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ECONOMIC SCARS

HOW THE LOCKDOWNS HAVE PERMANENTLY
DISFIGURED THE AUSTRALIAN ECONOMY

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Introduction – ‘Hibernating’ the Economy

The economic crisis caused by lockdown measures in response to COVID-19 has distorted the Australian economy. The economic costs of lockdowns have not been equally shared across the country: the private sector has declined while the public sector has expanded, job losses have been concentrated among younger Australians, small businesses have disproportionately suffered, and the jobs that have been restored since May have tended to be part-time while full-time jobs have failed to recover.

In response to the public health threat posed by the COVID-19 pandemic, the Australian Commonwealth and state governments decided to implement a range of lockdown measures. Two economists from the Australian National University, professors Rabee Tourky and Rohan Pitchford, established the concept of ‘hibernating’ the economy, whereby economic activity is slowed as much as possible, businesses close, and people stay home from work, in an effort to reduce the chances of spreading COVID-19. According to Tourky, “This is a big massive bear that is going to go to sleep. But its vital organs are still going to be working.”¹

The concept of hibernating the economy was quickly adopted by the Commonwealth government, with Prime Minister Scott Morrison saying at a press conference on 27 March: “We want these businesses to effectively go into a hibernation, which means on the other side, the employees come back, the opportunities come back, the economy comes back.”²

But the economy is not a machine that can be turned off and on with the flick of a switch. The concept of hibernating or freezing the economy was always a nonsensical idea that would fail to preserve the pre-lockdown economy. The economy is a network of infinitely complex and unknowable relationships, patterns which “are shaped by the complex interaction between the supply of goods and services and their demand.”³

The patterns of the economy prior to hibernation were never going to be the same patterns after hibernation, both because those patterns are in a constant state of change and because the very act of trying to hibernate them forces them to change. As explained by academics from the Blockchain Innovation Hub at RMIT University, “The learnings and adaptations that occur – even while the economy is in the freezer – means that the old economy is gone. Forever.”⁴

This paper outlines five key pieces of evidence that lockdowns, rather than freezing the economy in place, have disfigured it.

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- 1 John Kehoe, “How the ‘hibernation’ strategy was hatched,” *Australian Financial Review*, 1 April 2020, <https://www.afr.com/policy/economy/how-the-hibernation-strategy-was-hatched-20200331-p54flq>.
 - 2 Scott Morrison, Press Conference at Australian Parliament House, 27 March 2020, Parliament of Australia, <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F7268032%22>.
 - 3 Darcy Allen, Chris Berg, Sinclair Davidson, Aaron Lane, and Jason Potts, “Cryoeconomics: how to unfreeze the economy,” 2 April 2020, Medium.com, <https://medium.com/@cryptoeconomics/cryoeconomics-how-to-unfreeze-the-economy-a5536ee261f0>.
 - 4 Chris Berg, Darcy Allen, Sinclair Davidson, Aaron Lane, and Jason Potts, *Unfreeze: How to Create a High-Growth Economy After the Pandemic*, Kindle Edition, American Institute for Economic Research, May 2020, p. 82.

- The number of people receiving JobSeeker has not declined even as states have reopened their economies by removing lockdown measures.
- While there has been a net increase in jobs between May and August, almost all of this is comprised of part-time jobs. Full-time jobs have not been restored.
- The public sector continued to add jobs throughout the crisis, and all the net job losses came from the private sector, giving rise to the K-shaped recession.
- Young people have borne a disproportionate impact and are in a state of structurally high unemployment.
- Larger businesses remain relatively unscathed, while small businesses are rapidly losing jobs.

These distortions are likely to have long-term ramifications, for example by changing the structure of the Australian economy in favour of fewer, entrenched, larger businesses, and a structurally larger public sector compared to the private sector. Additionally, the disproportionate impact on young Australians is likely to cause significant scarring where the effects of unemployment during the current recession lead to fewer employment opportunities and lower wages for up to the next ten years.⁵

Such long-term impacts can no longer be avoided, the damage to the economy has been inflicted by lockdowns and exacerbated by their length as Australian governments pivoted from an initial strategy of 'flattening the curve' to one of virus elimination. This paper provides policy recommendations which governments should pursue to minimise the damage caused by lockdowns and foster business and job creation which will drive the economic recovery.

