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RESEARCH NOTE

EFFECTIVE TREATMENT

Public policy prescription for a pandemic

THE NEW ZEALAND INITIATIVE

Dr Eric Crampton with assistance from Leonard Hong

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Executive Summary

Unless effective treatment for the novel coronavirus Covid-19 emerges quickly, the world faces not only misery but economic depression. New Zealand will be immune to neither. The normal economic uncertainties of a downturn will be compounded by the uncertainties of a pandemic.

The New Zealand Government's policy needs to directly boost capabilities in the health sector while providing the kind of appropriate economic support necessary when we're all taking a lengthy staycation and some industries are put on ice.

Uncertainty about the duration of this crisis makes deciding on the most suitable policy difficult.

So, a combination of policies is warranted. Our latest report, *Effective Treatment*, explains our approach.

The first priority must be with health.

Increasing the capacity of the health sector to deal with peaks in numbers of Covid cases is important to reduce mortality and morbidity rates. But nobody quite seems to know just where the binding constraints in the health sector are. While credible newspaper articles warn about substantial shortages in equipment and incredible pressure on staff, official statements have been far more sanguine.

If there really will be shortages of critical equipment in four to six weeks, potential suppliers should know that today. Quietly shoulder-tapping likely suppliers may partially solve the problem but won't provide the necessary scale of response. Suppliers can come from unlikely places. For instance, Italian hospitals are reportedly trialling ventilators reconfigured from scuba diving equipment. Simply announcing a willingness to purchase equipment – and the prices the Government is willing to pay – would allow potential suppliers to identify themselves. Serious companies aren't likely to re-tool without the certainty of a contract. But they do need to know the demand exists and that they can get essential service status to do the job.

Rapid identification of equipment and skills necessary to boost capability in the medical system, combined with a wide call for assistance, would enable people and businesses to find ways to help. If the health system is not already doing so, it should be offloading less-significant tasks to helpers with limited training, to ease the burden on key medical staff. For instance, thousands of air cabin crew have been trained in first aid and will have plenty of time on their hands. With some rapid training, they may be able to ease some of the burden.

Additionally, the Government has asked retired health workers and health workers furloughed by the current lockdown to assist in Covid-response. It should also consider those foreign-trained

medical professionals already in the country who have not yet been able to secure New Zealand medical registration.

Part of the cure for a pandemic is a sharp reduction in economic activities in areas not related either to pandemic response or critical areas like food supply. That's why support for workers and firms is important. But the Government's chosen wage subsidy scheme is not working well. Even if it can be extended to larger employers, it provides too little support to keep companies from laying off staff en masse.

The Initiative urges the Government to consider a version of Germany's Short-Time Work support policy. That scheme allows firms to shift workers to a fraction of their normal hours along with an income top-up from the Government. That way, instead of laying off 80% of staff, a company could keep staff on 20% of their normal hours with little reduction in worker earnings.

This kind of scheme is better than either relying on benefits or starting up the sometimes-promoted universal basic income (UBI). A speedy reboot of the economy when this is over matters. That is much harder to do when companies must rebuild hard-earned experience and skills from scratch. The Short-Time Work support policy maintains both workers' incomes and their links to employers. It targets support to those workers whose hours are cut, rather than spreading support broadly to those far less affected. Simply put, it works better.

Some tax provisions can also be eased. Individuals and firms should be allowed to combine the 2020/21 tax years and temporarily suspend their PAYE collection and Kiwisaver contributions. This would immediately provide more cash in hand everyone. Companies staring down provisional tax assessments based on last year's earnings could instead defer everything to next year.

Simultaneously, the Government could help reduce business' fixed costs that otherwise might have compelled them to shut down. It could also cover Council rates bills for firms in financial distress, averting a major hit to the local government purse as well. And access to credit can be improved, especially over the longer term as wage support to employers may need to ease.

Finally, a modified version of the New Zealand Student Loan programme should be made available to non-students to help bridge any remaining income gaps. It has the advantage of having already set provisions for income-contingent repayment when the crisis passes.

But financial support is not the only way the Government can and should help.

Regulations that were no real barrier to getting things done in normal times can be insurmountable in a pandemic. For example, some airline pilots require time in simulators to maintain certification, but the necessary simulators are in Australia. In normal times, this just doesn't much matter – pilots can roster onto an Australia route when and as necessary. This doesn't work now. But the Government can't be expected to identify every barrier proactively. It needs to rely on business to highlight the obstacles as they come up using lines of rapid communication with regulators who can suspend or modify them during this crisis.

And this is no time for policy or regulatory changes which are not related to the pandemic. The Reserve Bank and Commerce Commission have already postponed theirs. But Parliament's Select Committees are still asking for submissions on non-urgent legislation. Doesn't the Health Select Committee have better things to do than consider the regulatory framework for vaping? Some legislation may be urgent enough to require submissions during the Level 4 alert, but everything else should be quarantined.

Obviously, the Government should borrow the funds it needs to do all this. But this will require maintaining a disciplined approach to any spending lines unrelated to the pandemic. Entrenching new ongoing commitments would complicate a return to prudent debt levels after the crisis and make it harder to borrow the funds necessary for responding to the pandemic.

Hopefully the four weeks of Level 4 lockdown gives the Government enough time both to knock back the pandemic and adjust policy to help us through the coming economic turmoil. We need to adopt more effective treatment.

Introduction

This present crisis has no established playbook from which to run. So we must build one. We here describe relevant initiatives being developed or deployed abroad, where the same crisis is further advanced, for dealing with the economic consequences of Covid-19 – as well as a few original ideas suited to the New Zealand context.

Although the prediction has a high level of uncertainty, there is a strong potential for a prolonged recession or even depression resulting from this crisis.

If a vaccine or effective treatment emerges quickly, we would expect a sharp V-shaped recovery. Remdesivir, favipiravir, Kaletra, chloroquine and hydroxochloroquine are all reported as showing promise as treatments.[1] New medicines can be deployed far more quickly than vaccines because existing approved drugs can be rapidly repurposed. Should effective treatment emerge along with credible ability to scale up the manufacturing of any remedy, we would expect a sharp rebound in economic activity. However, a European banking crisis would severely stymie this recovery.

