Transitioning from *JobKeeper*

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**Background**

The *JobKeeper* scheme aims to provide financial assistance to those in danger of being laid off, and to assist business to stay afloat until more familiar economic and employment activity resumes. In financial terms, it is very significant: relative to population and GDP, it is the largest wage-subsidy scheme in the world. A critical issue, not so far addressed in public discussion, is how the initiative might be phased out when the economy recovers, in a way that facilitates the survival of business while at the same time minimising further fiscal outlays, and avoiding continuing to subsidise businesses that may not in normal times be viable.

This short paper addresses the question of how the *JobKeeper* program might be wound down at the end of its full subsidy term.

**Proposal**

Specifically, we are proposing a specific application of the contingent debt model, whose salient characteristic is that a repayment schedule is triggered only when the debtor can afford the repayments. The best known policy structure of this kind is the Higher Education Contribution Scheme (HECS), which originated in Australia in 1989 and has now been adopted in various forms in 10 other countries. Under HECS, an example of an income-contingent loan (ICL), students are provided with a benefit in the form of university tuition, which is paid for if and when recipients can afford it. The great advantage of such borrowing arrangements is that if future financial circumstances, which are unpredictable, turn out to be adverse there are no, or only very low, repayments required.

A variant of this arrangement, customised to business, is a revenue-contingent loan (RCL), which operates in a similar way to an ICL. This application has been explored over a long period by Botterill and Chapman (2006) and Chapman and Lindenmayer (2019), and entered the Australian contemporary economic crisis debate through Botterill, Chapman, McKibbin and Withers (2020). We note we are not alone in advocating a critical role for government organized contingent debt for business in the current economic malaise (Bonardi, Brülhart, Danthine, Jonneau, Rohner, 2020). It is particularly suited as a means of transitioning out of JobKeeper because that policy relies on revenue as a criterion for eligibility.
JobKeeper is specifically directed towards the maintenance of a business infrastructure, and is widely anticipated to be effective in that objective. But much of the good that is achieved might be undone if it is suddenly withdrawn with no alternative mechanism in place for paying employees. It is likely that firms facing financial adversity at that time will have difficulties procuring traditional commercial lending assistance, with private lenders having limited precedent for risk assessment in these circumstances.

One way to phase out JobKeeper is through the provision of RCLs to help smooth the transition. There is an infinite range of settings around this structure. For example, if the government cut the JobKeeper allowance to $500 per fortnight, RCLs could be offered to qualifying firms (that is, firms now accepting JobKeeper payments) at a rate of $1000 a fortnight per employee for the ensuing three months, meaning that the short-run financial assistance to companies would be unchanged; this would provide more time for demand to pick up and economic normalcy to be at least in sight. But the extra burden on future generations of the wage subsidy program would be only one third of what it would be were JobKeeper to be maintained in its current form.

As well, with the loan being made available, firms would be making borrowing decisions in light of their own financial, employment and market circumstances. It will be difficult to design a direct subsidy policy which accommodates a wind-down of the scheme, while at the same time addressing the heterogeneity of circumstances that businesses will face over this period. Even within particular sectors firms will find themselves confronting a wide range of financial, demand and employment situations.

For many firms, without a buffer of this type, the withdrawal of JobKeeper could be very harsh, and might mean in the aggregate increased job shedding, further demand reductions, and heightened uncertainty at a time when insecurity is already at a historic high.

While this specific policy has not so far been adopted, in the unprecedented health and economic crisis now being experienced the suggestion of a Covid19 RCL would be expected to have more appeal for decision-makers.
**Why revenue?**

We begin with the question, why revenue? A RCL provides the same sort of insurance and income-smoothing properties as HECS, but if *income*-contingency was the basis of collection of a loan for business the system would not work. Profits might seem to be a good basis of collection, but these are open to manipulation to facilitate extensive repayment avoidance.