Firstly, governments must lift all remaining lockdown measures and replace them with proportionate, risk-based, and targeted measures which are solely based on maintaining medical capacity as outlined in the Institute of Public Affairs report *Medical Capacity: An Alternative to Lockdowns*.⁶ This will allow economic activity to return to the greatest extent possible, giving businesses a fighting chance of survival and allowing as many Australians as possible to return to work.

Secondly, governments must make a firm commitment to the medical capacity strategy. By doing so and being clear that disproportionate and devastating lockdown measures will not be pursued, governments will give businesses the certainty needed to plan to reopen, invest in their future, and rehire and train workers.

Finally, governments must slash red tape which was created in the old economy and is not suited to the new economy. Red tape prevents owners from being dynamic, forcing them to spend time and money on compliance rather than starting and growing their business. Business creation is vital to the economic recovery, and all impediments to it must be removed to the greatest extent possible.

5 Dan Andrews, Nathan Deutscher, Jonathan Hambur and David Hansell, "The Career Effects of Labour Market Conditions at Entry," Treasury Working Paper, June 2020, <https://treasury.gov.au/sites/default/files/2020-06/p2020-85098-202006.pdf>.

6 Asher Judah, Daniel Wild, "Medical Capacity: An Alternative to Lockdowns," Institute of Public Affairs, September 2020, <https://ipa.org.au/wp-content/uploads/2020/09/IPA-Report-Medical-Capacity-An-Alternative-to-Lockdowns.pdf>.

How Lockdowns Disfigured the Economy

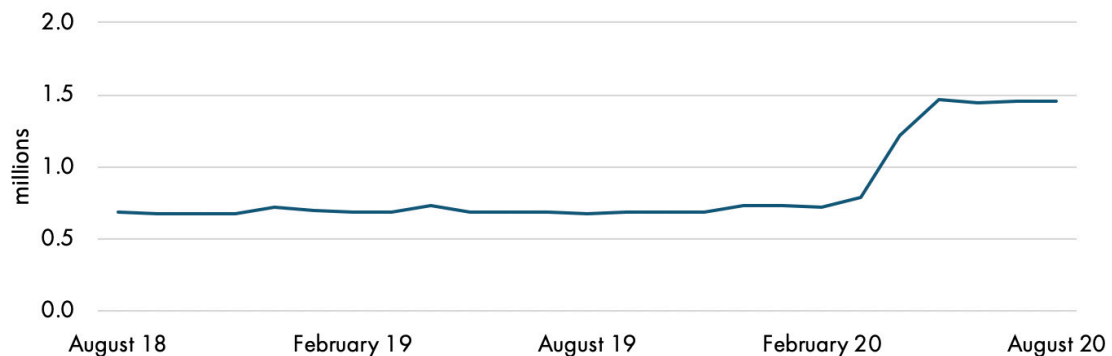
JobSeeker is not declining, even as states open up

In February, 724,000 Australians were receiving the JobSeeker unemployment payment. By May, this had spiked to 1.46 million.⁷ Despite lockdown measures easing significantly since then, except for in Victoria, this number has barely declined.

In Western Australia, for example, by 27 June all lockdown measures had been removed with the exceptions of the hard boarder restriction, two square metre rule, and 50% capacity limit for major entertainment and sporting venues.⁸ This significant easing of restrictions led to increased economic activity: driving and walking activity returned to pre-lockdown levels in Perth over the month of July,⁹ and retail spending in WA in May was 11% higher than January 2020 levels, the strongest and fastest recovery in the country.¹⁰ Despite this, in August there were 173,700 JobSeeker recipients in WA, a decline of only 7,600, or 4.2%, since the peak of 181,300 in May.¹¹ This means that despite lockdown restrictions being eased significantly between the end of April and the end of June, the number of JobSeeker recipients in WA in August was still 64.7% higher than pre-lockdown levels.

There are two primary explanations for the persistent number of JobSeeker recipients: many jobs lost due to lockdowns have not returned, particularly full-time jobs, and the high JobSeeker payment available between March and September likely provided a disincentive for returning to work where it was available.

Graph 1: Number of JobSeeker Recipients



Source: IPA, Department of Social Services.

Note: In February, the Commonwealth unemployment benefit was changed from Newstart Allowance to JobSeeker.

7 Department of Social Services, "JobSeeker Payment and Youth Allowance recipients – monthly profile," September 2020, <https://data.gov.au/data/dataset/jobseeker-payment-and-youth-allowance-recipients-monthly-profile>.