Even without effective treatment, better testing options would be game-changing. South Korea's Sugentech has just released a blood test for Covid-19 antibodies.[2] It is cheap and provides results within 10 minutes. Its packaging appears like a plastic pregnancy test kit but uses a drop of blood rather than urine. If this were widely deployed, workers in critical sectors could be tested on arrival to their shift and sent into isolation if they test positive. Such effective testing, if deployed properly, would dramatically change transmission curves. The New Zealand Government should get its order into the purchasing queue immediately on confirming the test's reliability.

If a treatment does not emerge quickly, economic turmoil could easily last well over a year and the 2008 recession could look mild by comparison. Business failures during the crisis will slow down recovery. Firms that were viable during normal times and would be viable again after the crisis may nevertheless have substantial difficulty in securing credit to see them through. And, if the crisis is very long, it may be best that otherwise-viable businesses fail so their human and material resources can turn to more important areas during the crisis. The physical assets of failed firms do not disappear. But the nexus of expertise in those firms can be difficult to replace, so avoiding failures due solely to credit limitations is important.

Worse, many existing policies for dealing with unemployment may not be suitable during this crisis. If self-isolation continues to be recommended, job search requirements that are part of current jobseeker benefits will be counterproductive. At the same time, parts of the health and other critical sectors may need to quickly scale up and train new staff. Compensation for those who have lost their jobs because of the crisis could discourage workers able to switch into new roles from doing so. That too would be worse than counterproductive.

Similarly, traditional policies for dealing with recession will not work in this case. As Columbia University professor of economics and international and public affairs Wojciech Kopczuk said:

> *While that lasts, a policy is ineffective in doing the standard Keynesian thing of boosting aggregate demand. What are you going to do, make me go to a*

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[1] https://www.tenentrepreneurs.org/blog/innovators-vs-the-virus

[2] http://sugentech.com/products/products-view.php?ct=7&target=32 . Australia is set to receive half a million similar tests that provide results in 15 minutes. See the Australian Financial Review, here: https://www.afr.com/policy/health-and-education/new-quick-test-for-covid-19-approved-20200322-p54cnz

restaurant that's shut down anyway? My marginal propensity to consume is close to zero.[3]

Policy should then focus on

1) Strengthening the health system to deal with the crisis at hand;
2) Providing appropriate incentives to self-quarantine;
3) Supporting workers whose employers have had to reduce hours;
4) Improving cash flow for firms and easing credit availability;
5) Providing backstop income support to plug remaining gaps.

It should also focus on quickly providing appropriate incentives for firms to shift to activities now desperately needed. Targeted assistance is warranted. All measures taken in response to the current emergency should be temporary and end when the crisis passes.

The debt necessary to finance the Government's share of this burden should not be constrained by normal guidelines to keep debt around 20% of GDP. This is instead the debt that can be issued because of strict adherence to the budget responsibility rules and to prudent debt guidelines during normal times. As American macroeconomist Greg Mankiw put it, "There are times to worry about the growing government debt. This is not one of them."[4]

However, that *does not* give the Government licence to implement structural increases in its spending. Budgetary discipline must continue to apply to business-as-usual matters. And, indeed, there is case for reallocating some spending from deprioritised tasks or ones no longer fit for purpose, such as international tourism promotion.[5]

The Government can be expected to assess its priorities not only to free up funding for the emergency, but also to allow Ministries' staff to shift away from secondary projects. It is encouraging that the Provincial Growth Fund is now being used to build regional health capability. Contributions to the Superfund can also be expected to will cease during the crisis.[6]

Support for the health sector and support to see the country through the looming economic turmoil should be evaluated using standard cost-benefit frameworks, but effectively without a budget constraint. The Government should issue as much debt as is reasonably necessary to see things through.

When the most immediate phase of the crisis passes, the Government should turn attention to the post-crisis path back to normality. Paying back the new debt will require a combination of spending reductions, tax increases and measures to encourage and hasten economic growth both through improved productivity and enhanced effort. Being able to work much harder after a period of quarantine-enforced idleness may be helpful. Many existing constraints will hinder recovery once the crisis passes and will need to be considered in the months ahead.

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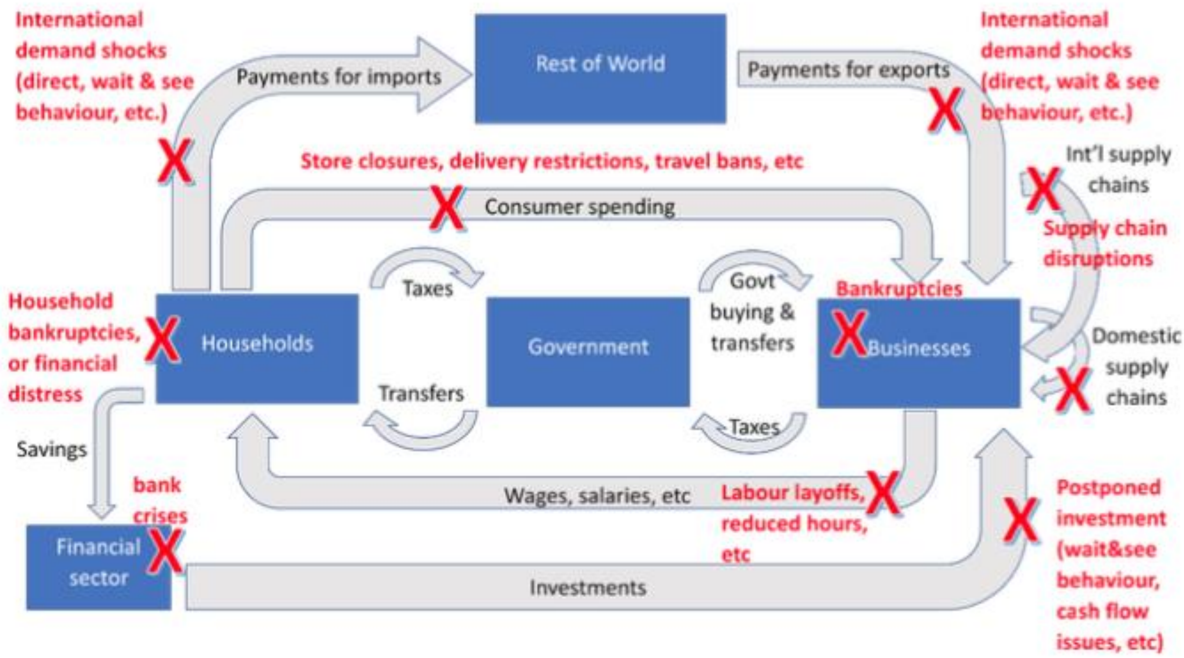
[3] http://www.columbia.edu/~wk2110/Corona/Corona.pdf

