Too Much of a Good Thing? Australian Cash Transfer Replacement Rates During the Pandemic

Robert Breunig and Tristram Sainsbury
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Key findings

We examine Australia's economic policies during the COVID-19 pandemic.

- Australia effectively created a two-tier, 12-month pandemic welfare system during the initial stages of COVID 19, through fiscal transfers that were of unprecedented scope and scale.
- Australia's approach to pandemic transfers proved impossible to sustain over even the initial two-year phase of COVID-19.
- The unevenness of the pandemic response generated inequities.
- Noting that our exercise is descriptive in nature, we raise an important question for future shocks: at what point is there 'too much of a good thing' with crisis cash transfers?

What we knew

- During the early stages of the COVID-19 pandemic in 2020 the Australian federal government temporarily expanded the level and types of fiscal relief available to the working-age population.
- Three of the largest measures were cash transfers targeted at individuals:
  - an $88 billion wage subsidy;
  - early access to $38 billion in withdrawals from private pension accounts; and
  - $52 billion in supplemented benefit payments to the unemployed, students and parents.

What we do

- We combine administrative data on weekly Australian wage earnings with the universe of administrative program records to examine the scope and distributional dimensions of these three emergency COVID-19 cash transfers.

What we find

We provide five stylised facts around the nature of income redistribution during the early part of COVID-19:

1. The scale of fiscal intervention was extensive. In total, 6.5 million working-age Australians (42 per cent of working-age population) accessed the three programs over a 12-month period.
2. The level of transfer per recipient was substantial. The median recipient had 46 per cent of weekly pre-COVID-19 wages replaced by the transfers.
3. There was significant heterogeneity in program receipt. We paint a picture of a two-tier, 12-month pandemic welfare system:
   (a) A poverty-alleviating income floor through benefit payments was disproportionately accessed by workers in low-earning occupations and welfare recipients.

(b) The more generous JobKeeper wage subsidy and superannuation withdrawals boosted incomes and provided employment certainty. They were targeted more towards the middle and upper middle segments of the income distribution.

4. Together, the programs produced a strong, short-lived, shift in the income distribution. There was large movement out of low levels of income into the lower-middle and upper middle segments of the income distribution. By April 2021, however, the weekly income distribution once again closely resembled the pre-COVID-19 income distribution.

5. The COVID-19 transfers (alongside resilience in earnings) served to increase total gross income flows among the adult Australian population in 2020. As represented in Figure 1.[1] This is notable as income flows generally fall immediately after large adverse shocks.

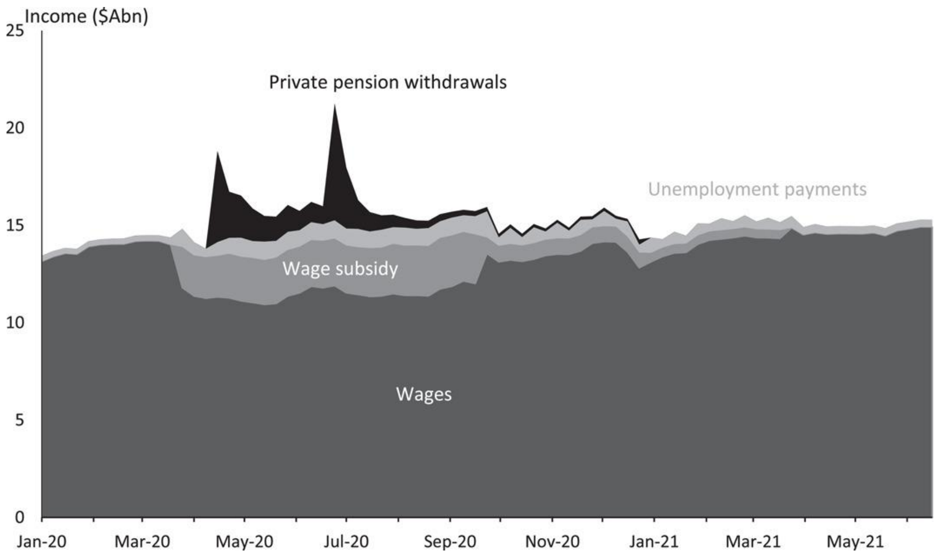

Figure 1: Weekly income for the working age population

What this means for policy

- We expose important macroeconomic trade-offs that were implicit in Australia's pandemic fiscal strategy.
  - Transfers worth 9 per cent of annual GDP proved impossible to sustain over even the initial two-year phase of COVID-19.
  - The first two waves of COVID-19 in 2020 saw strong protection of incomes. This protection was substantially weaker for subsequent waves in 2021 and 2022.
  - There were inconsistencies in the experience of the same Australians at different 'waves' of COVID-19. Transfers also treated Australians in similar positions differently.
  - The support represents a departure from the traditional approach of redistributing from those with a higher capacity to pay to those with lower capacities.
- We raise an important question for decision-makers facing future shocks: at what point is there 'too much of a good thing' with crisis cash transfers?

[1] The working-age Australian population has been constructed as those aged 16–65 who possess a superannuation balance prior to COVID-19. Source: Single Touch Payroll, COVID-19 program records.

Caveats

- We urge caution in interpreting these observations and the suitability of pandemic policy.
- Descriptive exercises (such as this) do not provide information about the 'impact' of policies and are limited to what they directly measure.
- They do not construct counterfactuals (the Australian economy would likely have looked very different in the absence of ameliorating measures) or identify mechanisms of effect.
- We are reliant on indicators that reveal direct, rather than indirect, income consequences.
- We do not measure indirect macroeconomic effects of confidence-assuring action.

Where to now?

- Our research provides insights about the intended and unintended effects of stimulus policy through cash transfers in response to crises.
- Our research suggests that a stronger, principles-based approach around the ways governments will restrict people's economic engagement in response to external events and towards the targeting of support through cash transfers, might be desirable.
  - It is impossible to know how long a crisis event will last at the onset of a crisis and at the point when initial crisis measures are being enacted.
  - That noted, better alignment between the best available estimates of shock duration (including a strategy that accounts for contingencies in the event the crisis is prolonged or becomes more severe) and the profile of fiscal (and monetary) support - with transfers delivered on a consistent basis across the entire duration of shock – offers a welfare-improving prospect.
  - Related issues such as addressing a seeming public expectation that large, upfront spending commitments accompany every modern shock, and designing state-specific crisis policy tools such as clawback mechanisms for instances when such announcements are made but not appropriate, warrant attention.

More information

- Get the published paper here: `https://onlinelibrary.wiley.com/doi/full/10.1111/1467-8462.12501`
- We would welcome the opportunity to present our research to your team and to discuss potential joint research projects on related or similar topics.
- Contact us at `tristram.sainsbury@anu.edu.au` or `robert.breunig@anu.edu.au`