8 Department of Premier and Cabinet, "COVID-19 coronavirus: WA roadmap," Government of Western Australia, 25 September 2020, <https://www.wa.gov.au/organisation/department-of-the-premier-and-cabinet/covid-19-coronavirus-wa-roadmap>.

9 Apple, "Mobility Trends Report," Apple Maps, <https://covid19.apple.com/mobility>.

10 Australian Bureau of Statistics, "Retail Trade, Australia, August 2020."

11 Department of Social Services, "JobSeeker Payment and Youth Allowance recipients".

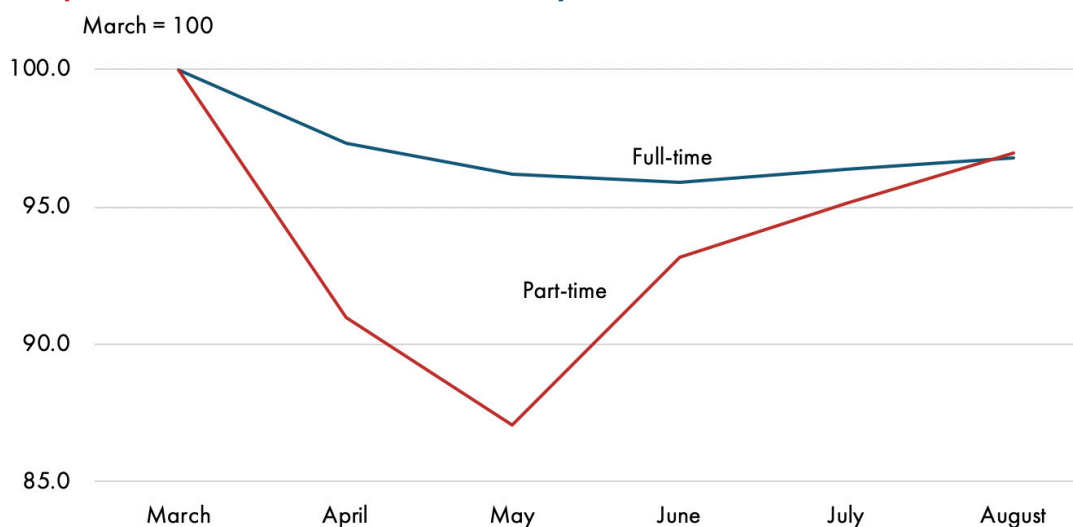
Full-time jobs have not come back

Between March and May, a net 871,500 jobs were destroyed due to the lockdown measures, and between May and August a net of 457,900 jobs were created. While on the surface this appears to show a remarkable rebound, 89% of these jobs are part-time.¹² As a result, only 20.7% of all full-time jobs lost as a result of lockdowns have been restored, while 76.3% of part-time jobs have been restored. This is the case even in states where lockdown measures were lifted faster and more thoroughly. In WA, for example, 99.5% of part-time job losses had been restored by August, whereas only 35% of full-time job losses had been restored.

Additionally, while the number of jobs created may appear promising and indicate that a recovery is underway, the number of people technically employed but working zero hours for economic reasons remains well above pre-lockdown levels. In WA, this figure increased from 4,800 in March to a peak of 69,200 in April. While there were substantial declines between April and June, dropping to 17,700, since then it has remained stubbornly high at over three times the March number. This is, as outlined above, even though restrictions were eased significantly throughout June and retail spending and mobility had long recovered to pre-lockdown levels. In New South Wales, the number of people working zero hours for economic reasons in August was 48.5% higher than in March. In every other State and Territory, this figure was higher.

The difference between full-time and part-time jobs recovery arises for several reasons, primarily due to Australia's system of industrial relations which makes it relatively easier to hire and fire casual workers compared to full-time workers. Additionally, governments changed their policy objective from shifting the curve to virus elimination, which has created uncertainty for business owners and prevented them from restoring full-time jobs lost due to lockdowns.

Graph 2: 89% of Jobs Created Since May are Part-Time



Source: IPA, ABS.

¹² Australian Bureau of Statistics, "Labour Force, Australia, August 2020."

