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POLICY POINT

Relief measures: comparing Covid-19 wage subsidy schemes

Dr David Law

Introduction

The Covid-19 outbreak will likely lead to a significant economic recession. The Government's pandemic response has rightly prioritised maintaining employment and the ability of firms to recover quickly when the crisis abates.

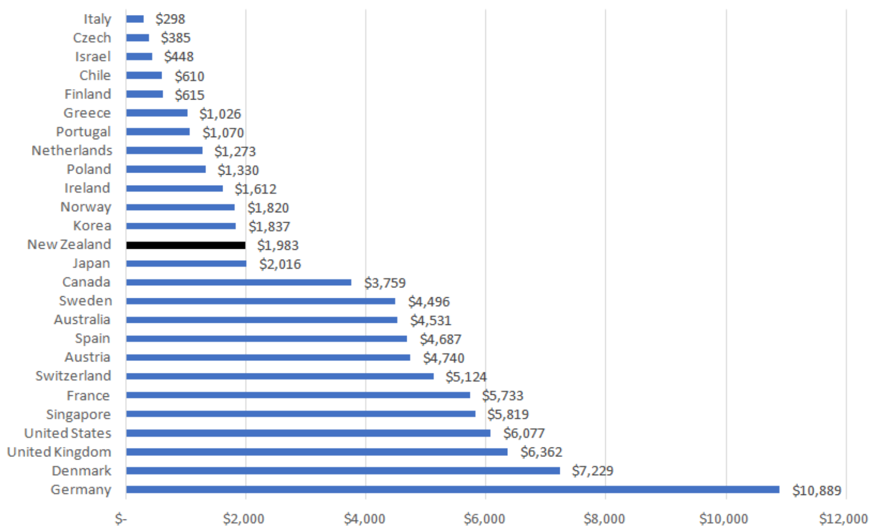
To this end, the Government was quick to implement a wage subsidy scheme but as the crisis has evolved, it is only right to ask whether this scheme remains fit for purpose. This report compares wage subsidy schemes in Canada and Australia with New Zealand's.

How does New Zealand's Covid-19 spending compare?

Figure 1 illustrates the fiscal response to the Covid-19 crisis of 26 countries on a spending per capita basis at the end of March 2020. Although responses across countries are still evolving, significant variation is apparent, ranging from as low as $US298 per capita in Italy to as high as $US10,889 in Germany. New Zealand's fiscal response of $US1983 per capita is somewhat below average.

However, more spending is not necessarily better. The composition of that spending matters too, and how it is delivered. For example, channelling support through firms to workers, as in the case of wage subsidies in New Zealand, can further strengthen employer/employee links. The New Zealand Initiative has previously highlighted the need to keep the response to Covid-19 on target and the high importance of maintaining employment and the productive capacity of the economy.

Figure 1: Fiscal Response to COVID-19 (Per Capita - US$)



Dr David Law is a Research Fellow with The New Zealand Initiative.

New Zealand's wage subsidies

Wage subsidies were introduced relatively early in New Zealand during the pandemic. While the amount of subsidy per employee has not changed since its introduction, some important changes increased the scheme's coverage and overall generosity. Total subsidies were initially capped at $150,000 per firm, however, this limit has since been removed. Companies were also originally required to meet 80% of employee salaries but now must only make their best endeavours to do so, although they are still required to pass on the full value of wage subsidies to employees (even if those subsidies exceed 80% of wages). The key characteristics of the wage subsidy scheme include:

- Employers are eligible if they have a 30% revenue drop attributable to Covid-19, year-on-year;
- The level of subsidy is $585.80 per week for a full-time worker and $350.00 for part-time workers;
- For full-time workers, the subsidy equates to approximately 60% of the median wage and 46% of the average wage;
- The subsidy is paid as a lump sum and covers 12 weeks per employee;
- The wage subsidy is estimated to cost between $8 and $12 billion depending upon the level of uptake by eligible firms and employees.