[4] https://gregmankiw.blogspot.com/2020/03/thoughts-on-pandemic.html

[5] Taiwan's emergency measures, for example, require all cabinet agencies to shift spending priorities to concentrate on the response to the current emergency and its Tourism Development Fund has been redirected toward emergency relief. See https://english.president.gov.tw/News/5984

[6] Using the fund in emergencies like this to help to cover the costs of the crisis makes some sense. But it also involves selling pro-cyclical assets at the bottom of the cycle. Rainy day funds are not stored outdoors in cardboard boxes.



Source: Professor Richard Baldwin7

A post-crisis recovery period might include longer school and university hours to allow students to catch up on missed work and the temporary extension of working hours for the employed. Other possible options will need to be ready and known well before the crisis passes. Business planning during the crisis depends on what they expect will happen after the crisis.

Encouraging appropriate reallocation of resources

The health system will need a substantial expansion in staff and equipment. The mini-budget has allocated funding for expansion. And as Minister Robertson and others have correctly noted, strong health measures also directly address the economic consequences of a pandemic by lessening them.

The Government may need to consider a substantial temporary expansion in the capacity of the health system, along with a much smaller permanent increase in capacity. To put it bluntly, measures required to flatten the curve sufficiently to meet the likely surge in new cases would be economically ruinous by spreading the pandemic over years. Failing to undertake those measures would result in substantial loss of life. Increasing capacity, and quickly, would mean that less of the surge winds up beyond the system's ability to deal with cases.[8]

Quickly providing temporary capacity for the surge could involve shifting normal hospital operations to military field hospitals and dedicating some hospitals to Covid-19 relief.

Hospitals may permanently need greater ICU capacity if Covid-19 becomes endemic. However, that capacity is very costly. It may be the case that it is actually impossible to have 'reserve' ICU capacity in a public health system where prices do not ration demand. In normal times, there will always be a

[7] https://voxeu.org/article/how-should-we-think-about-containing-covid-19-economic-crisis

[8] See discussion by economist Josh Gans, here https://medium.com/swlh/a-war-footing-surfing-the-curve-f5ffe6134e37. We do not endorse some of his policy recommendations which include conscription into medical service. But retraining furloughed workers for service in the health sector is strongly recommended.

next-most-sick patient who could be in an ICU bed, and doctors will put them in those beds if they are available – regardless of whether that treatment is cost-effective relative to other uses of hospital resources. Those factors need to be weighed in setting any permanent expansion of ICU capacity.

The Ministry of Health and District Health Boards should quickly determine the types of equipment needed for expansion to deal with the surge.

It may be too late to purchase some medical equipment on international markets, depending on how quickly manufacturers can scale up production. But the Government *can* commission production and announce the price it is willing to pay for pieces of equipment while supplying the design plans for simple versions which are outside of patent (or use existing provisions in patent law for compulsory licences where the market is not being supplied on reasonable terms).

Plenty of manufacturing plants will be slowing or shutting down due to changes in demand and trade. Many can shift production, but few will be confident to make such a shift, and incur expensive retooling costs, without some certainty about demand. And factories shuttered during Pandemic Alert Level 4 can be reopened if reoriented toward essential production.

Simply presenting the design requirements and stating a generous purchase price the Government is willing to pay can encourage potential suppliers to reveal themselves, to contract for delivery and then reorient their production lines to meet new needs.

The Government needs to progress this immediately, not only to address impending surges in demand in the health system, but also to allow firms time to make the necessary adjustments to provide greater supply of critical equipment. Some shifting into supply of critical medical equipment will need to be designated as critical suppliers during the Alert 4 period. And companies may also find global markets willing to take on any additional units they might build. The Government signing contracts to purchase large amounts of medical kit at high prices will assure that it is built and delivered.

It is understood that the Government is in discussions with some manufacturers to encourage the production of more ventilators. It should also quickly determine which other pieces of equipment, devices and medical consumables can be expected to be in short supply and begin the process for acquiring them by announcing the level of Government purchase demand and indicative prices. It is far easier for potential suppliers to reveal themselves in response to demand than for Ministries to quietly approach known firms. The Government may have been reluctant to progress this because it fears that revealing the extent of shortfalls would induce panic. Scenes of doctors using homemade or improvised equipment, as seen abroad, will surely be a worse outcome for the Government. But it will be the consequence of continued delay.

Encouraging rapid shifts towards production in key areas will also alleviate *some* of the expected unemployment consequences of a recession.

So too would revised quarantine measures for confirmed cases. Singapore's success in keeping caseloads down involved keeping each case within hospital rather than in self-isolation.[9] Achieving similar success will require finding quarantine facilities across the country. Due to the dearth of foreign tourism, New Zealand is likely to have empty hotels for a long time. It may make sense to block-book entire hotels and repurpose them as quarantine facilities so confirmed cases can stay in

[9] See discussion here, for example. https://theconversation.com/why-singapores-coronavirus-response-worked-and-what-we-can-all-learn-134024

those facilities rather than at home. It is not easy to prevent within-home transmission to other family members who, if not self-isolating, will spread the virus further. The Government can view this as both a public health measure and support for the tourism sector. Such facilities will also be needed for patients in recovery from Covid-19 and who are in need of limited monitoring by medical professionals but should not be taking up scarce hospital space.

