

July 2020

COVID-19: Economic Recovery Blueprint

*Removing complexity for government, for business, for people
and for community.*

*Changes needed to improve the economy and create a
disaster proof nation.*

We wish to find the truth, no matter where it lies. But to find the truth we need **imagination** and **skepticism** both. We will not be afraid to speculate, but we will be careful to distinguish speculation from fact - *Carl Sagan*

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What’s new in the July version?

Updates have been made to the following sections: developing a more flexible and productive workforce (p6), copyright laws and collection processes (p8), and mental health and well-being of the self-employed (p8). Two new sections have been added: Insurance and Improving Emergency Management (p9).

Note: This document is in constant development as we gather more facts and analysis on the progress and impact of the virus and decisions made around managing its effects.

Contents

What’s new in the July version?	2
Introduction	3
Preparing for the next Pandemic	3
Small Business Crisis Recovery Toolkit.....	4
Opportunities for Change	4
Small business corporate structures.....	4
Empowering local economies to manage change	4
Role of industry associations	5
Incentivising digital transformation.....	5
Access to capital.....	5
Trade diversification	5
Developing a more flexible and productive workforce	6
Harness a displaced labour force quickly via a streamlined approach to workforce reskilling.....	6
Support for the next generation of small business owners.....	7
Building the capability of small business people	7
Taxation reform	7
Address unintended competition distortions.....	8
Copyright laws and collection processes	8
Mental health and well-being of the self-employed	8
Unfair contract terms.....	9
Insurance.....	9
Improving emergency management.....	9
Enablers of Change	10
The Barriers to Change	10

Introduction

It may take many years to bring the economy back to where it was in January 2020. This task is made more challenging by the fact that the federal government assistance provided to support the economy during COVID-19 is of unprecedented scale. It could potentially take a generation to return the national budget to a surplus if we instinctively followed pre-COVID practices to economic growth, national productivity, taxation, and industrial relations.

History is not always relevant in a contemporary context, yet it can teach us important strategic lessons. A check of Australian economic history shows that following the Great Depression of the 1930s and the period post World War II, Australia's economy recovered over time as a result of economic growth – not by simply increasing taxes. The bigger and more productive the national economy, the greater the potential for federal government revenues and the faster the rate at which the deficit can be paid down.

It is for this reason that COSBOA believes that it does not make sense to simply restart the same macro-economic settings that existed prior to the COVID-19 Crisis. Rather, we must look to adopt policy settings that turbo-charge economic growth and capitalise on Australia's strategic strengths in a recovering global economy. This will require an ability to incentivise investment in traditional industries like resources and agriculture while simultaneously investing in areas like advanced manufacturing, health services and digital transformation.

The groundwork of recovery will be undertaken by the millions of small business people with their ability to respond quickly and transform as necessary, and through that provide for their families, the workers, and the community. The constructive interaction between small business and big business must also be recognised as an essential part of the future. The fact that family businesses are found in the small, medium and large business cohorts is also important to note given the important part family dynasties have played now and in the past.

If the small business sector is held back or stifled by vested interests and those fighting for extreme ideologies, then more people will be unemployed and recovery will be delayed.

We must, now and in the future, ignore vested interest and failed ideology. We can concentrate on the economy and welfare through business, particularly small business.

The ideologues who support laissez-faire economics, libertarianism, or militant socialism need to be sent to the political back bench and ignored.

Preparing for the next Pandemic

The economic impact of COVID-19 has been rapid, deep, and widespread. COVID-19 has highlighted key areas of vulnerability in the face of a global pandemic and this knowledge must inform our preparations for a future pandemic. Noting that with the Spanish Flu the health impacts of the first outbreak in 1919 were just one quarter of the impacts of the second outbreak, our efforts must be expedited given the real risk of a second global outbreak of COVID-19.

The scenario that must also be considered is that of a pandemic caused by a new virus emerging that has the mortality rate of MERS (35%) and the contagion rate of COVID-19. In this scenario society would be locked down immediately without time for discussion or debate. There would be no time to hold negotiation sessions seeking agreement on what should change and then to hold hearings of the regulators at the state and federal levels. During that time tens of thousands of people would die.

Small Business Crisis Recovery Toolkit

There is an urgent need to develop resources to support small business people as they recover. This includes support for them as individuals and support for their businesses.