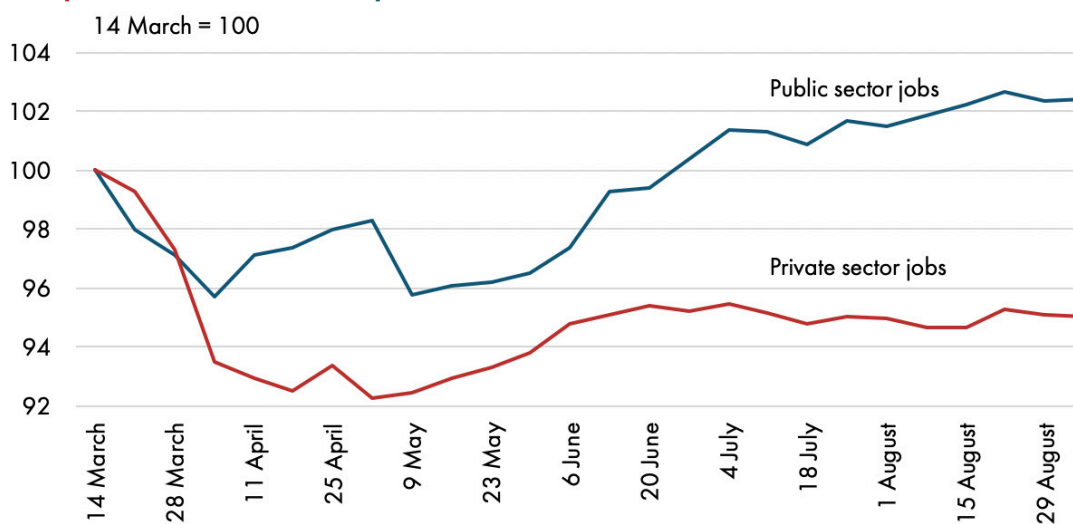
Public versus private sector job creation

Those employed in the public sector have had a very different experience of the lockdown-induced recession than their counterparts in the private sector, and this difference is becoming more pronounced. This is Australia's K-shaped recession, where the public sector on the upward arm of the K continues to grow while the private sector on the downward arm continues to suffer. As a result of the K-shaped recession, the public sector added 19,700 jobs between 14 March and 5 September while the private sector lost 607,000 jobs. Chart 3 shows an index of public and private sector jobs, where the number of jobs on 14 March is set at 100% and percentage changes in jobs over time are demonstrated.

While private sector jobs recovered slightly from the low in early May, they have been stagnant since the start of June at around 5% below 14 March levels even as lockdown measures have been eased everywhere except for Victoria. This is contrasted with public sector jobs, which have grown by around 8 percentage points since early June. Stagnant private sector jobs indicate that the lockdowns caused long-term, if not permanent, damage to the labour force. This has a flow-on effect of decreasing wages for private sector workers. Previous IPA analysis has highlighted that in the June quarter alone, private sector wages decreased by \$5.9 billion while public sector wages increased by \$768 million.¹³

One of the most important factors behind the divergence between the public and private sectors is due to the arbitrary distinctions which were made between 'essential' and 'non-essential' industries under the hibernation plan. For example, under Victoria's stage four lockdown self-employed gardeners were not allowed to work, but those employed by local councils could mow lawns. More broadly, the private sector is exposed to changes in market conditions while the public sector is insulated from this as it is funded by government.

Graph 3: Australia's K-Shaped Recession



Source: IPA, ABS.

¹³ Cian Hussey, "Private Sector Smashed by Lockdown Recession While Bureaucrats Flourish," Institute of Public Affairs, 2 September 2020, <https://ipa.org.au/publications-ipa/private-sector-smashed-by-lockdown-recession-while-bureaucrats-flourish>.