This is why the suggested loan collection basis would use quarterly statements of firm revenue, which are legally required through each enterprise’s Business Activity Statement (used among other things to collect the GST). A critical point is that business revenue is not subject to any form of deductions or other potential avoidance behaviours, and it is this simplicity that makes revenue ideal as the collection contingency (Botterill, Chapman and Egan 2006).

**How would this work?**

The following issues need to be addressed:

(i) The government would have to decide on the level of withdrawal of the $1500 per fortnight per employee direct payment. It is unlikely that this would be done in one step; rather, a progressive withdrawal would need to be specified. The precise parameters of the withdrawal schedule would be determined in light of prevailing macroeconomic circumstances and outlook, but we have chosen not to model the gradual transition (which would be straightforward, as would be a plethora of other possibilities).

(ii) The limits to the loan need to be specified. These could be determined by the revenue required to maintain initially a $1500 a fortnight support per employee, taking account of the remaining direct government support. For example, in a period where *JobKeeper* is still paying $500 per employee per fortnight, the loan limit would be set at $1000 per employee per fortnight, and this is what we have modelled and report below. Of course, a plethora of alternative choices are open to the government, including a complete withdrawal of all direct wage subsidies.

(iii) The rate of collection of repayments from revenue need to be specified. In the examples provided in Botterill and Chapman (2017) and Chapman and
Lindenmayer (2019) the proportion of annual revenue used to repay the debt varies between 2 and 8 per cent, and we have chosen the mid-point of 5 per cent.

(iv) A repayment holiday could be part of the policy. For example, there could be an initial payment postponement until the beginning of the 2021/22 financial year (July 2021), which is what we model.

(v) A rate of interest on the debt needs to be specified. In what follows and for simplicity we have set this at zero in real terms, which is the arrangement for HECS. We did some sensitivity analysis in our exercises which shows that this assumption is unimportant, essentially because the times taken for full RCL repayments are so short

(vi) The population of businesses covered needs to be clear. We have confined the JobKeeper RCL transition to firms currently eligible for the first wave of the wage subsidy.

**Modelling and presentational assumptions**

First, because the debt level is incurred on the basis of $1000 per employee per fortnight, but collected on the basis of the firm’s future annual revenue, for the empirical analysis an assumption is needed concerning the relationship between the firm’s annual revenue and JobKeeper employment. We assume that the firm’s wage bill is 60 per cent of revenue which, with the further assumption that employees receive a wage of $50,000 pa, allows us to calibrate the number of employees covered by JobKeeper on the basis of firms’ assumed annual revenue streams.

Second, myriad possible cases could be presented and we have had to choose between a complex reality and the need for presentational parsimony. In our trade-off there are six categories of debt, each associated with annual revenue estimates. The revenue categories, assumed number of employees, RCL debt levels, and annual revenue estimates are shown in Table 1.
While the mid-points of the annual revenue categories can be used to estimate future scenarios very simply, it is more likely that there will be relatively low revenue in the first year of repayment with a resumption of more typical revenue experiences beyond this. Accordingly, we assume that in the first and second calendar years of repayment of the RCL annual revenues are respectively 50 and 75 per cent of the mid-point of the annual revenue categories, after which firms experience annual revenues of the mid-point of their category. No repayments are required until June 2021.

### Table 1

**RCL Debt and Revenue Categories**

<table>
<thead>
<tr>
<th>Min and max annual revenue category ($000s)</th>
<th>Assumed annual revenue (midpoint) ($000s)</th>
<th>Assumed number of <em>JobKeeper</em> employees per firm:</th>
<th>Assumed RCL debt per firm ($000s):</th>
</tr>
</thead>
<tbody>
<tr>
<td>75 – 225</td>
<td>150</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>225 – 1,000</td>
<td>612.5</td>
<td>7</td>
<td>45.5</td>
</tr>
<tr>
<td>1,000 – 10,000</td>
<td>5,500</td>
<td>66</td>
<td>429</td>
</tr>
<tr>
<td>10,000 – 100,000</td>
<td>55,000</td>
<td>660</td>
<td>4,290</td>
</tr>
<tr>
<td>100,000 – 1,000,000</td>
<td>550,000</td>
<td>6,600</td>
<td>42,900</td>
</tr>
<tr>
<td>1,000,000+</td>
<td>2,000,000</td>
<td>24,000</td>
<td>156,000</td>
</tr>
</tbody>
</table>

