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Treasurer

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ADDRESS TO THE NATIONAL PRESS CLUB

"COVID19: Australia's Path to Recovery and Reform"

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CHECK AGAINST DELIVERY

How We Got Here

It was the weekend of the 22nd of February at the G20 Finance Ministers' meeting in Saudi Arabia when the economic impact of the coronavirus really hit home.

As I listened to my counterparts provide their country updates, it was the words of my Singaporean colleague that resonated most.

He spoke of the damage inflicted on his proud city state as a result of COVID-19, and the fiscal support that would now be required.

Having not run a budget deficit in more than a decade, he was resigned to this fate.

My mind quickly turned to what would be required at home, but even then – the scale of what we would confront was little known.

In Australia, we had our first confirmed coronavirus case about a month earlier, and on the 1st of February we were among the first countries to close our borders to foreigners who had been in mainland China in the last fourteen days.

We knew the economic impact would be greater than SARS, but this was mainly due to the fact the Chinese economy was now four-times bigger than it was back in 2003 and the Australian and global economies were a lot more integrated with China.

Even as recently as late February – just ten weeks ago – the IMF was saying that the coronavirus would detract only 0.1 percentage points from the anticipated global growth of more than 3 per cent.

There was growing economic uncertainty for Australia, but beyond the immediate impacts on international students and tourists, it was hard to assess, let alone quantify the downside risks.

At this point, the Government, through the strong and decisive leadership of the Prime Minister was moving quickly on the health front. The Commonwealth’s Chief Medical Officer declared COVID-19’s “pandemic potential” more than a month ahead of the World Health Organisation’s formal declaration.

We had also initiated the Coronavirus Emergency Response Plan on the 27th of February.

This was followed by a $2.4 billion health package on the 11th of March.

On the 12th of March, the Government announced its first $17.6 billion economic support package – at the time designed to provide targeted stimulus support to the economy in the face of the emerging economic shock.

However, it was the announcement on the 15th of March of the first social distancing rules by the newly formed National Cabinet which both accelerated and broadened the economic impact.

The next day, the ASX fell by 9.7 per cent, beating the largest daily fall seen in the global financial crisis of 8.3 per cent in October 2008.

It was clear that the economic environment was deteriorating rapidly and Government support beyond our first package would be required.

School closures would follow. It was Treasury's estimate at the time that the macro-economic impact from closing schools and childcare centres for 3 months could reduce GDP by around $34 billion, or 7 per cent for a quarter.

This was based on the assessment that school and childcare closures could result in around 1 million adults needing to withdraw from the workforce to care for children at home.

This illustrated the potential economic impact that health restrictions could have.

Not only was the real economy being adversely impacted by COVID-19, but so too the stability of the global financial system.

Credit spreads had widened and the ASX had lost a third of its value in just four weeks.

We were in a "very serious situation" in the words of RBA Governor, Phil Lowe.

It was against this backdrop that on the 19th of March, the RBA Board met out of cycle – a rare occurrence – to approve a massive $90 billion injection to boost the liquidity of the banks and encourage lending to small business.

It was announced concurrently with a 25 basis point rate cut which saw the cash rate target fall to 0.25 per cent, the lowest on record.

The Morrison Government was closely coordinating its actions with the Reserve Bank, announcing on the same day a $15 billion fund for smaller lenders through the Australian Office of Financial Management (AOFM).

Standard & Poor's described the announcements from the Government and the RBA as "decisive and coordinated action."

Just three days later on the 22nd of March, our second support package, at $66 billion was announced. More than three times larger than the first package, it was targeted at "cushioning the blow" for impacted businesses and households.

This was a "Team Australia" moment and showed the Government was prepared to do what it takes.

Our message to Australians was that "we've got your back."

Over the course of the next week, the number of coronavirus cases internationally continued to skyrocket, traversing from mainland Europe across the Channel to the United Kingdom which had now moved to full lockdown.

In Australia, States including Western Australia, South Australia, and Queensland closed their borders.