Building capacity will require staff. The Ministry of Health, District Health Boards and the College of Physicians and Surgeons should immediately map the likely processes for onboarding large numbers of patients, for getting them through to testing, for treating them and for providing additional support when they leave intensive care for monitored quarantine. Many tasks can only be undertaken by trained professionals but some may be able to be shifted to workers specifically trained in single tasks. A higher number of tasks shifted from critically important medical staff onto newly trained assistants would increase the capacity of the health system to deal with the surge. That training would need to be underway very quickly.

Thousands of unemployed airline cabin crew with first aid training and customer service experience will soon be out of work. Many could be redeployed to the health system, if trained correctly.

The Government is likely to call up retired medical professionals along with those whose registration may have lapsed, along with ancillary medical professionals like dentists. The UK government is considering bringing medical students in to help.[10] The New Zealand Government may not have considered adding resident foreign-trained medical professionals who have not been able to achieve New Zealand registration due to a paucity of placements in hospitals for supervised practice. We could too easily wind up paying unemployed taxi drivers with foreign medical training to stay home when they could be aiding in the crisis. Their qualifications may well be on record with Immigration New Zealand. But everyone with medical training who is prepared to assist should be included; the government should make a general call for assistance to find those who are available before hospitals see a surge in cases. Seeking and processing applications takes time.

None of these measures will substantially reduce the extent of unemployment resulting from the pandemic. But getting them in place early so that people, equipment and capital can move to the places they are now most needed, is very much worthwhile. And increasing the health system's capabilities mean that quarantine measures may not need to last as long after any outbreak.[11]

Other measures could more substantially alleviate both unemployment and the constraints facing business. Any seasonal workers already in the country, and anyone else here on a work visa, should have their visas automatically rolled over for an additional six months.[12] The loss of seasonal workers will have dramatic effects on the kiwifruit industry and will hinder the picking of grapes for the 2020 vintage. Many workers stood down because of the economic consequences of the pandemic cannot easily move to the new regions in need of workers.

[10] http://www.pulsetoday.co.uk/clinical/clinical-specialties/infectious-diseases/government-is-considering-using-medical-students-to-help-in-coronavirus-outbreak/20040272.article

[11] Enabling more treatment at home rather than in hospital for non-Covid cases will also free up capacity in the hospitals; many home treatments are not reimbursed in the same way as in-hospital treatment and this may prove a barrier to facilitating in-home care. We understand that NZIER has undertaken some relevant work in this area. And, obviously, providers of in-home care services may need a sharp refresher in hygiene practices appropriate to pandemics.

[12] Additionally, existing restrictions tying workers on employment visas to particular employers absolutely must be eased during the current crisis. Flexibility is necessary.

The Government should consider travel grants and support to facilitate this domestic migration when migration is safe, while removing any barriers to migration present in the benefits system.[13] Seasonal migrant workers arrive highly experienced in the tasks they perform while new workers require training. The Government should consider covering worker costs during the period of training and consider greater minimum wage flexibility among industries reliant on piecework payment.[14]

The Government should also consider rapidly developing best-practice guidelines for assisting firms in limiting any virus transmission within their own companies. Too few firms are adequately prepared for this. Simple measures like maintaining separation between different staff shifts and scrubbing facilities between shifts can limit the spread of any diagnosed cases within a firm. The Employers and Manufacturers Association likely knows which of its members' models could serve as exemplars for others in each industry. Generalised recommendations would be a synthesis of these.

Finally, the Government needs to guard against creating regime uncertainty. Regime uncertainty obtains when firms and individuals cannot form reasonable expectations about the rules under which they will be operating. Some uncertainty is inherent in the current environment. But it should not be compounded by undue delay in effecting necessary policy changes.

For example, it may make sense for the government to backstop freight routes by assisting airlines. But other potential freight carriers who could serve the market will be reluctant to invest in capacity if they think they will soon be facing a subsidised competitor. These kinds of decisions need to be made quickly so everyone knows the rules of the game and can make their own investment decisions. And the Government needs always weigh the risk that its own supports can sometimes crowd out other potential investment.

Regulatory abatement

In a surprising and welcome move, the Reserve Bank has announced the suspension of several regulatory changes that were consuming a great deal of effort for both the Bank and its regulated entities. It would be impossible for either side to do a good job in creating new regulatory structures and implementing them while dealing with the economic consequences of the pandemic. All new regulation across the financial services market should be delayed unless it relates directly to pandemic response.

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[13]Stand-down periods for access to benefits should be lifted generally, but particularly for workers in limited-term employment. If workers fear the pandemic will limit a return home after their period of employment, support guarantees should be in place until travel restrictions ease. If restrictions exist on moving to higher unemployment regions as condition of jobseeker benefits, those should be eliminated so workers reliant on support of friends and family can move back home after seasonal employment regardless of employment conditions in those places

[14] The fruit industry generally operates on piecework wages to encourage higher performance. In other industries with long-term employment, the prospect of salary increases and promotion provides encouragement. That does not apply easily in seasonal employment. A more fit-for-purpose application of the minimum wage in piecework industries to both protect workers against exploitation and ensure appropriate performance incentives would work as follows: If at least 80% (for example) of a firm's piecework workers earn at least 125% of the minimum wage (for example), the firm should be deemed compliant with the minimum wage. Most of these workers are earning well in excess of the minimum wage while the remaining workers will either be learning the ropes or realising that the work isn't suited to their talents. This proposal was developed as part of prior work by the Initiative in discussion with a regional council considering the Initiative's Special Economic Zones proposal.

All ministries should quickly triage which regulatory and legislative processes can similarly be paused.

Improving freshwater management is critically important; imposing regulatory changes that risk bankrupting dairy farms during normal times may prove heroic during the current crisis. It can wait.

As at 25 March, there are 14 select committee processes with deadlines falling on or before 30 April. Some of these are of pressing importance; the Electoral (Registration of Sentenced Prisoners) Amendment Bill needs to be progressed in time for the election. Others, like the Organic Products Bill, could reasonably be postponed until after the current crisis.

The Ministry of Health surely has more important things to do than progress the current regulatory framework and consultation for vaping; select committee submissions for that are due 1 April.

Similarly, progressing new industry-level centralised wage bargaining processes seems unduly risky.