The aggregate results and some illustrative examples

On the basis of our assumptions and loan collection parameters, we are able to provide some illustrations. Figure 1 shows the RCL cumulative loan amounts still owing in the next few calendar years and Figure 2 shows the proportions of the total RCL debt repaid for each of the six categories.
What is striking about the data from Figures 1 and 2 is that for the RCLs described and modelled, and on the basis of quite different loan levels and assumed revenue streams, the RCL for all six of these different situations are repaid in full by 2024.

These results imply strongly that a sensibly-based RCL design, in combination with a reduction of the grants-based component of JobKeeper to just less than 17 per cent of the original policy (the level of direct wage subsidy assistance is reduced by two thirds, and the original duration of six months is cut in half), is able to deliver the same level of initial financial support to firms in a three-month transition policy. This analysis indicates economic transition from JobKeeper can be achieved without substantial financial disruption to business.
To provide further insight into what this might mean for firms in specific circumstances, we provide three hypothetical case studies, based on our understanding of the types of situation likely to be faced. These hypothetical case studies are real world illustrative examples of what might happen with respect to RCL repayments for the policy rules and scenarios considered. They are complements to the aggregate modelling, which essentially illustrates that the RCL system considered is likely to be viable for a large range of business experiences. We reiterate that the case studies and the broader modelling are small subsets of the plethora of potential scenarios; clearly, myriad alternative specifications are possible.
**Case Study 1: Francesco’s Hairdressing and Beauty Salon, Cosmopolitan**

*Cosmopolitan* was established in 2001 in a Melbourne suburb, initially with the equivalent of 5 full-time staff. The business expanded consistently and by 2020 was receiving about $1 million per annum in revenue with 10 equivalent full-time staff. The impact of the virus in February/March 2020 was very significant, and while the proprietor, Francesco, chose to remain open for significantly diminished business, the enterprise suffered around a 70 per cent fall in revenue. The business took advantage of the *JobKeeper* scheme which covered the wages of 10 employees, although *Cosmopolitan* still struggled to meet other major costs, the main one being rent.

At the conclusion of the *JobKeeper* period (the end of October 2020), business had picked up but was still only about half what it had been. Many clients had not returned and because there was such low turnover for most of 2020 almost no new clients had been found to replace the normal levels of customer attrition.

Francesco chose to take advantage of the RCL offered to him, which was the scenario modelled and reported above, of $1000 per fortnight per employee for the 3-month period, from the beginning of November 2020 to the end of January 2021. Determining the total RCL borrowing needs information on the loan amount per person per fortnight, the number of employees covered, and the number of fortnights involved. For the suggested RCL policy in the context of *Cosmopolitan*’s borrowing needs when the current *JobKeeper* stops, this amounts to a total RCL repayment obligation of $(1000*10*6.5) = $65,000.

In terms of repayment of the debt, this of course depends on *Cosmopolitan*’s annual revenue, which had historically been about $1,000,000. Given the slowdown in its business, *Cosmopolitan*’s first quarterly Business Activity Statement in 2021 reports revenue on an annual basis of only $125,000. In terms of repayment of the RCL, in the 2021 calendar year the business is obligated to repay on the basis of post-June revenue only, so that the RCL repayment is $125,000* .05*.5 = $5,000 (meaning that $60,000 of the RCL is still owed). *Cosmopolitan*’s annual revenue then recovers significantly to reach $750,000 in the 2022 calendar year, which results in a RCL repayment in that year of $750,000*.05 = $37,500. There thus remains an outstanding RCL obligation of $27,500 which is easily repaid at the beginning of 2023 because *Cosmopolitan*’s revenues are then back to the historical norm.
Case Study 2: Everytime Fitness Club

The Everytime Fitness Club Australia is one of the 3 largest fitness enterprises in the country and before Covid19 had a typical annual revenue of around $350 million. As a result of the necessary imposition of restrictive health regulations the firm effectively shut down in March 2020 and is not expected to re-open for several months. The firm has around 1250 employees all of whom qualified for JobKeeper.