Long queues formed outside Centrelink. This was hard to watch and something that I will never forget.

The number of people contracting coronavirus was increasing by more than 20 per cent per day and we were in a race against time to replenish our PPE stocks, increase the capacity of our ICUs, and secure a sufficient number of ventilators to deal with the expected surge in demand.

It was in this week that all elective, non-urgent surgery was suspended.

With the second package effectively doubling the safety net with the $550 a fortnight Coronavirus Supplement, and providing an expanded $32 billion cash flow boost to small businesses our attention turned to putting in place a complementary wage subsidy program as the next stage in our economic response.

Treasury had earlier advised me of the limitations of the UK Government's wage subsidy program, and we had seen the two tiered approach adopted in New Zealand.

Having considered the alternatives, we came up with what the Prime Minister described as a distinctly Australian model, announcing the new JobKeeper Payment on the 30th of March.

It would be a flat $1,500 fortnightly payment, equivalent to about 70 per cent of the median wage, which would see every eligible worker be they part time, fulltime, long-term casual, or sole trader receive the same amount and apply irrespective of whether they had been stood down or were still in work.

Using existing payroll systems, JobKeeper had the benefit of keeping employers and employees formally connected while reducing the cost of labour to employers, thus helping to keep their businesses in business.

As with each of the economic measures announced in response to COVID-19, JobKeeper is temporary, targeted, and leverages our existing systems.

At $130 billion, there are some that say JobKeeper is too costly, while others say it has not gone far enough and needs to be expanded.

The reality is that we needed a program equivalent to the scale of the shock. JobKeeper was it.

As John Howard said to me in the days before the package was announced, in “times of crisis there are no ideological constraints”.

Our decision around JobKeeper was made in the context of the new social distancing arrangements announced following the National Cabinet on Tuesday, the 24th of March. This would see the prohibition of a number of activities and precipitate the temporary closure of a number of businesses including pubs, restaurants, and cafes.

At that time, Treasury could see a scenario where GDP could fall by 10 to 12 per cent in the June quarter.

If these restrictions were increased even further, akin to the eight week lockdown in Europe, then the adverse impact on GDP could double to 24 per cent, or $120 billion, in the June quarter.

This would have seen enormous stress on our financial system as a result of increased balance sheet impairments, widespread firm closures, higher unemployment and higher household debt.

This was the cliff we were standing on.

The potential economic consequences of the pandemic were immense.

Treasury's advice underlined the economic imperative that produced the JobKeeper program.

In dealing with the virus, we are fortunate that through decisive, early, and coordinated action, Australia has made strong progress in flattening the curve.

With one of the highest testing rates and lowest mortality rates in the world, we have seen the growth in the number of coronavirus cases go from more than 20 per cent per day just a few weeks ago, to less than half a percent today.

Tragically, 96 people have died in Australia from coronavirus, accounting for around 0.04 per cent of total global casualties.

Adjusting for population, the death toll in the United Kingdom is over 110 times that of Australia, in France it is over 100 times, and in the United States it is over 50 times.

At almost 70,000, the US death toll is extraordinary when one considers their first casualty from coronavirus was only around two months ago on the 29th of February.

Some observers claim the Swedish model of handling the virus with significantly less restrictions is the model of success.

Respectfully, I disagree.

Sweden has 40 per cent of Australia's population but 70 times the death rate.

The numbers speak for themselves.

Notwithstanding Australia's progress to date on the health front, and the unprecedented scale and scope of our economic response, our economic indicators are going to get considerably worse in the period ahead before they get better.

Some of the hardest hit sectors like retail and hospitality are among the biggest employers, accounting for more than two million employees between them.

Recent credit and debit card data from the banks shows that spending on arts and recreational services was down 60 per cent and accommodation and food services were down around 70 per cent in late April compared to the previous year.

Despite the rush for toilet paper and the record increase in overall retail trade in March due in no small part to panic buying, overall consumption, according to NAB data, has fallen 19.5 per cent since the start of the year, with declines across all jurisdictions.