Staff in all ministries must prioritise the pandemic and its economic consequences. Pausing lower-priority regulatory initiatives would also allow firms to focus on the task at hand.

A direct communication line should be set up for manufacturers hitting regulatory constraints when upscaling or shifting production to critical goods. Media has reported one manufacturer of hand sanitiser that may be constrained by health and safety regulations against brewing batches greater than 30 litres.[15] Whether this constraint exists,[16] it nevertheless binds manufacturers when they believe themselves to be hampered by it.

Things are worse in the US. A team working to produce N95 masks has been stymied by Centres for Disease Control regulations requiring 45-90 day approval processes for new production facilities.[17] New Zealand absolutely cannot afford any obstacle of this sort in pandemics with exponential growth curves. The Government should be asking if current approval processes for medical devices hinder manufacturers from shifting production to equipment such as ventilators.

Regulatory abatement will need to extend beyond manufacturing. Commerce Minister Kris Faafoi announced on 22 March that the Government has asked the Commerce Commission not to enforce competition rules that prevent sectors from working together in response to the pandemic. The New Zealand Initiative strongly welcomes this move, and urges that rapid authorisation be provided for collaborative activities.[18] Other regulatory areas will warrant similar moves. Are there things that the FMA and NZX can do to further reduce the costs of capital raising? What rules that may make sense in normal times hinder capital raising now?

Under existing New Zealand law, company directors are liable for breaches of health and safety and precedent now exists for civil asset forfeiture of the assets of owners of companies found to be in breach.[19] This induces risk-aversion. It will be incredibly difficult to encourage companies to take common-sense steps to help if they risk being exposed to untenable legal hazard.

[15] https://www.newsroom.co.nz/2020/03/19/1090958/hand-sanitiser-production-blocked-by-safety-rules
[16] https://twitter.com/GraemeEdgeler/status/1240558366402871297
[17] https://twitter.com/mattparlmer/status/1240649049981812736
[18] In this and other areas, rapid determination of which industries count as “essential” will be important.
[19] https://www.rnz.co.nz/news/national/410123/police-use-of-proceeds-of-crime-laws-in-health-and-safety-case-staggering

Reckless trading provisions of the Companies Act makes directors liable for taking on more credit while insolvent. Policy may require making credit available to companies made insolvent by the crisis.

Banks may be unable to lend as needed during the current crisis if hampered by responsible lending criteria requiring assessment of future income. Relaxing these criteria will help.

Record-keeping and witnessing requirements of AML/CFT regulations currently require face-to-face processes; this may be impossible during lockdowns. Alternative compliance arrangements must be implemented.

One of our members has highlighted that although pilots are required to access simulator training in Melbourne to maintain their skills, this is nearly impossible with travel bans and self-isolation requirements. Other cases may exist where critical industries should be allowed exemptions from the closed border rule for essential staff. For instance, some essential maintenance work on power generation stations cannot be undertaken without workers based offshore.

The Government needs a process for rapid easing of restrictions as they appear. Those best placed to point out binding restrictions are the businesses facing them. The Government must be able to rapidly evaluate any case for suspending existing regulatory provisions. In some instances, it may be that a rule has been interpreted too conservatively and the firm can simply be granted assurance of compliance. Elsewhere, suspending a regulation entirely may make most sense.

The government must always guard against purely rent-seeking behaviour in requests for regulatory relief. Limiting the duration of any suspension or modification of regulatory provisions will limit the potential for rent-seeking behaviour. Like all measures taken in response to the pandemic, changes here should be of limited duration.

Incentives to do good

Everyone must play their part in complying with self-isolation requirements, quarantine and Alert 4 shutdowns to reduce the national risk. But we all face different costs in providing that public good. For some, working from home carries little burden while it means loss of desperately needed wages for others. Some businesses can easily shift to online-only, but many can't.

The Government's recently announced Covid-19 package provides welcome compensation for individuals bearing those costs. Employment leave and self-isolation support will matter. Singapore's system of compensation for those required to be in isolation helps to ensure compliance with quarantine requirements.

The government will need to consider whether this scheme should be extended for those workers in nonessential services unable to work from home during any periods of regional or nationwide lockdown. If so, the maximum duration of Covid-19 leave would need to be extended by the duration of any applicable lockdowns.

Encouraging more people to work from home may require helping individuals and firms with any unexpected costs. The Government's decision to allow full depreciation of minor business investment will help. It may wish to go further in supporting firms providing employees with the necessary equipment if people are working from home over longer periods. Office-based workers, in the short term, can make do with a laptop but may eventually require monitors, printers and other similar equipment at home. Small condition-free grants to small business calculated by employee headcount, with the expectation that such grants are meant to enable greater uptake of working from home, would be relatively easy to administer.

Backstopping incomes

In normal recessions, governments seek to stimulate economic activity. In those periods, governments weigh income support against disincentives to seek work.

But public health measures in pandemics require people to stay at home. And stimulus packages encouraging consumption can do less good where supply chains are radically disrupted. Incomes could take a substantial hit for an extended period. Where programmes encouraging firms to keep workers on payroll are insufficient, the Government should be more lenient with existing terms for benefits – as it already has been.

What follows is a bundle of policies to cover the worst economic consequences of the pandemic. They need to be time limited. The guiding principles are:

- Aid should be focused where possible on those bearing the worst consequences;
- Assistance should be delivered through maintaining workers in employment where practicable;
- Assistance should not unduly discourage workers from shifting to areas facing increased demand for workers;
- Businesses that were liquid and solvent before the crisis should be supported over the short to medium term;
- If the crisis extends, some businesses will need to be allowed to fail so their labour and capital can be redirected to other areas.

The Government should begin by declaring 2020 and 2021 to be a joint tax year in which PAYE is suspended and an automatic KiwiSaver holiday is declared, suspending Kiwisaver contributions except for those choosing to continue contributions. Individuals' take-home pay would immediately be lifted by the amount of PAYE and KiwiSaver. Individuals could choose to file their 2020 taxes as normal or to file a single return for a combined tax year at the end of 2021. Those choosing the latter would face revised income tax thresholds for the combined tax year designed to encourage those who had not faced an adverse income shock to file in 2020, but enabling those who had had an income shock to enjoy tax relief over the combined years. Those whose incomes were unchanged across the two years would face a slightly higher tax burden by filing a two-year tax return. Those with reduced income in 2020 would face a lower tax burden by combining income across the two years.