By November 2020 the fitness industry is allowed to operate again, but through a change in exercise lifestyles, demand for its services is initially well below the historical norm. However, to maintain staff and to prepare for a brighter future Everytime chooses to borrow through the RCL and takes a debt to cover the costs of 900 of its employees, receiving the $1000 per employee per fortnight for the 3-month period. This amounts to a total RCL borrowing of $5.85 million.

However, because of the continuing restrictions to business activity in the fitness sector from Covid19, Everytime’s revenue in calendar year 2021 is only $60 million, implying a RCL repayment in 2021 of $(60*.05*.5) million = $1.5 million, leaving a remaining repayment obligation of $4.35 million. Demand grows at a strong rate and in calendar year 2022 revenue reaches $250 million, meaning the RCL is fully repaid in that year.

Case Study 3: Dyers Department Store

Dyers department store is Australia’s second biggest chain of this type, with around 26,000 employees and pre-Covid19 annual revenue of around $1.5 billion. In March 2020 the company experiences a huge fall in demand and is forced to close temporarily, accepting JobKeeper payments for 20,000 of its laid off workers. At the end of the JobKeeper period Dyers chooses to take the RCL for all of these workers and incurs a debt of $130 million.

By the end of the JobKeeper period, Dyers demand has had only a small recovery and, in part as a result of the significant move to on-line shopping, annual revenue for calendar year 2021 is $500 million, implying RCL repayments of $500*0.5*0.05 = $12.5 million, which means that $117.5 million is still owed.

Revenue recovers to reach $1 billion in calendar year 2022, and this is the annual level it remains at for several years. With this annual revenue RCL repayments in calendar year 2022 of $(1*0.05) billion = $50 million, meaning that at the end of 2022 $67.5 million is still owed.
by Dyers. With the on-going maintenance of Dyer’s revenue at $1 billion a year, a further $50 million is repaid in calendar year 2023, and the debt is completely repaid during 2024.

**Conclusion**

This short paper has outlined how a financially very large government support package, the *JobKeeper* scheme, might be phased down as the economy re-opens and recovery takes shape. Our suggested transition package facilitates continued financial support and stability for firms through the provision of government-controlled RCLs. Repayment mechanisms have been tested with appropriate professionals, and we note that there is support for such an approach from overseas researchers.

In both concept and with well-administered practice, contingent debt of the form we have examined for business has substantial potential to ease the Australian economy back into normalcy over time, and without the financial shocks and uncertainties implicit in a sudden withdrawal of support when *JobKeeper* formally ends. Very importantly, the transition approach suggested minimises the very concerning future requirements of ever-increasing public sector debt.

We stress that there is a plethora of modelling scenarios that could be used; our assumptions, modelling and case studies are offered to illustrate the potential and not the details of a contingent debt approach to the transition process from *JobKeeper*. The analysis can be seen to be a beginning for the policy exploration of the role of RCL.

This analysis has confined itself to the phase-down of the *JobKeeper* scheme. Broader application of the RCL through the recovery phase may well be appropriate. For example, while many enterprises are facing current dramatic revenue shortfalls, others are still in receipt of strong revenues, but anticipate a fall-off in demand in the next several months. This is true, for example, in the construction industry, where current projects are being completed, but new initiatives are being put on hold. RCLs may well be a useful policy tool in these circumstances.

It is possible, of course, that the Australian economy and business recovers quickly in the next few months and if this regeneration is sufficiently healthy there may not need to be a transition policy in place. As citizens we hope that this happens, but as economists we believe that having available an operational and sensible plan is a balanced and useful way to think about economic policy.
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