Budget to splash $1 billion on wage subsidies for 100,000 apprentices
By David Crowe
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Employers will be given more than $1 billion in new subsidies to take on 100,000 apprentices in a federal budget plan to prevent an "explosion" in the number of young people with no work or skills.

The sweeping budget measure aims to fix a growing crisis as companies go broke or cut staff, putting thousands of apprentices out of work and creating a future skill shortage.

The wage subsidy will be worth 50 per cent of salaries for new apprentices, in a bid to support 100,000 younger workers, and is worth at least $1 billion.

But the new spending may not be enough to make up for a fall in total investment in vocational education and training since the Coalition came to power in 2013.

Prime Minister Scott Morrison promised [$1.5 billion in wage subsidies] in July to keep existing apprentices in their jobs but has been fielding calls from industry for more help for new apprentices.
While Mr Morrison also promised $500 million in a "JobTrainer" scheme to help young trainees learn skills, much of this is expected to go on short courses and will not be enough to help all those leaving school.

The new measures, to be included in Tuesday night's budget, offer incentives for employers to take on new apprentices by paying some of their salaries over the coming years.

The current program was meant to support apprentices and trainees by giving their employers a wage subsidy of 50 per cent of salaries, up to a cap of $7000 per quarter.

But the wage subsidy only goes to those who were in training on July 1, offering no certainty for those who want to start an apprenticeship when they leave school at the end of this year or in future years.

To fill that gap, wage subsidies will be offered for new apprentices in the hope employers will not only keep their existing staff but take on new hires.

While the existing wage subsidy cap is $7000 per quarter, many apprentices only require a subsidy of $3500 per quarter and the target for the new program could be met with an outlay of $1.5 billion.

Industry experts cautioned on Saturday that the spending estimates were not reliable because the jobs market was difficult to predict and some of the government's existing measures had not worked as planned.

But the National Australian Apprenticeships Association is ready to back the plan.

"It is what we've called for," said the association's chief, Ben Bardon. "It needs to be a strong response because otherwise we will have long-term skill shortages."

The association warned in July that 18.5 per cent of employers were undecided about whether to cut their apprentice or trainee when JobKeeper ends in March, putting 50,615 young workers at risk.

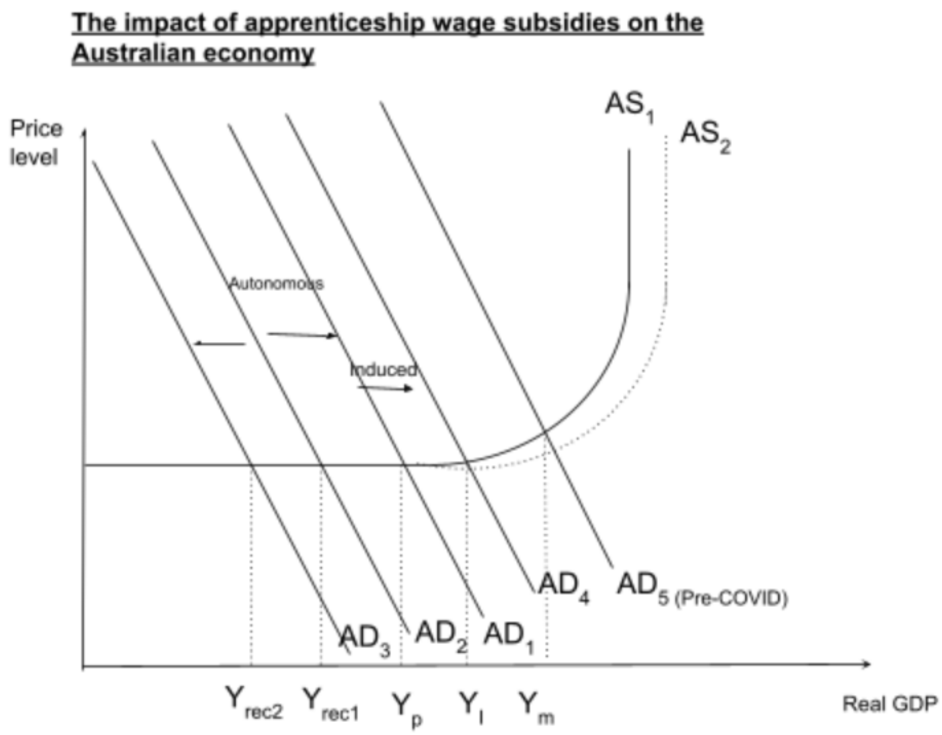
"With the current commencement and completion patterns, this would mean 78,000 fewer apprentices and trainees in training by December 30," it said. That would leave the nation's in-training stock of apprentices at only 196,930.