There is a new challenge confronting businesses that have direct dealings with customers – maintaining social distancing while successfully running a business, employing staff, and meeting the requirements of regulation. This applies particularly to the restaurant and hospitality industry, general retail, and grocery outlets.

Various industry associations have already developed high quality, specific plans for their sectors around re-opening or continuing business in the COVID crisis. There are also business experiences from the recent bushfires that can inform new processes.

We can build upon these efforts and experience to assist all businesses. The COSBOA membership and stakeholder group has a broad reach and can develop a range of responses around personal health, access to finance, skills support, tax issues, workplace relations management, and so forth.

The federal and state governments are aware of this need and are actively engaging with businesses, yet there is still some in power who do not understand how small business is different from big business or who care only for their ideology.

Opportunities for Change

Most if not all commentators see this crisis as an opportunity to change certain policies and procedures to create efficiencies and decrease confusion and complexity. We know that removing complexity for business (big and small) and for employers and employees must be a high priority so that we can deal with future disasters, pandemics, and crises.

There are many areas where change is needed as detailed below, in no particular order.

Small business corporate structures

There needs to be a review of the way small businesses are structured. We saw in the crisis that the confusion around trusts, partnerships, incorporation, and sole traders, among others, created grief and concern for many people. Different people were eligible for JobKeeper whilst others were not; yet, in the end, they were running a small business. COSBOA will develop a response using the resources of members, as well as their skills, expertise, and experience.

Recommendation: a review of structures and the annual company return, and the creation of a simpler system that satisfies corporate and small business needs.

Empowering local economies to manage change

Australia was once a world leader in creating a better, more pro-active economy through local economic development. These activities aim to empower local business communities to have a greater say in skills, infrastructure, research, industry development (particularly manufacturing and tourism), health, and access to the various government support programs that exists at the federal and state level.

Recommendation: that a national program of local economic development be developed gradually over the next twelve months to assist communities to manage negative change and take advantage of positive outcomes.

Role of industry associations

This crisis has shown the capacity and expertise of industry associations across the full range of the economy. The lesson here is that as we progress and develop new responses and change legislation as necessary, industry leaders need to be more closely engaged. Traditionally governments will engage with economists or create changes through ‘closed shop’ activities within Cabinet, Treasury or the general public service, or perhaps include engagement with the peak industry groups.

Recommendation: a) that a process of greater consultation directly with industry associations who have direct small business members will provide greater clarity on what are the best policies and the best communications and processes to attach to those policies; b) that peak bodies, such as COSBOA, be consulted as necessary and be a source of information on which industry groups are best placed to inform particular policies.

Incentivising digital transformation

In the past decade, Australia’s efforts towards digital transformation have virtually been NBN-centric. Ironically, the development of the NBN meant that many businesses— large, medium and small – were able to increase their digital presence as a result of Australia having a robust national broadband network.

But there exists, however, a significant opportunity for the Australian economy to realise sustained productivity gains as a result of the pursuit and implementation of pragmatic digital opportunities in areas such as autonomous and semi-autonomous machines, digital supply chains, and artificial intelligence. Unfortunately, and despite numerous false starts, Australia does not yet have a coherent national policy on digital transformation despite several false starts over the past decade.

Recommendation: that the Australian Government fast-track the development of a national digital transformation strategy that delivers a quantum increase in the economic output of key Australian industries via coordinated measures that stimulate digital investment in priority areas, increase the digital capacity of the Australian workforce (both new entrants and existing participants via reskilling), and increase the resilience of Australian business and enterprises in the face of a future pandemic or similar global scale disaster

Access to capital

There has always been confusion and misinformation for small business people around access to finance. The COVID Crisis has unsurprisingly added to that confusion.

Recommendation: that a coherent information document be developed by the key industry groups and associations to better inform the process and rules for accessing finance. This group should identify regulations that need to change to assist in providing finance and communicating the necessary processes.

Trade diversification

At just over 36% in total economic value, Australia’s exports are disproportionately exposed to the well-being of the Chinese economy. As the largest economy in the SE Asia region, it is vital that Australia maintain a constructive trade relationship with China – one that is premised on value and respect. But the disproportionately high exposure of Australia’s economy to the Chinese economy creates an “all eggs in one basket” risk as has been exposed during the most recent COVID-19 crisis. Given Britain’s exit from the European Union in 2019 and the formalisation of a trade agreement

with India, there would seem to be a need to develop business and trade policies that incentivise trade with both of these economies to reduce Australia's high trade exposure to China.