Victoria has had the steepest fall of 23 per cent followed by the ACT (20.7 per cent), WA (20.5 per cent), NSW (20.4 per cent), Queensland (18 per cent), South Australia (16.8 per cent), Northern Territory (15 per cent) and Tasmania (14.9 per cent).

The economic shock will be broad.

GDP is expected to fall significantly, with Treasury forecasting a fall of over 10 per cent in the June quarter, the equivalent of $50 billion.

This takes into account an anticipated reduction of around one third this year in net overseas migration.

The forecast fall in GDP, together with the employment effects of the health restrictions, have seen Treasury forecast that the unemployment rate is likely to double.

Having fallen in February to 5.1 per cent, it is now forecast to reach 10 per cent in the June quarter.

Treasury has also forecast that, but for the JobKeeper package, it could have risen to 15 per cent.

The worsening economic picture is not unique to Australia, indeed many countries are facing considerably more challenging circumstances.

More than US$8 trillion has already been committed globally in economic support, and more than 100 countries have now gone to the IMF seeking assistance.

The economic shock the world is now confronting dwarfs the GFC.

During the GFC, the global economy contracted by just 0.1 per cent in 2009, but according to the IMF's most recent forecast, there will be a 3 per cent contraction in global growth in 2020.

In the last four weeks alone, 30 million Americans have filed jobless claims, which is equivalent to almost 19 per cent of their labour force.

The extraordinary cost of responding to the crisis is illustrated by the US Treasury announcement overnight that the Government plans to issue $3 trillion in debt in the three months to June, which is almost five times what was raised over the three months during the GFC and more than twice what was raised by the United States in all of last year.

China's economy has also been hit hard with GDP falling by 9.8 per cent in the March quarter, the first quarterly drop on record.

In Italy, France and Spain, they have also seen the largest quarterly GDP falls on record.

Lifting Restrictions

As we cross the bridge to recovery, Australia has the advantage of having made real progress in suppressing the spread of the virus without having to resort to a full lockdown as has been the case with some other nations.

Significant sectors of our economy like agriculture, mining and construction have been able to adapt to the new health restrictions and in most cases continue to operate.

This is demonstrated by an ABS survey showing 85 per cent of mining businesses were still operating.

Reassuringly, National Cabinet has signalled that from this Friday, it will assess more opportunities for easing restrictions, building on decisions already taken to date, such as around elective surgery, or in some States, limited gatherings and visitations.

The health advice of the AHPPC (Australian Health Protection Principal Committee) is that 15 conditions precedent need to be satisfied before the easing of restrictions may be considered.

These conditions relate to the resourcing and data analysis around testing and tracing, as well as health system capacity, including the availability of masks, gowns, gloves and ventilators.

Importantly, Australia is on track to meet 11 of those 15 conditions, with progress on the remaining 4 being expedited by governments.

The continued take up of the COVIDSafe app, which allows people to be notified earlier if they have been in contact with a confirmed case, will protect them and their loved ones.

This app, which is approaching 5 million downloads, is also a compelling technological development in our suppression strategy.

As has been characteristic of our response to this crisis, we will continue to be guided by the expert health advice and seek to ease restrictions in a way that minimises the health risk and maximises the economic activity.

There are some sectors that are not only significant contributors to employment and output in their own right, but are also important enablers for the broader economy.

Early childhood and school education because of their impact on the labour force, and transport and logistics because of their impact on supply chains, are cases in point.

Going forward, we need to ensure when sectors are open – for example, in retail – that there is both consumer confidence to engage in these activities, but also business confidence that they are unlikely to be disrupted again and forced to close.

When businesses reopen after a forced hiatus many have to restock, absorbing their remaining working capital.

This reinforces the importance of having the right processes and protocols in place to manage the health risk and providing for a safe working environment.

At the same time, businesses need to have confidence in the broader health response that is keeping the economy open. This is why progress against the 15 conditions precedent is so important.

