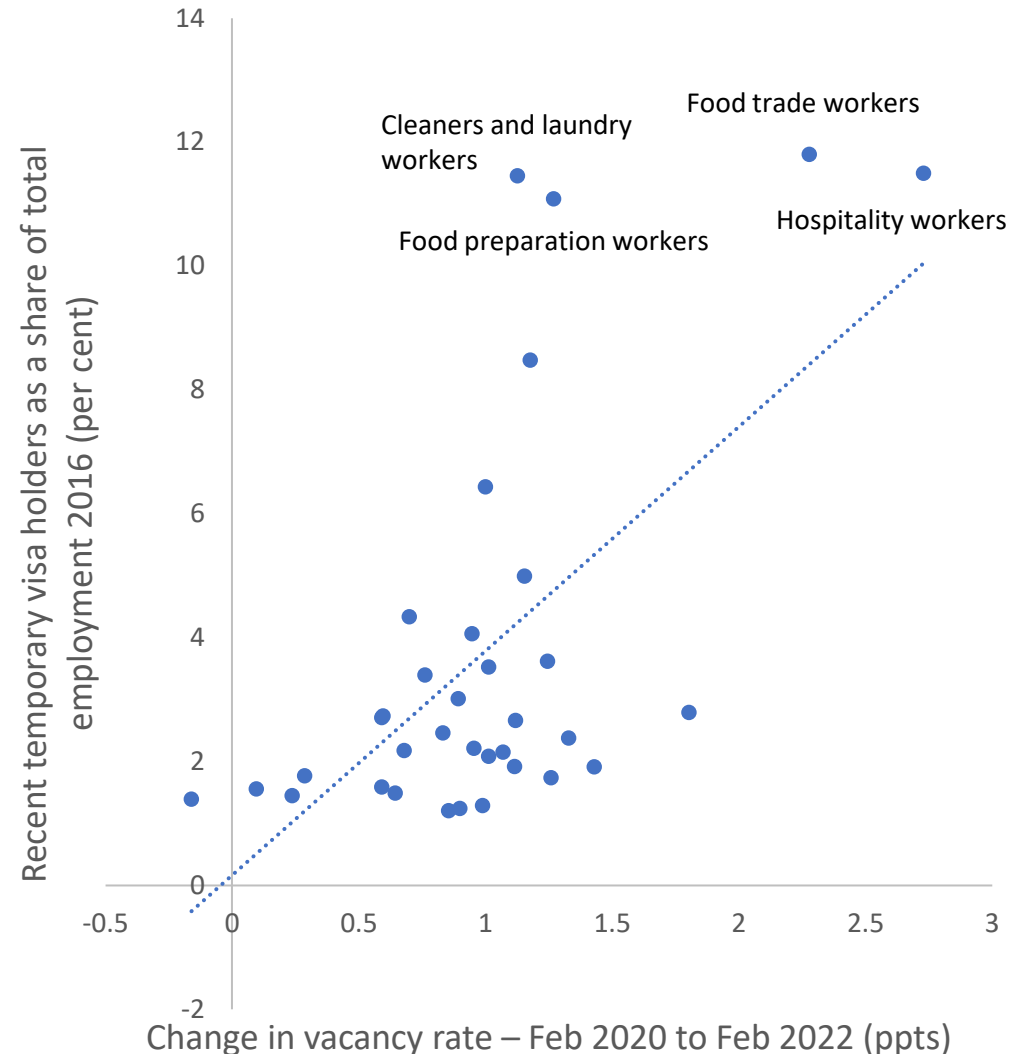
	Student and temporary graduate program	Working holiday maker program	Temporary resident (Skilled)	Total
December 2019	480,543	141,142	64,590	686,275
June 2020	555,310	85,691	71,400	712,401
December 2020	449,932	49,542	61,140	560,614
June 2021	374,056	36,526	55,030	465,612
December 2021	315,949	19,324	49,580	384,853

Permanent migration (flows)

	Skilled	Family	Total
2016-17	123,657	59,620	183,608
2017-18	111,099	51,082	162,417
2018-19	109,713	50,595	160,323
2019-20	95,843	44,442	140,366
2020-21	79,620	80,378	160,052

8] Labour market policy lesson 3: Immigration

- 2] The 'experiment' seems to confirm what we already thought:
- a] At aggregate level the effects wash out;
- b] Sectoral-level impacts depending on balance of effect on labour supply and demand



9] Labour market policy lesson 4: Future challenges

Working from home

Question	Average response
After COVID, how often would you like to work from home?	1.89 days
After COVID, how often is your employer planning for you to work full days at home?	0.95 days
How would you respond if your employer announced that all employees must return to the worksite 5+ days a week (share of employees who would quit or look for a job with scope to work from home)?	22.27 %
How much of a pay raise [cut] (as a percent of your current pay) would you value as much as the option to work from home 2 or 3 days a week?	5.36 %

Source: Aksoy, Cevat Giray, Jose Maria Barrero, Nicholas Bloom, Steven J. Davis, Mathias Dolls and Pablo Zarate (2022), 'Working from home around the world', mimeo.

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COVID-19 effects on labour supply