Recommendation: that the Australian Government, and Australian state/territory governments work proactively with Australian business and enterprise to progressively reduce Australia's high export industry vulnerability to China by actively growing new export markets in the UK and India.

Developing a more flexible and productive workforce

This is the policy area where we believe we will meet the greatest opposition to change. This is the area that has failed the pandemic test. This has created and continues to create fear and angst among small business employers. The more recent approach of the ACTU in wanting to 'name and shame' employers during a crisis shows the process of change will be resisted by those who benefit from the system's failure. The confusion on casual work regulations (e.g the outcome of the recent WorkPac V Rossato case) is an example of the complete failure of the supporters of the system to even understand it themselves. The COVID crisis has also created fear about a potential spike in unfair dismissal cases.

The system must be fit for purpose and easy for employers and employees to comprehend and for regulators to manage. Employers should feel confident that they can meet their obligations and not be afraid of getting in trouble over complicated processes or information.

Recommendation: that the government explore the option of a 'Model Schedule' for inclusion in all modern industrial awards that provides small businesses with the level of workforce flexibility needed to rebuild their businesses while still observing key employee safeguards. It is envisaged that this Small Business Accord would apply for businesses with up to 100 employees and would effectively streamline the current industrial awards for small business application. This Small Business Accord might be developed around the recommendations made in the Workplace Relations Framework Report handed down by the Productivity Commission in December 2015.

Recommendation: That the report on unfair dismissal processes by the ASBFEO be reviewed and actioned.ⁱ¹

Harness a displaced labour force quickly via a streamlined approach to workforce reskilling

There is no doubt that this crisis will result in the displacement of Australians from their jobs at a rate not seen since the Great Depression. The rate at which the Australian economy will recover will be directly dependant on how quickly Australians can be put back to work in meaningful employment and reskilling workers will likely comprise a major strategy for the achievement of this aim.

The ability and speed with which Australian SMEs can adapt, innovate, and grow to provide necessary products for domestic and global markets is dependent upon an agile and fittingly skilled workforce.

The connection between higher education and the small business sector needs to be strengthened and long-term activities implemented to cement cooperation.

COSBOA is aware that the Australian Government had commenced work in this area prior to the COVID-19 Crisis with initiatives recognising the role of micro-credentials in the Australian Qualifications Framework (AQF) and the mapping of the skills required for vocational roles in different industries via the JEDI project.

Recommendation: that national processes be immediately instituted to re-task the Australian Industry Skills Council (and supporting delivery framework) to prioritise the reskilling of displaced workers while leveraging complementarity between occupational roles in different industries (as mapped out in the JEDI project) and augmenting existing vocational skills via the implementation and recognition of micro-credentials within both the AQF and Australian modern industrial awards.

Support for the next generation of small business owners

We need to focus on the next generation of business operators, those entrepreneurs who are still in the education system.

Recommendation: that there be a system of identifying entrepreneurs who are at school and that relevant support from industry associations and experts be provided to those students at the local level or virtually as needed.

Building the capability of small business people

There needs to be an overhaul of the support for small business people to build their capacity to not just be an expert in their business but also have the necessary business skills or business support in place. This must involve using industry associations and the accounting and bookkeeping networks.

Recommendation: that government work closely with industry associations to develop and promote business support services through a voucher system that delivers the information and support to a business as and when they need it.

Taxation reform

There is a need to remove complexity from the taxation system. This is an area of high emotion and ideology, yet if the aim is simplicity then changes can be made. Once again industry associations can inform discussion on process and communications. We need a 'fit for purpose' review of FBT, payroll tax, GST processes and rules, PAYG rules, and so forth.

The requirement to pay back the unprecedented COVID-19 assistance measures suggests that it is not likely to be feasible to reduce the future deficits without a combination of tax reform and significant economic growth. To this end, simply increasing the quantum of current taxes levied under the existing system is likely to constrain economic growth by creating disincentives to the growth of business and personal wealth in the future.