The goal of the new program is to lift that back toward 300,000 over time.

The support for new apprentices will complement other budget measures including a business investment allowance to encourage companies to rebuild and an infrastructure program to support construction projects that need skilled workers.

Commentary 2 – Government wage subsidy for apprentices

The falling investment in “vocational education and training” since 2013 saw businesses cutting down workers, “putting thousands of apprentices out of work.” Decreasing consumer demand from COVID-19 further exacerbated the “growing crisis” by creating profit instability and pressure on employers to reduce costs of production, further disincentivizing the hiring of apprentices. To prevent “future long-term skill shortages”, the Australian government is investing 1 billion in wage subsidies for 100,000 apprentices by subsidizing 50 percent of their salaries. This expansionary fiscal policy (increasing government spending to influence economic growth) aims to incentivize employers to take on “new hires” while keeping “existing staffs.”



The labour market before pandemic was at AD5 (aggregate demand) and Ym, but now in recession at AD2 and $Yrec_1$. Without a government injection, the labour market may result in further “cutting” of apprentices. With apprentices unemployed, consumer confidence is likely to decrease. This reduces consumer consumption ‘C’ in aggregate demand (C+I+G+(X-M)) from AD2 to AD3 which results in the deepening of the country’s recession from Yrec1(two consecutive quarters of negative economic growth) to Yrec2. By investing 1 billion into the labour market, the government is spending government spending ‘G’, a component of AD to shift AD2 to AD1 as an autonomous injection into firms to encourage employers to uptake apprentices. The apprentice wage subsidy policy is also considered as interventionist supply-side policy where the government is investing in training and education to improve productivity of labour, and as such, the AS1 curve increases to AS2.

The government’s expansionary fiscal policy enables apprentices to earn a greater income. With wage subsidies, firms are incentivized to “hire” more apprentices, and thus, provide apprentices with a disposable income. This results in higher consumer purchasing power, which may result in increased consumer demand that increases the AD curve from AD2 to AD1. In the long run, consumer demand may spur the multiplier effect depending on MPC (fraction of additional income injected into the economy), which may induce further demand from AD1 to AD4. In addition, increased uptake of apprenticeship will consequent in workers to rely less on unemployment benefits, which enables the government to spend their tax revenues other merit goods.

Apprentice wage subsidy is also an interventionist supply-side policy that increases labour productivity. As the government is investing in “vocational education” by training “young trainees”, the “skill” that apprentices gain may increase productivity of labour. Furthermore, the supply-side policy can target direct government investment on specific growing industries that may require more workers in the future, such as “infrastructure” areas that require skilled workers for their construction projects. As workers are specialising their skills during apprenticeship in expanding sectors that face labour shortages, in the long run, this increases labour productivity and worker employability. Increased productivity results in the expansion of productive capacity from AS1 to AS2, and increased employability may see a decrease in structural unemployment that the country currently faces in a recession from the pandemic.

However, government subsidies may not help with recession. Even with greater productivity and employability, investment in “vocational education” does not guarantee employment of workers as the job market is “difficult to predict” whether there are job provisions for trained workers during recession. In the long run, although the AS curve increases as from skills “training”, employment is unstable due to job uncertainties in a recession, and hence, real GDP may remain at $Yrec_1$.

Furthermore, the government faces technical difficulties to accurately predict the size of subsidisation needed to achieve the “300,000” employment goal. Associated time lag is also involved where skill trained may not be applicable in the future. It is shown in past that “some of the government’s existing measures had not worked as planned”, resulting in wastage of resources and training as areas that faced no skill shortages were chosen to be upskilled.

The government also faces opportunity cost with the expansionary policy. The decision to “splash 1 billion on wage subsidies” leaves the government with less revenue allocated to other merit goods. It is difficult to evaluate which policy would create the greatest external benefits for society as by preventing “future skill shortage” may not provide help with the recessionary phrase Australia is in. A better alternative may be sought to alleviate financial difficulties resulting from COVID-19 that have resulted in mass unemployment.

The wage subsidy can potentially help prevent future long-term skill shortages by investing apprentices to support employment, however, the efficacy of this policy is limited by uncertainty associated with future labour market trends and the pandemic.