If such provisions would prove impracticable, Ian Kuperas of Tax Management NZ suggests the promotion of Tax Pool Intermediary companies, an industry established by the Government in 2003 to alleviate the impact of our provisional tax regime. He notes that while thousands of SMEs use this service, the majority are unaware of it; the provision allows SMEs greater flexibility in managing provisional tax arrangements.

Relying solely on benefits and tax deferral would be risky. Unemployment rates could be high for a prolonged period.[20] Cascading bankruptcies will have systemic consequence. Banks will need to suspend mortgage payments because forcing mortgagee sales in a downturn will realise losses. The

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[20] No good forecasts yet exist. Tax Foundation economist and Vice President for Federal Policy Karl Smith notes that a range of US estimates are now converging on 20% unemployment rates. https://twitter.com/karlbykarlsmith/status/1241171119052402688

Government will be under pressure to backstop mortgages to prevent either foreclosures or stress on the banking system.

And no one knows whether effective treatment is weeks, months or quarters away.

Maintaining labour market attachment through supporting businesses to preserve employment levels over a limited period will reduce the need for other types of income support.

Business support

Family and individual support is more important than business support. But reducing unnecessary bankruptcies and closures substantially reduces the need for individual support.

Tax administration

Already-announced tax measures will assist. The Government can go further.

Singapore has implemented a Corporate Income Tax Rebate of 25% of business tax payable in 2020, to a maximum of $15,000 per company. This would prove less beneficial for companies with negative profits over the coming year.

Canada has allowed businesses to defer to August 31, 2020, any tax owing between when the policy came into place and September 2020. This will assist with cash flow.

New Zealand could allow businesses to defer their tax obligations for a year and then to smooth across the two years. If 2021 sees a recovery, profits in 2021 would be set against losses in 2020 to reduce total tax obligations.

Rates support

Council rates can prove a larger fixed cost for businesses – a cost that cannot be avoided during any temporary shut-down. Bankruptcies can lead to rates accruing against properties unlikely to sell quickly during a long recession. And the combination of rates relief provided by councils to struggling businesses and rates accruing to bankrupted properties can put a dent in council finances. Where debt-to-revenue constraints prove binding, this loss in revenue makes it harder for councils to take the opportunity to invest in infrastructure upgrades during times with lighter road traffic.

Central Government could consider providing a rebate to commercial properties substantially affected by the Covid-19 outbreak for council rates due. If it does, it should set the maximum reimbursement as the amount due in council rates in 2019 to discourage local governments from increasing business rates in anticipation of the rebate. While we would expect property owners fully to pass the benefit through for renters to keep their tenants viable, public perception issues may require a condition of the rates relief grant is 100% pass-through to tenants.

Rates support can assist businesses with cash-flow issues while helping to maintain local government finances.[21]

Bending rather than breaking

Employers facing sharp reductions in demand may wish to shift to reduced days of operation. Others may need to maintain their days of operation but may wish to shift staff to job-share by dropping to

[21] We note by way of example that Singapore's Property Tax Rebate for Qualifying Commercial Properties covers 30% of the rates bill for accommodation and function room components of hotel buildings and of serviced apartment buildings. New Zealand's rates relief could be focused on businesses where a decrease in earnings qualified them for wage support.

four days' work for four days' pay, as an example, rather than reduce staffing by 20%. Or they may wish to cut senior staff salaries by 20% rather than dismiss staff.

These kinds of changes can be made with the agreement of affected staff or through agreed changes to collective agreements. Those provisions are eminently reasonable during normal times. But during a fast-moving economic crisis, an employer anticipating a lengthy process for shifting to job-sharing may not find it feasible. The Government might consider expedited procedures for job-sharing arrangements of limited duration and which are taken by firms facing financial distress.

Wage and income support

Wage and income support can work to protect both workers and firms and enable a rapid return to normality after the crisis passes. Over the short to medium term, the government should take Germany's Short-Time Work scheme as model. That initiative, detailed in a recent Initiative research note, makes it easy for employers to shift workers to reduced hours by having the government take up a substantial portion of employees' lost wages over that period.[22]

The intentions of the government's current wage support scheme are laudable. But scheme has not been as beneficial as intended. The government has scaled it up to include larger companies, but too many are still finding it best to lay off staff. Enabling firms to maintain the nexus of expertise inherent in their current staffing complement makes it much easier for those firms to come out of hibernation when the pandemic eases. We urge the government to consider Germany's model. Its mechanics are fully detailed in David Law's research note, released 24 March. [23]

Further wage support could be provided by sharing the burden of the recent cumulative increases in the minimum wage. Higher wages do less good when it becomes too expensive for employers under substantial external pressure to provide continued employment. This support should be additional to entitlements under the existing Wage Subsidy Scheme or a New Zealand variant of the German Short-Time Work model to enable more firms to maintain full-time employment.

While minimum wage increases have had no discernible effect over the past few years, those years coincided with incredibly strong global economic growth. Employers will be facing hard decisions about whether to shut down entirely or whether to scale back in face of sharp reductions in demand for their products and services. The burden of the increase in the minimum wage, under these conditions, will be borne by those who lose their jobs unnecessarily – disproportionately those who are most vulnerable. This cost should be borne by the public purse.

Effectively, if the Government directly takes on the additional burden it imposed, businesses will behave as though the minimum wage had only been adjusted for inflation since 2017. This squares the circle of getting the benefits of higher incomes for lower income workers while avoiding undue disemployment at a time where the minimum wage would prove incredibly binding.