Ideally, consideration would be given to lifting the current rate of GST (and ensuring proportional distribution of same to state/territory governments) in lieu of current indirect taxes such as payroll tax and stamp duty.

Recommendation: that a small business tax summit be held as soon as practical to review the taxation system for small business, its process, and its communications.

Address unintended competition distortions

Competition policy must be fit for purpose. We find that businesses (grocers, corner stores, convenience stores, service stations, newsagents, and the like) and consumers have suffered during the crisis due to a lack of access to goods and groceries as the supermarket duopoly cornered the market.

We also find that the development of local retail monopolies through big shopping malls has created lack of access for consumers and creation of unhealthy shopping conditions.

Recommendation: that competition policy and planning regulations be reviewed to ensure that consumers have choice in where they shop and that no business can dominate supply chains to the damage of other businesses and the health of consumers.

Copyright laws and collection processes

The behaviour of royalty collection societies has been a concern for some time. The behaviour of OneMusic Australia (APRA AMCOS and the PPCA) during this crisis shows they are remote from the Australian business community as over 80% of the fees they collect are forwarded to the United States. Local performers and music providers have been impacted hard by this crisis and the collection agencies need to streamline their operations to provide a better return to local authors and musicians, as well as more transparency in their operations.

Recommendation: that the copyright legislation be reviewed with a view to better recognition of and return to Australian authors and performers, as well as greater transparency and better definition of what is considered a public performance.

Recommendation: that there be a review into the efficacy of the Copyright Tribunal. The Tribunal set a PPCA rate for businesses who wish to use recorded music for dancing of \$1.354 multiplied by the dance Area Capacity for each day of operation, causing many venues to be charged more for music licensing than for rent.

Recommendation: that the Federal Government look into creating a government-managed Copyright Board, similar to what exists in Canada, that would be responsible for determining the royalties to be paid for the use of copyrighted works. We need an objective body to balance the needs of songwriters and the needs of the businesses that use their music so that monopolistic collection societies such as APRA AMCOS cannot gouge their small business customers.

Mental health and well-being of the self-employed

The mental health issue for employees has been well documented and supported by industry, but the speed and quantum of the business impact of COVID-19 has created a significant drain on the emotional resources of many small business owners as well. The mental health of the self-employed has been neglected during this crisis. For example, the initial communications from Safe Work Australia on the required responses by small businesses was inadequate and unprofessional, adding to the worry of the community.

Unlike large business, the decision of a small business owner to invest and grow is heavily influenced by the mental and emotional disposition of the small business owner. As a result, there is an inalienable link between the mental well-being of SME business owners and the rate of business growth and job creation of that enterprise.

The societal stigma around business closure or “business failure” is leading the owners of unviable businesses to continue trading (or trade while insolvent) and delay seeking financial advice/assistance.

Recommendation: that Australian governments begin collecting and tracking data relating to the mental well-being of small business owners to better inform policy in this area

Recommendation: that there be changes to the eligibility criteria for government support measures for those individuals who have recently been forced to wind-up their business (i.e. most current policies and programs penalise failed small business owners in terms of not providing the same levels of assistance that are afforded to a normal wage earner who has lost their job). Access to Services Australia thresholds, for example, should be reviewed to mitigate personal financial impact on individuals.

Recommendation: that Safe Work Australia’s structure and approach to small business people be reviewed.

Recommendation: that legislation be changed so that a self-employed person is not legally responsible for their own mental health.

Unfair contract terms

The issue around unfair contract terms was highlighted through the failure of the biggest landlords to support their tenants during the crisis.

Recommendation: that the threshold at which unfair contract term legislation is enforced be removed entirely and that suitable sanctions for inclusion of unfair terms be imposed and enforced by the ACCC. Other issues should be considered as part of a round table of landlords and retail tenants.

Insurance

Many small business owners reported difficulties with their insurance policies. These included insurers withdrawing or reducing business policy cover mid-term, changing policy terms unilaterally, and dramatically increasing the cost of public liability insurance.

Recommendation: that unfair contract terms be expanded to apply to contracts between insurance companies and their small business customers

Improving emergency management

The national response to COVID-19 was effective, incorporating lessons learned from the bushfire crisis that preceded it. Having financial assistance be administered federally by the ATO worked well compared to the state-based assistance that was offered during the bushfire crisis. The fact that the ATO was an existing government agency allowed the assistance programs to be created and implemented in a timely manner. This is in contrast to the National Bushfire Recovery Agency, which has been criticised for spending too much time establishing itself and figuring out its bureaucracy.

