

# Tasmanian Design Principles for Fiscal Policy in the Pandemic

How to create jobs in the short term  
and lasting benefits in the long term

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Discussion paper

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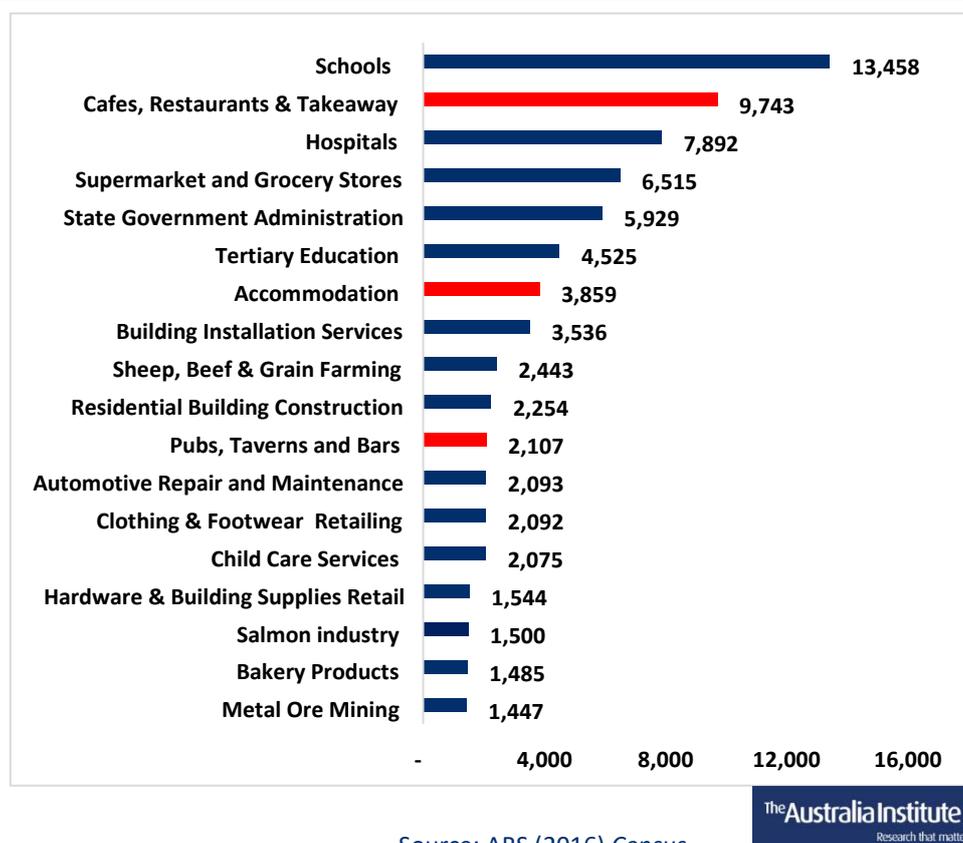
# Summary

The economic crisis brought on by the coronavirus pandemic requires fast, large, effective and well targeted fiscal stimulus. While the size of the federal government’s initial three spending packages is appropriate as an initial response, both the shape of that response and the design of future spending measures need to be carefully evaluated.

While the current economic downturn may resemble the beginning of previous recessions, the cause of the downturn is so different, government responses must be structured differently to previous crisis responses. Most of the current contraction in the tourism, retail, food and entertainment industries is the direct result of government health policies designed to ensure social distancing. As a result, traditional approaches to ‘stimulus’ cannot succeed in boosting output in these industries.

The industries suffering contraction are significant employers in Tasmania

**FIGURE 1: EMPLOYMENT IN TASMANIA, SELECTED INDUSTRIES**



The Tasmanian Government needs to think creatively about how to utilise the labour of thousands of Tasmanians who will be unable to perform their usual roles for the duration of the lockdown.

The federal government has implemented short-term welfare, cash flow and wage subsidy measures. The state government has introduced short term assistance through the suspension of payroll tax and energy bills for businesses. In the medium term, the state government will also be called upon to make changes to revenue raising mechanisms such as stamp duty and land tax. The state government can expect to be presented with a vast range of potential projects that it could fund to create jobs and maintain some economic activity.