Singapore's Wage Credit Scheme, which pre-dates the Covid-19 crisis, may serve as a model. The initiative co-funds wage increases for lower-income Singaporeans. Singapore made the scheme more generous in response to the pandemic[24] by retrospectively co-funding 20% of qualifying wage increases from 2019 and 15% of qualifying wage increases for 2020. New Zealand could similarly

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[22] David Law. 2020. "Policy Point: Short-time work to maintain employment". The New Zealand Initiative. https://nzinitiative.org.nz/reports-and-media/reports/policy-point-short-time-work-to-maintain-employment/
[23] David Law. 2020. "Policy Point: Short-time work to maintain employment". The New Zealand Initiative. https://nzinitiative.org.nz/reports-and-media/reports/policy-point-short-time-work-to-maintain-employment/
[24] https://www.mti.gov.sg/COS-2020/Stabilisation-and-Support-Package

support businesses employing lower-wage workers and ease the burden many will face in accommodating the recent substantial minimum wage increases.

Co-funding the recent increases in the minimum wage would reduce the employer's cost of labour without reducing the employee's take-home pay. Applied retrospectively to the 2018 minimum wage increase, it would also improve cash flow for businesses.

If the crisis lasts longer than a couple of quarters and its ongoing duration remains uncertain, shifting to credit support enables firms likely to be viable post-crisis to weather the storm while allowing others to fail.

Credit to smooth

After the enhanced wage subsidy scheme reaches its limit, with the eligibility period having expired, the Government must decide whether to extend it or find a replacement. Some businesses that were on uncertain footing prior to the crisis should be allowed to fail so that the capital and labour tied up in those firms can be put to better use. Other businesses will be viable after the return to normality. The Government is not well placed to determine which firms were likely to have failed regardless of the pandemic, which could bounce back even after an extended pandemic, and which can bear only a short period of closure. And it will be no better placed than others to judge the likely duration of the crisis.

In perfectly functioning markets, credit and equity finance would determine which businesses should be supported through a downturn and which must be allowed to fail. Firms providing bankable propositions would attract either credit or equity investment to tide them through a period of substantially reduced revenue or a temporary shut-down. Credit availability may be a major issue.

The Government could assist in credit provision through low- or no-interest loans to banks, with the banks directed to use those funds for bridging loans for small-to-medium sized firms. Banks are well placed to assess the creditworthiness and longer-term viability of their business clients. Their willingness to extend loans to companies from the pool provided by Government would depend on their assessment of the likely duration of the pandemic and of the borrower's likelihood of repayment on the resumption of normal business activities. The mark-up charged by the banks would reflect the riskiness of the businesses and the Government could decide to underwrite a portion of the risk.

Singapore's Temporary Bridging Loan Programme for Tourism Sector Enterprises, beginning March 2020 and available through March 2021, allows eligible firms to borrow up to $S1 million, with an interest rate capped at 5%; the Singaporean government provides 80% risk-share on those loans. The Canadian government has increased lending to business through the Business Development Bank and Export Development Bank by $C10 billion.

Adam Ozimek and John Lettieri of the US-based Economic Innovation Group outline a proposal for small business liquidity provision.[25] The proposal for targeted relief addresses both liquidity and solvency.

The Government may not need to backstop this kind of lending except perhaps in cases where small businesses have little collateral. The New Zealand Initiative suggests that, if the Government wished to take on any of the risk in those loans, it consult with Singapore on how it is ensuring banks do not behave irresponsibly when the risks are underwritten by the government. Alternatively, the

[25] https://eig.org/news/main-street-rescue-and-resiliency-program

Proposal: Emergency Lending Program for Affected Small Businesses.

John Lettieri & Adam Ozimek, Economic Innovation Group

1. **Commercial Banks**: These loans should be underwritten and held by all commercial banks, so that small businesses can utilize their existing banking relationships or establish new ones. Working with existing lenders will simplify and lower costs for businesses who will refinance existing loans. Banks will be paid by the Federal Government for underwriting, and the government will pay 25 basis points (or whichever rate Congress deems necessary) for the banks to hold the debt on their balance sheets.
2. **Long-term**: Amortization schedules of up to 20 years will allow businesses to spread business cost over a longer period of time.
3. **Zero Rates**: The federal government and banks can currently borrow money at zero or close to zero rates. By insuring these loans under the full faith of the U.S. government, we can pass this low lending rate on to small businesses.
4. **Uncollateralized**: Loans should only be secured by the personal guarantees of the business owners. Businesses in need of emergency lending may lack the collateral necessary for a commercial loan, and assessing collateral quality would waste valuable time.
5. **Three Months No Payment**: Small business commercial loans often include interest only periods, which in the case of 0% interest will mean no payment. This should start with a three month period, which the government can increase if the length of the crisis is longer than anticipated.
6. **Qualifying Businesses**: Providing timely relief to affected businesses will require simple eligibility criteria and a straightforward process for accessing the loans. Lending should be limited to privately-held businesses across all sectors with under 500 full time employees who can demonstrate lost monthly revenue of 25% or more. (Congress may instead choose to focus this program only on sectors likely to experience the most severe effects of the crisis.) To expedite underwriting, no proof of lost revenue will be required up front. However, documentation of temporary significant loss of business revenue must be provided to the IRS as part of the 2021 tax season. Those unable to document this loss will have their loan increased to prime lending rates.
7. **Broad Usage**: Allowed usage of the debt should include maintaining payrolls, refinancing existing loans, purchasing equipment, inventory, furniture and fixtures, funding tenant improvements, and paying for occupied real estate.
8. **Loan Limits**: Loan size should be limited to the lesser of $5 million or 200% of 2019 annual expenses. For the sake of speedy approvals, only the $5 million limit will be imposed up-front and the 200% of annual expenditures will be verified later as part of the business's annual tax returns. Loans above the 200% of expenditure limit will have the interest rate increased to prime lending rates.
9. **Bank Liability**: For loans amounts above $250,000, if the ex post tax filing fails to substantiate that the recipient business experienced significant revenue loss or finds that it borrowed above the lending limit, banks would see their federal government insurance coverage fall to 90%. This provides skin in the game for banks to provide some due diligence on larger loans, without risking the feasibility of smaller loans. Importantly, both tests are done later so that this does not increase the underwriting burden.

Government could explicitly take on default risk if it wished to make extended loans conditional on recipients maintaining staffing levels.[26]

We suggest this kind of credit facilitation should be made available immediately and expanded on the expiration of the wage subsidy programme.