There will be more disasters in the future, whether they be pandemics, bushfires, or floods, and some affected small businesses will need timely financial assistance.

Recommendation: that a national emergency management agency similar to FEMA in the USA be created. The Federal government will need to be able to declare state of emergency.

Recommendation: That there be pre-set financial responses to disasters (in different categories relating to the severity of the disaster) that are ready to be administered as soon as a disaster is declared.

Enablers of Change

Australia is in great position. We need to accept that we have had, up until January 2020, a very good economy. An economy going through constant change and needing constant attention, yet still the envy of most of the world. We have a public sector that has been rated third best in the world. The public service has performed and is performing exceptionally well in the crisis. Australia has been rated the 12th happiest country in the world in 2020. We have one of the world's highest minimum wages and we are in the top ten for average wages. Our health care system has been ranked as one of the highest performing in the world; watching how health workers and others dealt with the COVID-19 crisis we can see why.ⁱⁱ

There are other areas where we perform below our capacity yet despite the nay-sayers and those who want to convince Australians that they are miserable, we perform well. Now is the time when we must go to the next level to re-establish the economy in a COVID-19 world.

We should take confidence that, in this crisis, the public service has performed extremely well as have the great majority of businesses - big, medium, and small. The bulk of the media has worked tirelessly to inform, provide facts, and analyse information to help us all understand what is happening and what can or could happen.

Our fundamentals are good and the capacity to criticise where necessary also exists within our democracy.

So given the performance of most of our institutions we can say that the enablers of change are an attitude of embracing change, an understanding of the reality of the situation, well-developed skills at politics, negotiations and planning; and a willingness to step away from old beliefs and seek what is best for the economy and society.

There are the obvious structural enablers based around, good government, tertiary and higher education, research support, infrastructure development, fit for purpose competition policy, and so forth.

More specifically, to manage and enable positive change we need to empower communities. National decisions and policies can be made but the effects are at the local level. Local economies are best informed and influenced by local small and medium business owners and business families who will fail or survive depending upon their own capacity to work together and focus on what their community needs to be economically sound.

The Barriers to Change

As always, the barriers to change will come from those most threatened by change or more in touch with their needs rather than reality. These are the ideologues and the vested interests. These groups will attempt to create fear among the general population and the business community with false information or exaggerated examples of poor behaviour from employers or employees, among others. Some may create barriers by seeking to create a utopian world that is neither feasible nor practical.

The proposed changes as listed further above will benefit the business community, workers, the vulnerable, the unemployed and the needy, and the wider community. Through all that we will have a more agile and healthy economy.

The COVID-19 Crisis has shown that the great majority of people and businesses are willing to work together for the common good. It has shown a willingness from the public sector to change rapidly. In spite of the fact that normally the public sector and big businesses cannot change quickly, most did respond to the crisis through fast action to deliver what was best for the common good, no matter how hard and challenging it was for the public servants and big businesses.

Owners and employees of businesses, large and small, have in the main worked long hours and experienced high stress levels doing what they saw as best for the common good. This applies equally to the people from industry groups, other public sector organisations, and most unions.

There are of course those who saw an opportunity to take advantage or to resist changing for the common good as they would be disadvantaged by that change. This came from what appears to be the new hegemony of Australia: the biggest landlords, the ACTU, and the industry superannuation funds. There are minor or less well-known groups who also saw advantage to be gained from the crisis, including OneMusic Australia, and there are likely to be others sneaking along, taking advantage of people's fear and suffering.

As always, the aim of the hegemony is to maintain its power base. They aim to confuse the issues, to shoot messengers, to twist or just make up facts, and then muddy the truth.

The biggest landlords are fighting hard to maintain their dominance and their income while tenants have a significant decline in turnover or no turnover at all. The landlords will no doubt wait until the crisis has subsided and then they will pursue legal action against thousands of small business people for back rent and, if necessary, bankrupt them. Their view is that it doesn't matter if you bankrupt a business as there's always another tenant to take their place. The unwritten model for these biggest landlords has always been to sign up trusting, optimistic people, normally into a franchise, and then eventually increase their rent, force them to do expensive fit outs prior to rental negotiations, then bankrupt them if they can't pay. We can fix this with changes to unfair contract legislation as recommended above.