This paper provides design principles for evaluating such proposals to ensure that future spending packages are as effective as possible. In the short term, the government must pump not just money into the economy, but also into jobs. And in the long term, if the jobs that governments create in the coming year deliver lasting benefits then our community won't be 'saddled with debt', it will be blessed with new assets. Just as the Great Depression delivered a road up kunanyi/Mt Wellington, so too can state government projects undertaken in the coming year provide both jobs now and community benefits for decades to come.

This paper argues that, in designing subsequent rounds of fiscal stimulus, the state government should consider these principles:

- Go early: Timeliness of the stimulus is key
- Go hard: The size of the stimulus is important
- Go households: Put purchasing power with households who are more likely to spend it
- Targets domestic production
- Targets activities with high direct employment intensities
- Targets those most impacted by the crisis
- Targets useful projects that deliver co-benefits
- Targets regional disadvantage

This paper evaluates some potential stimulus projects to highlight the usefulness of developing clear criteria and applying them.

These projects include:

- Investing in newly built public and community housing
- Temporary housing for the homeless including those escaping domestic violence
- Maintenance of public and community buildings
- Better electricity grid for renewables
- Local food production fund

- Arts and entertainment fund
- Wage freeze (cutting real wages)
- Mass tree planting and weed removal

Project	Go early	Go hard	Go households	Domestic production	Employment intensity	Economic victims	Co-benefits	Regional disadvantage
Public housing	Partial	Yes	No	Partial	Yes	Partial	Yes	Yes
Housing for homeless	Yes	Partial	No	Yes	Yes	Yes	Yes	No
Maintenance of public buildings	Yes	Yes	No	Yes	Yes	Partial	Yes	Yes
Electricity grid for renewables	Yes	Yes	Partial	Partial	Yes	Partial	Yes	Yes
Arts and entertainment fund	Yes	Partial	Partial	Yes	Yes	Yes	Yes	No
Local food production fund	Yes	Yes	No	Yes	Yes	Partial	Yes	Yes
Wages freeze	No	No	No	No	No	No	No	No
Mass tree planting	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

# Introduction

Fiscal stimulus is the use of fiscal policies, primarily changes in taxing and spending policies, to stimulate the macro economy and, in turn, boost the rate of growth of GDP and reduce the level of unemployment below what it would otherwise be. Increases in tax collection and reductions in government spending are referred to as contractionary fiscal policy. Changes in the size of the actual and expected budget balances are the key indicators of the size of fiscal stimulus or contraction.

While there is some contention among economists about the optimal design of fiscal policy at some phases of the business cycle, there is virtually no disagreement among economists that, in times of rapid deceleration in the rate of economic growth such as is already occurring in Australia, expansionary fiscal policy is an effective way to boost economic growth and minimise increases in the unemployment rate. As it is often said, everyone is a Keynesian in a recession.

In short, the purpose of a budget deficit during a recession is to buy a lower unemployment rate, both during the crisis and in the years that follow.

Because no government has ever tried to put its private sector into ‘hibernation’, there is no rule book for how to thaw an economy back to good health. But while there are no historic precedents for such an approach, economic theory and history do provide a framework for thinking through such a strategy.

## **Go early: Timeliness of the stimulus is key**

The fiscal stimulus should be rolled out as jobs are being lost, if not before. Looking into the future is fraught with difficulty, but economic history suggests that early responses to economic crises are more effective than attempts to design perfect responses. As with a pandemic like COVID19, the risk with waiting to see how badly the economy slows is that by the time the data is clear, the window to act effectively has passed.

## **Go hard: The size of the stimulus is key**

The size of the fiscal stimulus needs to be proportionate to the damage that would otherwise be done. The magnitudes for new stimulus need to be enormous to match the size of the contraction in private sector spending that is taking place. In Australia, the value of total production is \$412,000 per worker, so for every 100,000 jobs that are thought to be at risk, public sector stimulus needs to boost demand by \$41.2 billion per annum; and that is without accounting for lags in the system.

## **Go households: Put purchasing power with spending needs**

Government transfers to individuals and businesses are not stimulatory until they are spent on goods and services – which brings forth additional production and employment. Lower- and middle-income households are likely to spend every cent they can put their hands on, especially if their income has already fallen due to unemployment or reduced hours of work.<sup>1</sup>

Generally, assisting households is likely to produce a much bigger bang for your buck in the short term, which is what is needed in the early rounds of stimulus. The key economic principle at play is the Marginal Propensity to Consume which refers to how many cents in every dollar will be spent (and how many will be saved).

