Executive summary

The JobKeeper Payment is one of the largest fiscal and labour market interventions in Australia's economic history.

The JobKeeper Payment was developed in the second half of March in response to a steep deterioration in economic activity and employment.

JobKeeper had three objectives: supporting business and job survival, preserving the employment relationship, and providing needed income support. It has met these objectives.

The program has had large take-up, at over 920,000 organisations and around 3.5 million individuals over the April-May period.[1] It has wide coverage, representing 30 per cent of pre-Coronavirus levels of private sector employment (as at February 2020),[2] with organisations and individuals supported in all sectors, across all parts of the country. As at 23 June 2020, payments have totalled $20.3 billion over the four payment fortnights to 24 May, equivalent to 7.0 per cent of pro-rata March quarter gross national income.[3]

It has been well targeted: the payment went to businesses that experienced an average decline in turnover in April of 37 per cent against the same month a year previous (compared with a 4 per cent decline for other businesses); and it went to businesses at which the job separation rate had doubled following the introduction of operating restrictions just before JobKeeper was introduced (compared with no change in other businesses).[4]

There is no evidence of widespread business closures — indeed, they are currently well below average, due to JobKeeper and other fiscal support, bank forbearance and temporary law changes. JobKeeper has kept jobs in place, especially among those in ongoing full-time and part-time roles. It achieved this by providing employers a subsidy to keep on employees and reduce business costs. Since its introduction, the rate of decline in employment has slowed, then stabilised, and towards the end of May was showing tentative signs of recovery.

JobKeeper has also provided income support. In addition to being a wage subsidy payment to employers, it provides an income transfer payment to some individuals. This includes those whose wage prior to JobKeeper was below $1,500 per fortnight and those that have been stood down and receive JobKeeper. Overall, Treasury estimates that around three quarters of payments so far have gone to subsidising wages and the balance to income transfers.

JobKeeper was designed to prioritise macroeconomic support, and speed and ease of implementation. However, JobKeeper has a number of features that create adverse incentives which may become more pronounced over time as the economy recovers. It distorts wage relativities between lower and higher paid jobs, it dampens incentives to work, it hampers labour mobility and the reallocation of workers to more productive roles, and it keeps businesses afloat that would not be viable without ongoing support.

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1 ATO administrative data, as at 23 June 2020

2 Private sector employment based on ABS Labour Force, Australia, Detailed, Quarterly, May 2020 (Cat. No. 6291.0.55.003)

3 Gross National Income for March quarter 2020 was $474.5 billion in current prices. On a pro-rata basis (eight weeks) it was $292.0 billion. ABS Australian National Accounts: National Income, Expenditure and Product, Mar 2020 (Cat. No. 5206.0)

4 Based on Treasury analysis of business microdata

There are compelling arguments to maintain JobKeeper in its current form until 27 September 2020. The labour market remains very weak. The overall level of labour underutilisation as reported in the May Labour Force Survey is at a record high at 20.2 per cent.[5] Businesses have planned on the availability of JobKeeper for six months and there are risks in withdrawing support from those that have begun to recover. There is a lot of ground for businesses to make up between a 30 per cent turnover decline and full recovery. Businesses need time to restore their balance sheets.

The question is whether JobKeeper should continue beyond September, and in what form. This depends on the balance between the macroeconomic need and potential adverse incentives, and whether JobKeeper features can be modified to mitigate these incentive effects.

With respect to the macroeconomic circumstances, Treasury expects the official unemployment rate to be around 8 per cent in the September quarter 2020 and rise further in the December quarter. Despite an expected recovery in employment in coming months, the employment decline from the March to the September quarter this year is still expected to be around 5 per cent, greater than the peak-to-trough falls in the 1980s and 1990s recessions of around 4 per cent.

At the sectoral level, it is highly likely that some sectors, such as tourism and arts and recreation, will remain distressed throughout the remainder of this year and beyond, largely due to the health restrictions that will remain in place, including border controls. Consumer confidence and lower risk appetites may also reduce demand.

Based on these factors, there is a strong case for continued macroeconomic support beyond September. There is also a strong case to use JobKeeper as the mechanism to provide that support, given its track record and its capacity to deliver at scale.

Given the likely sectoral variation in recovery, there would be merit in targeting JobKeeper to the most affected sectors. However, it is too difficult to define the affected sectors in advance and to define sectoral boundaries. A better approach to sectoral targeting would be to maintain JobKeeper but reassess eligibility in October based on actual decline in turnover. This would target the most affected businesses and would reduce the proportion of the economy at risk of the adverse incentives of JobKeeper.

This would give those businesses most affected by ongoing health restrictions and the downturn some additional breathing space to recover. It may also be appropriate at this juncture to consider reducing payments to wean off businesses from ongoing support.

JobKeeper is targeted at those who are already employees. The Government should consider support for other groups of people who are not employed, in particular investment in skills development for displaced workers and targeted wage subsidies aimed at people newly entering the labour market during a recession.

Beyond this review, it is imperative that a program of this magnitude and novelty should be studied and evaluated very closely. The Treasury, the Australian Taxation Office and the Australian Bureau of Statistics will work with the academic community and others to make de-identified program administration data available for research purposes. An independent evaluation should be conducted at the completion of the program.

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5 The underutilisation rate is the sum of the number of people unemployed and underemployed as a proportion of the labour force. The May 2020 figure is the highest on record since the series began in 1978.