Structural unemployment amongst young Australians

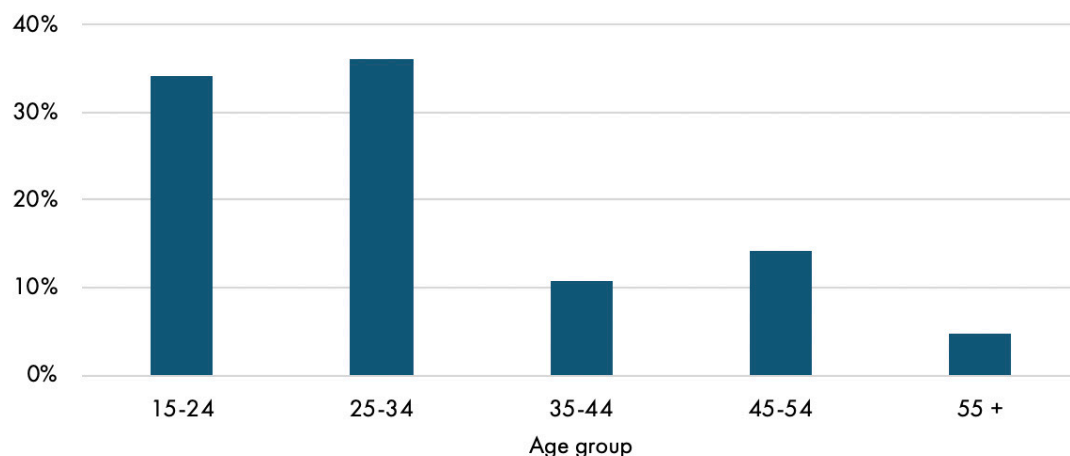
Young Australians have been disproportionately harmed by the employment crisis with 70% of net job losses since March coming from those under the age of 35. The number of employed Australians fell by 414,000 between March and August with 34% of the net job losses coming from those aged between 15 and 24. This is despite that age group accounting for just 15% of the workforce. Another 36% of job losses were from those between the ages of 25 and 34, despite making up 24% of the workforce.¹⁴

Employment for those aged 15 to 24 fell by 7.8% between March and August compared to a 2.4% decline for those over 25 years old. This has driven the official unemployment rate for those under the age of 25 to 14.3% compared to a rate of 5.4% for those over the age of 25.

The official youth unemployment rate significantly understates the true magnitude of youth unemployment by only counting the 300,000 young Australians who are actively looking for and available to work. Including the 107,000 young Australians who have left the labour force since March, and the 50,000 young Australians who are employed but working zero hours for economic reasons gives a more accurate unemployment rate of 20.8%. This is substantially higher than the rate of 7.7% for those over the age of 25.¹⁵

While younger workers are more likely to have their employment negatively affected by an economic crisis due to being less entrenched in the workforce, the lockdown measures have uniquely harmed young Australians. Measures to restrict social gatherings, restaurant and cafe dining, and tourism have disproportionately affected the industries with the highest rates of youth employment. Employment in industries with above average youth employment fell by 8.8% between February and August, while employment in industries with below average youth employment fell by 1.8%.¹⁶

Graph 4: Share of Net Job Losses by Age Group, March to August



Source: IPA, ABS.

¹⁴ Australian Bureau of Statistics, "Labour Force, Australia, August 2020."

¹⁵ Australian Bureau of Statistics, "Labour Force, Australia, Detailed – Electronic Delivery August 2020."

¹⁶ Australian Bureau of Statistics, "Labour Force, Australia, Detailed, Quarterly, August 2020."