In the medium to longer term cash injections can be less effective and it could be prudent for the government to involve itself in projects that employ people directly.

## **Targets domestic production**

Another guiding principle is that the fiscal stimulus should minimise expenditure on imports. For example, to the extent incentives for business investment encourage the purchase of motor vehicles, they will involve minimal domestic fiscal stimulus. Similarly, the government buying defence equipment would not effectively stimulate additional Australian production.

The key economic principle at play here is the marginal propensity to import which refers to how many cents in each dollar of stimulus ‘leak’ from the economy via imports.

In order to ensure that Tasmanian manufacturing capacity is restored after the crisis has passed, it would be efficient to encourage domestic sourcing for government funded projects as soon as possible. Likewise, government procurement policies should encourage strong consumer and environmental protections.

## **Targets activities with high direct employment intensities**

Industries such as health and education have very high direct employment effects per million dollars of spending. By contrast, construction involves relatively small direct employment but significant off-site indirect employment. The priority early in the fiscal stimulus plan should be to the more employment intensive industries. Hence painting and refurbishing existing public sector infrastructure creates more jobs per dollar spent, and those dollars can be spent more quickly.

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<sup>1</sup> In economic jargon: the marginal propensity to consume is higher the lower the income of the individual/household concerned.

The key economic variable here is the ‘labour intensity’ of the different industries and activities. The more labour intensive an industry is the more jobs will be created per billion dollars spent.

## **Targets those most impacted by the crisis**

In the case of the current crisis the economic victims of social distancing are not necessarily the likely beneficiaries of a general fiscal stimulus. Accommodation, food services and non-essential retail have been hit hardest. Former hospitality workers are unlikely to benefit from additional infrastructure spending. The JobKeeper payment introduced in the third package attempts to target those industries by providing assistance to workers in a business subject to a major slump in revenue. In addition to fairness arguments, targeting support towards industries that are being hit hardest by the crisis reduces (or removes completely) the time taken to retrain workers or plan new projects in alternative job creation schemes.

The key economic factor here is that targeting assistance in this way reduces both lags and ‘frictional unemployment’ as workers slowly retrain, and industries tool up for new projects.

Unlike hospitality workers, many employed in the arts and culture sector are not captured by the federal JobKeeper payment, making funding for the Arts even more important.

## **Targets the regions that are hit the hardest**

Unemployment is not evenly distributed across Australia today, nor will the increase in unemployment we are likely to experience in the coming months spread itself evenly across the country.

In designing effective stimulus it is important to consider where economic activity is falling and where the fiscal stimulus is being spent. Regions that were already suffering economic disadvantage like the North West of Tasmania will have less resilience, for example lower levels of savings, than other regions. This disadvantage has been further exacerbated by the necessary extra suppression of economic activity in the North West due to the COVID-19 outbreak.

The economic principle that matters here is that money is often ‘sticky’, in that it is likely to be spent close to where it was received.

## **Targets useful projects**

While the focus of the stimulus should be employment creation, it could also create long lasting benefits, such as significantly higher JobSeeker payments or permanent improvements in the national infrastructure.

While the search for co-benefits from stimulus spending should not slow down the implementation of early rounds of stimulus, the potential to deliver lasting benefits from the response to a short-term crisis should not be overlooked.

## POTENTIAL PROJECTS

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### Invest in newly built public and community housing

The housing construction industry is highly cyclical and relies heavily on debt finance which, like investor confidence in the months ahead, is likely to be in scarce supply.

There were 3,478 Tasmanians on the waiting list for social housing as at December 2019.<sup>2</sup> That number is only likely to grow over the coming months. The Tasmanian Government announced a raft of initiatives in March 2020 to assist in housing more Tasmanians, including the transfer of 2000 Housing Tasmania-owned properties to community housing providers. This announcement followed a commitment of \$12 million of capital grants announced last December. The funds were in part due to the federal government's waiving of the state historical housing debt.

Using the government's own estimates, the number of people helped by these measures will only make a very small dent in the waiting list in the short to medium term.

Directly investing in the construction of new public and community housing stock, is a medium to longer term stimulus measure that could increase the availability of public and community housing. While construction is usually a longer-term project, the small scale of housing projects and the existence of an extensive network of employees, subcontractors and project managers, means that government investment in new public and community housing stock would result in rapid deployment of capital and, in turn, rapid support for jobs.