The ACTU changed from a constructive organisation when the leadership changed a few years ago to an organisation built on ideology and development of an "Us & Them" workplace culture. The new ACTU Secretary stated very quickly that they did not have to follow law. More recently we saw that the government had to spend some 5 weeks negotiating what were in the end minor changes to workplace regulation, during which time businesses closed and workers lost their jobs. Then when the changes were announced the Secretary stated they would 'name and shame' employers who did not access JobKeeper, which was not a useful or helpful statement. Previous ACTU leaders would have asked how the unions and workers could make the system work. The Secretary also sent a message that workers sitting at home doing nothing for months was acceptable – when clearly that was a place where mental health problems could develop. It appears that the current ACTU will try to destroy any positive change needed in the workplace relations system as they need the 'us and them' culture to hopefully increase their membership through fear mongering and deception.

The industry superannuation funds are merely interested in their own needs. They claim to care for their members, but they are much more interested in maintaining their industry-based superannuation monopolies. If they truly valued the needs of the worker they would create a much more competitive system where workers had a real choice of what fund they would join, and where the responsibility to collect of funds was taken away from employers and put with the ATO. This would save funds over a billion dollars annually in administrative costs as well.

Barriers to change will also come from economic ideologues. There are those who have for decades made statements such as 'let the market decide' when we discuss competition policy, or anything else for that matter. We in small business understand reality and the damage that can be done by a

free for all brawl between muscly big businesses. So instead of that shallow statement we say, 'let us make sure the market *can* decide'. Then we will have the cheapest prices, the best innovation, the greater choice for consumers and an improved capacity to deal with pandemics and disasters.

This laissez-faire approach to competition policy created the duopoly of Coles and Woolworths. As an example of how dominance can be dangerous, once it was obvious we were in a crisis the duopoly went out and purchased all the groceries, food, and products they could find. This left local supermarkets short of essential stock. Service stations found their convenience stores could not get the goods their customers needed. Shops in country towns found they could not get the goods the town folk need. The outcome was that more people were forced to go to fewer places (the duopoly) for essentials. That was not healthy. The original "Supermarket Advisory Committee" set up by the government basically consisted only of the duopoly and the ACCC until it was pointed out how limiting that narrow group would be in recognising and solving problems. Other groups were invited onto the taskforce, but we must make sure there is true competition and not dominance by a few if we are to have a healthy economy and healthy communities.

Remove or ignore these barriers to change or the next pandemic could be much worse.

ⁱ The Australian Small Business and Family Enterprise Ombudsman's Review of the Small Business Fair Dismissal Code was published in August 2019 and can be accessed at <https://www.asbfeo.gov.au/sites/default/files/documents/ASBFE0%20FINAL%20AUGUST%202019.pdf>.

ⁱⁱ Australia's public service was ranked 3rd by the Institute for Government's International Civil Service Effectiveness Index in 2017: <https://www.instituteforgovernment.org.uk/publications/international-civil-service-effectiveness-incise-index-2017>.

Australia was ranked 12th in the 2020 World Happiness Report: <https://worldhappiness.report/news/its-a-three-peat-finland-keeps-top-spot-as-happiest-country-in-world/>. The full report can be read at <https://worldhappiness.report/ed/2020/>.

In 2018, The International Labour Organization found that Australia's gross monthly minimum wage earnings were the second highest in the world after Luxembourg: <https://ilostat.ilo.org/topics/wages/>. In the period 2015-2018, Australia had the seventh highest average wages in the OECD: <https://data.oecd.org/earnwage/average-wages.htm>.

A study by the Commonwealth Fund ranked Australia's healthcare system 2nd for its performance out of 11 countries studied: <https://www.commonwealthfund.org/publications/fund-reports/2017/jul/mirror-mirror-2017-international-comparison-reflects-flaw>. Australia's healthcare system was ranked 32nd in the world for "efficiency" (out of 191 countries) by the World Health Organization in 2019: <https://www.who.int/healthinfo/paper30.pdf> (rankings on p18).