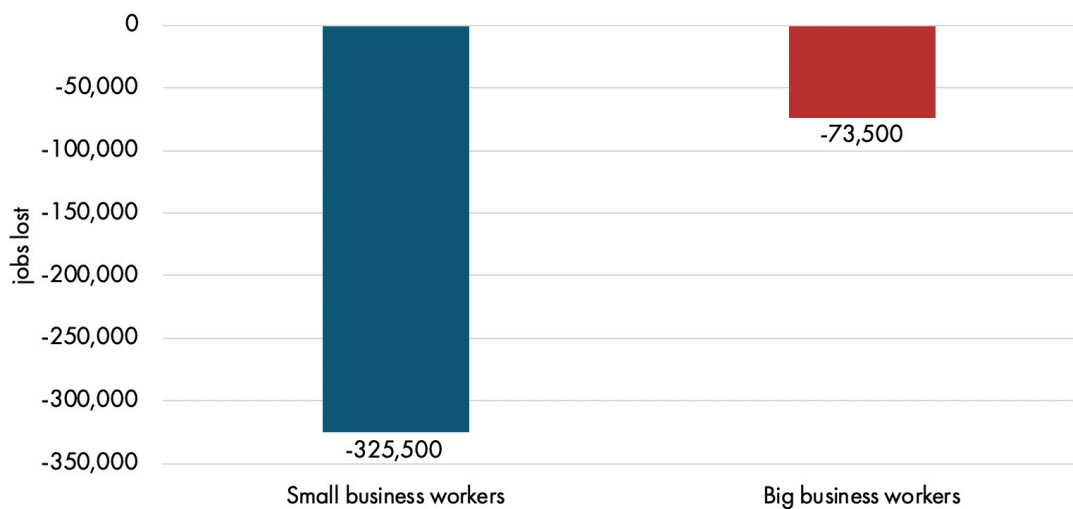
Divide between big and small businesses

The economic crisis has further distorted the Australian economy away from small business toward big business. Payroll data from the ABS shows a 6.9% decline in payroll jobs from small businesses with less than 20 employees between March and September compared to a 1.9% decline for big businesses with more than 200 employees.¹⁷ This means that approximately 325,500 small business jobs have been lost compared to 73,500 big business jobs.¹⁸

Additional survey data from the ABS reveals that 35% of small businesses reported that it will be difficult to meet financial commitments over the next three months, compared to 18% of big businesses.¹⁹ This equates to 810,000 small businesses employing approximately 1.7 million people.

There are several reasons why small businesses have been disproportionately harmed by the lockdown measures and the resulting economic crisis. Recent start-ups tend to be small businesses and are by nature less established and more exposed to economic shocks. Additionally, small businesses are less likely to have the means to withstand prolonged revenue declines and have lower ability to access additional borrowings.

Graph 5: Jobs Lost Under Lockdowns



Source: IPA, ABS.

17 Australian Bureau of Statistics, "Weekly Payroll Jobs and Wages in Australia".

18 Australian Bureau of Statistics, "Australian Industry".

19 Australian Bureau of Statistics, "Business Indicators, Business Impacts of COVID-19, August 2020".

Conclusion

As demonstrated in this paper, lifting lockdown measures has not led to the economic recovery expected by those who advocated for such a lockdown. Contrary to expectations of a 'V' shaped recovery, where there would be a short, sharp drop in economic activity while lockdown measures were in place, followed by a rapid 'snap-back' to pre-lockdown levels, the Australian economy is struggling. This is unsurprising; as many warned when academics and the Prime Minister started talking about 'hibernating' the economy, this is simply not possible. Instead of a brief hibernation, after which the economy is switched back on, lockdowns have caused long-term, and potentially permanent, damage to the economy. This is true regardless of how quickly or thoroughly states eased their lockdown measures, as demonstrated in the case of Western Australia in the examples above.

In the words of academics from the Blockchain Innovation Hub at RMIT University, "The learnings and adaptations that occur – even while the economy is in the freezer – means that the old economy is gone. Forever."²⁰ Rebuilding the economy, restoring jobs and wages lost, and re-creating the businesses which were forced to close requires more than just lifting lockdown measures. Governments must:

- Lift all lockdown measures and replace them with interventions which are proportionate, risk-based, and targeted and focused solely on maintaining medical capacity. This strategy of medical capacity has been set out in previous IPA research.²¹ This will allow economic activity to return to the greatest extent possible, giving businesses a fighting chance to stay open and allowing as many Australians as possible to get back to work.
- Re-commit to the medical capacity strategy originally embarked on when the public policy objective was to 'flatten the curve' to ensure that the health system could cope with demand. This must include an explicit commitment to not pursue an elimination strategy using arbitrary and destructive lockdown measures. This will give businesses the confidence that they will not be forced to close and can rehire workers, and give investors the confidence that Australia is open for business. This confidence cannot be restored under the current strategy of elimination and is central to the economic recovery.
- Reduce the burden of red tape which will prevent adaptation to the changing economy, prevent businesses from being created and keep Australians out of work. Red tape prevents business owners from adapting their businesses to respond to the new economy by changing their operations and how their employees work. It also makes it more difficult for new businesses to be created and for all businesses to hire new workers. These burdens must be minimised to ensure that Australia is well placed to become prosperous again in the wake of lockdowns.

20 Chris Berg, Darcy Allen, Sinclair Davidson, Aaron Lane, and Jason Potts, *Unfreeze: How to Create a High-Growth Economy After the Pandemic*, Kindle Edition, American Institute for Economic Research, May 2020, p. 82.

21 Asher Judah, Daniel Wild, "Medical Capacity: An Alternative to Lockdowns," Institute of Public Affairs, September 2020, <https://ipa.org.au/wp-content/uploads/2020/09/IPA-Report-Medical-Capacity-An-Alternative-to-Lockdowns.pdf>.

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