In addition to the short-term stimulus and support for firms and workers, the long supply chain on which residential construction is based means that the construction of new public and community housing would deliver benefits for decades to come.

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<sup>2</sup> Tasmanian Government (2020) *Human Services Statistics*,  
[https://www.dhhs.tas.gov.au/humanservicesstats/human\\_services\\_dashboard](https://www.dhhs.tas.gov.au/humanservicesstats/human_services_dashboard)

<b>NEW PUBLIC HOUSING</b>		
<b>Principle</b>	<b>How does it apply</b>	<b>Comment</b>
<b>Go early: Timeliness</b>	Partial	While not short term, housing construction has one of the shortest lag times for construction of infrastructure
<b>Go hard: Size</b>	Yes	
<b>Go households: Put purchasing power with spending needs</b>	No	Most of the spending would go to business
<b>Targets domestic production</b>	Partial	Most of the money would be spent domestically on materials and labour
<b>Targets activities with high direct employment</b>	Yes	Strong supply chains mean many indirect jobs
<b>Targets economic victims</b>	Partial	Construction industry is likely to be impacted by the economic crisis and the homeless are also likely to disproportionately feel the effects of the coronavirus
<b>Targets useful projects</b>	Yes	The infrastructure will provide benefits for decades to come
<b>Targets regional disadvantage</b>	Partial	Public and community housing should be built across the state, but could concentrate on areas of disadvantage

## Temporary housing for the homeless including those escaping domestic violence

Tourism in Tasmania has been badly hit by the coronavirus. As an island economy, recovery in Tasmania's tourism sector may be slower than other states. Many hotel and motel rooms are being left empty and hospitality staff are facing unemployment. At the same time, Tasmania faces another crisis in the form of a lack of shelter for the homeless, including those escaping domestic violence. The government could pay hotels to provide rooms for those in need of crisis accommodation. This would provide an income stream for hotel owners and employment for hotel staff as well as a safer environment for vulnerable Australians.

Homeless people are at particular risk from the coronavirus. Even the idea of self-isolating assumes you have a home to self-isolate in. Homelessness is a problem in our society and this stimulus measure would give temporary relief. It would also provide employment to a group of workers that will be hardest hit by this economic crisis.

TEMPORARY HOUSING		
Principle	How does it apply	Comment
Go early: Timeliness	Yes	Very fast roll out, lasts over the medium to long term
Go hard: Size	Partial	
Go households: Put purchasing power with spending needs	No	This project would target businesses
Targets domestic production	Yes	Hotels are all within Tasmania
Targets activities with high direct employment	Yes	Accommodation services is labour intensive
Targets economic victims	Yes	Targets underutilisation in the tourism industry
Targets useful projects	Yes	Helps highly disadvantaged group and provides health benefits by protecting vulnerable people and allowing them to self-isolate if required
Targets regional disadvantage	No	This project would be spread widely across the state

## Maintenance of public and community buildings

Whilst public schools and community childcare centres remain closed or underutilised in the months to come, there is no better time to repaint, recarpet and repair those facilities. Household demand for rooftop solar panels and efficient water heaters will likely decline significantly as the crisis deepens, reducing demand for maintenance workers. This is a good time to equip a wide range of community buildings with resources that will deliver benefits for decades to come.

Compared to major infrastructure projects, expenditure on minor repairs and refurbishments in a large number of small buildings is rapid, geographically diverse stimulus that can take advantage of existing skills and capacity.

MAINTENANCE OF PUBLIC BUILDINGS		
Principle	How does it apply	Comment
Go early: Timeliness	Yes	Can be rapidly rolled out
Go hard: Size	Yes	Number of facilities is potentially very large
Go households: Put purchasing power with spending needs	No	This would be targeted at business
Targets domestic production	Yes	Most of the money would be spent domestically on materials and labour
Targets activities with high direct employment	Yes	Maintenance is labour intensive
Targets economic victims	Partial	Demand for maintenance is likely to lessen as the economy slows but other industries will be more severely affected
Targets useful projects	Yes	Benefits of maintenance and efficiency of solar and hot water systems will last for decades
Targets regional disadvantage	Yes	This project could be targeted to regional communities

## Renewable energy micro grids

The state government has a commitment to take Tasmania to 200% renewable energy by 2040. This will require an electricity grid that allows for the more rapid construction and distribution of renewable energy. Fast tracking dispatched energy via micro grids in rural and regional areas will help future proof the grid, and provide downward pressure on energy prices.