It's about having the confidence that as we enable more economic activity to take place we can effectively manage any health risks that arise. It is also why every Australian that wants to get back to work and every business owner that wants to open their doors again should download the COVIDSafe app.

We must get people back into jobs and back into work.

For every extra week the current restrictions remain in place, Treasury estimates that we will see close to a $4 billion reduction in economic activity from a combination of reduced workforce participation, productivity, and consumption.

This is equivalent to around what 4 million Australians on the median wage would earn in a week.

History shows that the longer people are unemployed, the harder it is to get a job.

In the early 1990s, the unemployment rate increased by 5 percentage points over three years, but took seven years to get back to its pre-crisis level.

As has been remarked, unemployment went up in the elevator, and went down by the stairs.

In the current coronavirus crisis, it is expected the unemployment rate will go up by around 5 percentage points in just three months, let alone in three years.

It underlines the importance of getting people back to work as soon as possible to avoid the long-term economic and social impacts from high unemployment.

Throughout this health crisis it has been a fundamental priority of the Morrison Government to keep the economy going even with the disruption and the constraints caused by the health restrictions.

We have made over 80 regulatory changes designed to provide greater flexibility for businesses and individuals to operate.

This has included changes to bankruptcy and insolvency laws to create a regulatory shield at a time of financial stress; clarification of responsible lending laws to improve the flow of credit to small business; and an expansion of telehealth rebates to promote remote consultations which could not have otherwise been possible due to social distancing restrictions.

Consistent with this approach, we will also be amending the Corporations Act to provide for virtual AGMs and the electronic execution of documents by company officers for a six month period.

It is this flexible and nimble approach to our regulatory frameworks that we will need to take forward into the recovery phase.

The Pathway Ahead

Through these and the many other economic and health measures we have announced over recent weeks, Australia now has a bridge to the other side.

The combination of our cash flow boost to SMEs, early and tax-free access to superannuation, $750 cash payments to more than 6 million Australians on income support, has already seen more than $20 billion flow into the economy in recent weeks.

Another $30 billion is expected to flow into the economy over the next month.

More than 725,000 businesses, employing more than 4.7 million Australians have formally registered for JobKeeper and will start to receive their payments this week.

The ABS reported yesterday that its survey found that nearly half the businesses to be supported by JobKeeper said the announcement of the program positively influenced them to retain staff.

I, like my colleagues, have been contacted by so many small business owners, from the local hairdresser to the local cafe, indicating that JobKeeper has made all the difference, enabling them to keep their lights on and staff employed.

Together with our SME loan guarantee in partnership with the banks, which has already seen around $1 billion approved, the Government is providing an extraordinary level of support to this vital sector of our economy.

A level of support the likes of which our country has never seen.

We are by no means out of this crisis and we must be realistic that even with the best medical minds focused on finding a vaccine, it remains elusive.

Nevertheless as we build to the recovery phase, we must also turn our minds to the changes that will be needed to further drive economic growth and employment.

In the world post crisis, we must continue on our path to a more efficient and productive economy.

At the end of last year, economic growth was strengthening with the IMF forecasting Australia to grow faster than the UK, Germany, France, Japan and the United States.

Employment growth was nearly double the OECD average with participation rates near record highs and more than 1.5 million new jobs being created since we came to Government.

We have also delivered the largest personal income tax cuts in 20 years, providing immediate tax relief to more than 10 million Australians.

By abolishing an entire tax bracket and protecting against bracket creep, once fully implemented these changes will mean 94 per cent of Australians pay no more than 30 cents in the dollar on every dollar they earn.

At the same time, the Budget was back in balance for the first time in 11 years and even with the global headwinds created by trade tensions and the adverse domestic economic impacts of the drought and bushfires, Australia was still on track to have its first budget surplus in 12 years.

In the words of RBA Governor Phil Lowe on the 5th of February, “Australia’s economic fundamentals remain very strong.”