What are the Canadians doing?

Under the Emergency Wage Subsidy programme, wage subsidies in Canada have quickly evolved and are more generous. Initially, a 10% wage subsidy for businesses was announced on March 18 with very few eligibility criteria. Wage subsidies covering up to 75% of the wages of small businesses were announced on March 27. By March 30, coverage had been expanded to include businesses of all sizes. The key characteristics of Canada's scheme include:

- Companies, non-profits and charities are eligible if they experience a decline in revenue of at least 30% year-on-year;
- Companies that qualify can get up to 75% of each employee's salary on the first $58,700 of income for the year. Those that do not qualify can still access the original 10% wage subsidy;
- The 75% wage subsidy amounts to up to $C847 per week per employee. With an average weekly wage of around $C1050 per week, the wage subsidy is over 80% of the average Canadian wage;
- The subsidies are backdated to March 15 and will apply for up to three months;
- A verification method will be created to help screen for those trying to take advantage of the scheme;
- The estimated costs of the wage subsidy scheme are $C72 billion.

And over the ditch?

Australia has also recently implemented a significant wage subsidy scheme, called the JobKeeper payment. Its key characteristics include:

- Companies with annual turnover under $A1 billion are eligible if they experience a fall in turnover of at least 30% in any given month, based on a year-on-year comparison;
- Companies with an annual turnover of over $A1 billion are eligible if they experience a fall in turnover of at least 50% in any given month;
- The JobKeeper payment is a flat payment of $A1500 per fortnight per employee for those that are eligible;
- This equates to 70% of the median wage in Australia, but closer to 100% of the median wage in the sectors most affected;
- The subsidies can last for a maximum of six months starting from 30 March;
- The estimated cost of Australia's wage subsidy scheme is $A130 billion.

Conclusion

In this crisis, well-designed wage subsidy schemes are an important tool to minimise the economic consequences of the Covid-19 outbreak.

While the coverage and overall generosity of New Zealand's wage subsidies have improved, they still lag significantly behind its peers. In Australia, wage subsidies equate to around 70% of the median wage compared with 60% in New Zealand and last for six months rather than 12 weeks. Canada's wage subsidies are more generous, at around 80% of the average wage, compared to 46% in New Zealand.

The Initiative's recent paper *Short-time work to maintain employment* (available here) advocated for better designed wage subsidies, focusing on Germany's short-time work (STW) schemes. STW allows firms to reduce employees' hours and wages with subsidies paid to affected workers to compensate for a share of lost wages. This preserves the employee/employer relationship and allows firms to quickly ramp up once the crisis abates.

The primary policy objective of wage subsidy schemes is to encourage employers to keep staff on payroll to enable a rapid re-start when the pandemic eases. The Government's recent clarification that employers need only make best endeavours to top wages up to 80% means employers under severe financial strain can take up the scheme rather than fire workers. While other countries' schemes provide greater support to workers, they may not enable workers to remain tied to firms.

There can even be some advantages in having a lower wage subsidy if it simplifies ways for firms experiencing increases in demand to hire workers from firms with furloughed workers. But that may require considering other forms of support for workers experiencing substantial drops in income. The Initiative has recommended extending the Student Loans scheme to non-students to provide this kind of backstop income support.

Government efforts to ensure firms are ready for rapid re-start after the crisis eases could involve further increasing wage subsidies or alleviate firms' other fixed costs. We have recommended that businesses facing financial distress consistent with eligibility for wage subsidies also be eligible for support to make it easier to pay council rates. (see, for example, our recent reports Stay on target and Effective treatment: Public policy prescription for a pandemic).

Policymakers' and economic commentators' understanding of the Covid-19 crisis, as well as its severity, has evolved significantly since New Zealand's policy response was first set out. The flexibility and generosity of New Zealand's wage subsidy scheme can be increased, as other countries have done, with the benefit of better information.