Micro grids will expedite public or private investment in renewable energy and dispatchable capacity. Fast tracking these projects would generate significant employment opportunities in regional areas and help give Tasmania a grid fit for the twenty-first century.

RE MICRO GRIDS		
Principle	How does it apply	Comment
<b>Go early: Timeliness</b>	Yes	The projects are at an advanced state of planning and could therefore be rolled out faster than other infrastructure projects
<b>Go hard: Size</b>	Yes	
<b>Go households: Put purchasing power with spending needs</b>	Partial	These projects are aimed at business and community. The ability for households to directly invest in the grids can lower energy prices
<b>Targets domestic production</b>	Partial	Some inputs into the project would be imported
<b>Targets activities with high direct employment</b>	Yes	Employment for skilled (electricians) and unskilled labour. Could also take up slack from a downturn in domestic solar.
<b>Targets economic victims</b>	Partial	Almost all the jobs would be in regional areas which are likely to be hard hit by the economic crisis
<b>Targets useful projects</b>	Yes	The benefits of the infrastructure created will last decades and will encourage further investment
<b>Targets regional disadvantage</b>	Yes	Micro grids would be on the edge of the existing grid in regional areas.

## Arts and entertainment fund

The deliberate closure of entertainment venues to slow the rate of spread of COVID19 poses a unique economic problem in that government health policy is, by design, crushing an important part of the Tasmanian economy.

The arts sector has been an important part of Tasmania’s growth, success and brand over the past decade. Spurred initially by Mona, the arts sector in Tasmania has expanded throughout the state. The industry has helped Tasmania attract tourists and permanent residents.

In order to help sustain the arts and entertainment community through a period in which people are specifically being discouraged from consuming many popular forms of entertainment, the government could create a large public arts fund. The fund could be used to commission art for public buildings and galleries, commission research and development of television and stage drama for delivery/performance in the months and years to come, and fund an ‘artists in isolation’ residential.

The arts and entertainment sector, like the tourism sector, will be one of the hardest hit parts of the economy. These sectors have been instrumental in shaping Tasmania’s economy and culture. Targeting stimulus at the sector will be an effective form of short-term stimulus and ensure Tasmania maintains its creative assets for decades to come.

ARTS FUND		
Principle	How does it apply	Comment
<b>Go early: Timeliness</b>	Yes	Commissioning and payments could happen quickly
<b>Go hard: Size</b>	Yes	A federal/state co-funded investment in Arts in Tasmania could be large enough to have a substantial effect in the state.
<b>Go households: Put purchasing power with spending needs</b>	Partial	Aimed at those in the arts and entertainment sector
<b>Targets domestic production</b>	Yes	The art would be created in Tasmania with few leakages to imports
<b>Targets activities with high direct employment</b>	Yes	Arts and entertainment has a high labour intensity
<b>Targets economic victims</b>	Yes	Arts and entertainment is directly impacted by health response to COVID19
<b>Targets useful projects</b>	Yes	Will be a source of creative assets for decades to come
<b>Targets regional disadvantage</b>	No	This project will be widely spread across the state

## Wage freeze (cutting real wages)

It has been proposed that wages should be frozen to help protect businesses during the economic crisis. There are two reasons put forward as to why this is a good idea. The first is that falling real wages (wages growth minus inflation) will make labour relatively cheaper and this will encourage businesses to employ more workers. The second is that wages are an expense for business and freezing that expense will help businesses ride out the crisis. Both these reasonings are flawed because they do not consider the impact on aggregate demand that freezing wages will have.

Stimulus is about increasing demand in the economy in order to lower unemployment. Freezing wages puts less money in people's hands and reduces demand in the economy. While businesses may reduce their individual costs by paying less for labour, less demand in the economy means they sell less goods and services, which reduces their revenue.