Responsible economic management, which has seen our net debt to GDP entering this crisis around a quarter of that in the US and UK and one seventh of that in Japan, has given Australia the financial capacity to respond to this crisis in a way many other nations could not.

Our direct financial support, while including a number of demand driven programs, carries a price tag of around $200 billion or 10 percent of GDP.

The income shock caused by this crisis will also hit the revenue side, the totality of which will be quantified at the Budget in October.

Despite these financial impacts, our balance sheet remains strong, with Standard & Poor’s saying less than four weeks ago while the Government’s fiscal measures will “weigh heavily on public finances in the immediate future, they won’t structurally weaken Australia’s fiscal position.”

Our ability to handle this crisis has once again reminded Australians of the importance of a strong and stable financial position.

It is an emphatic rejection of the claims by some that our focus on restoring the nation's finances was merely an ideological pursuit.

It is self-evident that putting the country in a strong financial position must always be a primary responsibility of government.

After the crisis is resolved, Australia will face a higher debt burden that will take many years to repay.

The proven path for paying back debt is not through higher taxes, which curtails aspiration and investment, but by growing the economy with productivity enhancing reforms.

We know that a strong economy is the foundation for everything else, and only with a strong economy can you provide the health, education, and essential services that Australians rely on.

The economy today is 16 per cent larger than it was when we came to Government and our task ahead is to grow it even further.

As the Prime Minister has indicated, we are not about to announce a shopping list of reforms. We are in the "harvesting phase", during which we will look at new and old reform proposals with fresh eyes.

In sifting through reform options, our focus will be on practical solutions to the most significant challenges which will be front and centre in the post crisis world.

Reskilling those who may have lost their jobs, upskilling those in existing jobs to adapt to the enhanced digital and e-commerce environment and equipping those entering the workforce for the first time with the skills they need to get a job.

New infrastructure projects, big and small, to ensure our $100 billion ten year pipeline is maintained.

Regulatory reform to reduce the cost burden on businesses and the economy, enhance the flow of capital and increase competition and build on existing initiatives like the Consumer Data Right.

Tax and industrial relations reform as a means of increasing our competitiveness, cognisant of the fact that in the aftermath of this crisis, there will be less aggregate demand domestically and internationally, which will see heightened competition for goods and services across all markets.

The values and principles that have guided Coalition reforms in the past must guide us again in the future: encouraging personal responsibility; maximising personal choice; rewarding effort; and risk taking whilst ensuring a safety net which is underpinned by a sense of decency and fairness.

Unleashing the power of dynamic, innovative, and open markets must be central to the recovery, with the private sector leading job creation, not government.

There is a risk that protectionist sentiment re-emerges on the other side of the crisis, and for that we must be vigilant.

While we must always safeguard our national interest, we must also recognise the great benefits that have accrued to Australia as a trading nation.

Conclusion

The crisis has seen the very best of Australia. From our brave health care professionals working tirelessly on the frontline, to the public at large who have heeded the advice, our nation is now in a position envied by many.

Effective cooperation through the National Cabinet, guided by expert health and economic advice, has given rise to a unity of purpose across geographical and political lines usually reserved for wartime.

Stakeholders representing employers and employees alike have come together with Government in support of practical solutions which not only leaves us well placed for the recovery, but creates opportunities to work together in the future.

While the shadow of the economic shock created by this crisis will be both profound and long-lasting, we can remain optimistic about our future.

It is with that, I will give the final word to one of my constituents, Enid Williamson.

Just three months shy of her 100th birthday, Enid recently wrote to me as follows:

“Here in Australia, we have always found ways and means of growing and responding to life’s difficulties. When this corona pandemic is under control, I believe we will be like a phoenix, rising from the ashes, and with our innate resilience become stronger, hopefully more caring, hopefully more integrated, hopefully more cooperative in achieving a better community and a better world. Just a dream? Yes, but don’t just follow that dream, chase it!”

Thank you Enid.

That is what we all must do.

[ENDS]