Finally, a backstop income support should be implemented to cover remaining difficulties.

New Zealand's student loan scheme, lending money up to a capped amount at zero percent interest with loaned funds recouped through the tax system in income-contingent fashion, could be extended to everyone. Individuals would be allowed to borrow an amount equivalent to the difference between their 2020 income and their 2019 income, up to a capped amount. Individuals whose 2020 incomes prove not to be lower than their 2019 incomes would face interest charges on the excess amount over the entire duration of their borrowing. The borrowing of others would remain interest free. This is intended to discourage uptake of free borrowing by those not in need of it.

Preparing for recovery

While not obviously important in the current crisis, setting the groundwork enabling a rapid recovery when the pandemic passes can reduce the extent of the economic crisis. Where businesses expect to be able to quickly re-staff and expand when the crisis ends, they will find it easier to acquire bridging capital to see them through the crisis.

This means maintaining the labour market flexibility which encourages businesses to take on risk.

But other measures could prove just as important.

Many firms will go bankrupt during the crisis. Many entrepreneurs will consequently be barred from becoming directors of limited liability companies. Easing some of these rules for bankruptcies that were consequence of the pandemic can assist recovery.

More preparation will be required, but that is a task for the weeks ahead. The government should be setting policy teams to start working through the options for a hastened recovery; these teams could also provide challenge about when and how current support should be lifted.

Presently, the best preparation for recovery is ensuring the health system is well prepared to deal with the crisis; that firms are supported so they can quickly resume production; that resources shift into emergency production; that individuals are supported through the crisis; that clear lines of communication are open with business to rapidly ease regulatory burdens that hinder pandemic response; that fiscal discipline be maintained over parts of the budge unrelated to the current crisis and that new long-term spending obligations are not taken on; and, that all emergency measures taken are clearly time-limited so individuals and firms can form appropriate expectations for recovery.

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[26] An interesting proposal by Steve Hamilton and Stan Veuger has government-backed loans provided to small and medium-sized businesses to cover any fall in revenues, paired with tax credits scaled to the proportion of staff maintained through the crisis. https://static1.squarespace.com/static/59b0bb01f9a61e09f11924fa/t/5e7143b9c53bc84841f00ff4/1584481210134/How_to_Help_American_Businesses_Endure_and_Jobs_Survive.pdf

Appendix: Options to remove regulatory obstacles to public and private Covid 19 responses

Ross Pennington, Chapman Tripp and Chair of Advocacy, INFINZ, and

Daniel Kalderimis, Chapman Tripp

Effective responses to mitigating the economic consequences arising from the pandemic, and the measures being adopted to address it, may run into regulatory hurdles which will require swift and dynamic responses. In some cases, giving timely effect to initiatives will require statutory over-ride, potentially across a range of regulations and in ways that are difficult to predict in advance. We set out some other options.

Existing instruments: In some cases, particular statutes contain exemption or regulation-making power, but this only enables 'atomistic' responses, and those powers are generally not directed to the sort of issues raised by Covid.

Epidemic Preparedness Act 2006 (*EPA*): This Act contains a broad range of health-related special powers. Section 12-14 enable Orders-in-Council, on recommendation of the responsible Minister for an enactment, to "modify any requirement or restriction imposed by the enactment". This is a useful power that should be given a broad and generous interpretation in the circumstances, but it has some drawbacks:

- It operates only under Order-in-Council. While those may be granted on an expedited basis (refer Cabinet Manual, 7.97(b)), there may be instances where a Ministerial delegation is preferable, and is proportionate to the change required.

- Mandatory conditions for a Minister's recommendation include that the effects of the epidemic are "such that the requirement or restriction is *impossible or impracticable* to comply (or comply fully) with". This is a high and narrowly-focused threshold, which appears more apt to address health issues than broader economic ones.

A new 'Pandemic Response Act'?: It is clear that avoiding a health crisis unnecessarily escalating into an economic crisis, which will require rapid action involving an unprecedented degree of coordination among the Government, private sector (both large-scale and SME), and households, and agility to adapt to rapidly changing circumstances. Economic initiatives will throw up a range of regulatory challenges. Addressing these effectively, and without undue cost and delay, would benefit from a targeted and flexible instrument to remove, or modify, regulatory obstacles that might otherwise hamper initiatives where time is of the essence.

Consideration should be given to whether the required coordination can take place at a political level and using existing legislation (including the EPA), or whether a new legislative instrument is required.

If a new legislative instrument is required, this could involve, n broad outline:

- Creating a two-part definition, comprising Covid-related initiatives, responses, and directions undertaken by (1) the Government or its agencies; and (2) by the private sector, acting in good faith in response to the first.

- Power to over-ride other statutes or regulatory instruments, or modify their effects. Such powers are addressed in Ch 15.1 of the LDAC Legislation Guidelines (2018), which contemplates "an empowering provision that permits secondary legislation to override an Act in ways that affect its policy or, more significantly still, that amends other Acts.

Examples include emergency powers created for post-earthquake responses **or epidemics**." (Emphasis added.)

- Required modifications could be made either by Order-in-Council, potentially on an expedited basis, or by Ministerial decision,[27] and in either case should be subject to clear objectives, guidelines, and appropriate safeguards (refer generally Chs 4,3, 4.4, 14.1, 15.1, 18.5 and 18.6 of the LDAC Legislative Guidelines), including to ensure that a new Act does not undermine New Zealand's constitutional norms – e.g. apply disallowance procedures.

- Being focused, like the response to the Christchurch earthquakes, on the situation at hand rather than replicating the generic powers contained in the EPA.

International coordination: Even if New Zealand manages adequately to navigate the public health effects of Covid-19, long-term economic harm will result unless methods are quickly and reliably found to enable countries to reintegrate following the present unprecedented degrees of closure and isolation.

- At the very least, international or mutually-recognised protocols will be required for permitted travel and the rights of travellers caught in new waves of Covid-19 or other epidemics or pandemics.

- Taking account of the wider economic context, it may be that a new form of Bretton Woods accords are required to create 'new normal' global financial and economic settings.

[27] Refer for example ss 137A and 137B of the CCCFA.