WAGE FREEZE		
Principle	How does it apply	Comment
Go early: Timeliness	No	The impact would be small at first and build over time
Go hard: Size	No	
Go households: Put purchasing power with spending needs	No	It would reduce household purchasing power
Targets domestic production	No	It would reduce domestic production
Targets activities with high direct employment	No	
Targets economic victims	No	
Targets useful projects	No	
Targets regional disadvantage	No	

## Mass tree planting, weed removal and fire protection

The state Environment Minister Roger Jaensch has already announced that walking track rebuilding work will be undertaken in bush fire affected national parks, while they are closed during the pandemic.

This program could be enhanced by including weed eradication and indigenous fire management practices. Clearing weeds in National Parks provides significant benefits for species preservation and, post bushfires, weed clearing significantly improves the prospects for native species of flora and fauna to thrive. This could be incorporated into the indigenous burning programs already announced by the government in January this year.

Outside national parks, trees can be planted to build wind breaks, shelter belts and restore degraded farmlands and to boost agricultural productivity via reduced livestock loss and reduced soil erosion. Tree planting in urban areas and along roadsides (where safe) provides a range of amenity and environmental benefits.

Tree planting, indigenous fire management and weed clearing are all highly labour intensive, require a mixture of highly skilled and unskilled workforce and can be targeted at regions where an appropriate workforce is available. It would deliver lasting benefits to farmers and the natural environment.

TREE PLANTING, WEEDING AND FIRE PROTECTION		
Principle	How does it apply	Comment
Go early: Timeliness	Yes	Can be put together quickly
Go hard: Size	No	It can be targeted
Go households: Put purchasing power with spending needs	Yes	Direct employment with wages paid to households that would otherwise suffer unemployment
Targets domestic production	Yes	
Targets activities with high direct employment	Yes	This work is highly labour intensive
Targets economic victims	Yes	The work can be targeted to those most impacted
Targets useful projects	Yes	
Targets regional disadvantage	Yes	The work is highly targetable

## Local food fund

Local food production and procurement actively stimulates regional and local economic growth. In the era of destabilised global supply chains, it also provides food security. Good food is an integral part of Tasmania’s identity. Increasing the growing, processing and distribution of food within the state could create 1000s of jobs from growers to processors, pickers, retailers and in transport.

A lot of Tasmanian bulk produced is produced in Tasmania, sent to Melbourne for distribution into markets and shipped back to the state for consumption. This increases the price of produce and increases environmental impact.

Local food production could be bolstered by expanding the school gardens project both within and beyond schools. Production and procurement could be bolstered by buy-local procurement policies embedded into government institutions like hospital and prisons.

Regional distribution centres could obviate the need for shipping to Melbourne and ensure access to locally produced food for regional communities.

LOCAL FOOD FUND		
Principle	How does it apply	Comment
Go early: Timeliness	Yes	Can be put together quickly
Go hard: Size	Yes	Can be a large program spread across the state
Go households: Put purchasing power with spending needs	No	
Targets domestic production	Yes	
Targets activities with high direct employment	Yes	This work is highly labour intensive
Targets economic victims	Partial	Can pick up some displaced hospitality workers. Growing and production stimulus can be targeted to those most impacted
Targets useful projects	Yes	Food security and access to fresh food in local communities
Targets regional disadvantage	Yes	The work is highly targetable

# Conclusion

The Tasmanian economy has strengthened over the last decade. Some of the industries that have been important in growing the Tasmanian economy are also those that have been hit the hardest and will suffer the longest through this pandemic.

It is clear the federal government will spend a lot of money over the next 12 months. The speed and size of the government's fiscal stimulus are important, but the shape of the stimulus also matters.

Economic history and theory both endorse the need to focus spending on those who will spend all or most of the stimulus. Likewise, the evidence is clear that it is necessary to ensure the stimulus boosts domestic activity rather than imports.

What is less clear and relies more on choice is what Tasmania as a state wants more of – that is, what do we want the shape of the economy to be. There is no right answer to the question, 'What will Tasmania need more of in 10 years' time that makes sense to do today?' Some will argue for solar panels and crisis accommodation, others for increased forestry and new dams.

But while economic theory cannot tell us exactly what shape the economy or the stimulus packages should be, economics can help us to understand which projects will have the biggest economic impacts in the short term. What constitutes a 'co-benefit' will ultimately be a democratic decision. The government of the day will be judged on both economic and democratic criteria. It is important to highlight that while economic theory cannot tell us what the right stimulus package is, it is quite clear on what the wrong one is.