

Support for Workers in the Covid-19 Emergency what can we learn?

Abstract

This article first briefly describes pre-Covid-19 support for workers who lose their jobs in New Zealand, then outlines and evaluates the government response to potential and actual job loss in the Covid-19 emergency. The main response was a wage subsidy. Some aspects of it were highly effective; others were problematic and tolerable only because it was a crisis and temporary. It demonstrated the systemic weaknesses in New Zealand's support for displaced workers. The article finally considers what is needed to prepare New Zealand better for times of job loss.

Keywords Covid-19, income support, welfare, unemployment, social insurance, social assistance, active labour market programmes, future of work, just transition, New Zealand

The main support for workers affected by the Covid-19 emergency in New Zealand was a wage subsidy. Some aspects of it were highly effective; others were problematic and tolerable only because it was responding to a crisis and was temporary. It demonstrated the systemic weaknesses in New Zealand's support for workers when jobs are lost. This article first describes existing pre-Covid-19 support for workers who lose their jobs; outlines and evaluates the government response; and finally considers what is needed to prepare New Zealand better for times of job loss.

Context

New Zealand's pre-Covid-19 support for workers whose jobs cease was primarily based on benefits, allowances and programmes administered by the Ministry of Social Development. Tightly income-tested jobseeker benefits are supplemented by various targeted allowances, such as accommodation supplements. Programmes to assist workers are focused on those most likely to claim a benefit rather than the full range of jobless workers. This system has been examined

in two recent reports: by the government's Welfare Expert Advisory Group (2019) and by the OECD (2017).

The Welfare Expert Advisory Group found that both income support and active labour market programmes to assist workers to find jobs were grossly inadequate. For example, a single person receiving the jobseeker support benefit and renting privately had an income, after housing costs, at around 22% of the median household income; a couple with two children renting privately received around

of the more minimalist OECD countries in terms of employment supports for displaced workers.' Consequently, 'the costs of economic restructuring largely fall onto individual workers' (OECD, 2017, pp.74, 104). Replacement jobs were often inferior. This is consistent with income replacement being insufficient to allow workers to search for a job that suits their skills and experience, and poor active labour market programmes. There was a lack of programmes for 'better-skilled' workers and only about a third of displaced workers

insignificant' (McAllister, 2020). Household disposable income after housing costs rose an average of 17.5%. But couples on jobseeker benefits still received just 34% of estimated equivalised median household disposable income, and single people as little as 29%, well below standard poverty benchmarks.

A \$1.6 billion free trades and apprenticeship training scheme was announced, as were additional employment programmes, though whether they included substantial quality enhancements is unclear.

The principal income support was a wage subsidy, providing \$585.80 weekly per employee working 20 hours or more and \$350.00 weekly for other employees, paid to the employer in a lump sum in advance for up to 12 weeks. Applications could be made to the Ministry of Social Development immediately. The self-employed could also apply. To qualify, employers attested to an actual or projected 30% reduction in revenue compared to the same period in 2019 for any month between January and June. They declared that 'on their best endeavours, they will continue to employ the affected employees at a minimum of 80% of their income for the duration of the subsidy period. This is the equivalent of keeping people working 4 out of 5 days of the week.' They also undertook to take active steps 'to mitigate the impact of Covid-19'.

Leave payments at the rate of the wage subsidy supported employees who were required to self-isolate, caught Covid-19, or had to care for others in those circumstances. Their employers had to apply on their behalf.

It was deliberately 'high trust', allowing rapid take-up with minimal compliance costs. Employers who broke the rules, the government emphasised, would be committing fraud. Later, the ministry published a list of all subsidised employers, which was scrutinised by academics, journalists and others, and auditors were employed to check the applications. By 15 May the ministry had reported 569,344 applications for wage subsidy and leave payments, of which 449,551 had been approved.

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29% of the median. 'By any measure of poverty, these examples reveal a dire situation' (Welfare Expert Advisory Group, 2019, p.98).

Stand-downs and income testing intensify the inadequacy. For example, workers are frequently ineligible for income support if they have employed partners, yet many households depend on two incomes (*ibid.*, p.136).

Active labour market programmes 'focused too narrowly on reducing the number of people on benefits and short-term fiscal costs with insufficient regard for the suitability of the jobs people go to', creating poor employment outcomes. Spending on such programmes was among the lowest in the OECD, 'far below the level needed' (*ibid.*, pp.129, 134).

In response, the government has indexed benefits to the average weekly wage rather than the Consumers Price Index, but not yet actioned recommendations for significant benefit increases.

Similarly, the OECD found that 'many displaced workers end up in poverty'. It concluded: 'Arguably New Zealand is one

received a benefit. Wage losses were more than in Germany, the United Kingdom, the United States and Portugal. Hyslop and Townsend (2017) estimated that New Zealand displaced workers' earnings were 25–30% lower in the first year and 13–22% lower five years after being displaced. Their employment prospects were reduced for several years.

The government's response to the Covid-19 emergency

The government's main support for workers through the Covid-19 emergency came in a \$12.1 billion package announced on 17 March.

Social welfare beneficiaries received increases costing at \$2.8 billion over four years. This comprised a permanent \$25 per week increase per household in all main benefits from 1 April and doubling of the winter energy payment from 1 May to 1 October. Annual benefit increases also occurred from 1 April, for the first time indexed to the average wage. The Child Poverty Action Group's analysis was that the changes 'were not

people employed in the March quarter), including over 219,000 self-employed, costing \$10.85 billion.

Strengths

- The wage subsidy distributed funding very quickly. Within 10 days, almost 200,000 applications covering almost 460,000 jobs worth \$3,772 billion had been paid out, and half of the \$10.85 billion within a further week.
- It maintained connection between workers and employers, allowing many employees to keep their jobs, and firms to resume work quickly when conditions permitted.
- It supported firms by paying a significant part of their largest cost: labour.
- Even if an employee received only the subsidy, it was considerably more than the jobseeker benefit, and many received much more than that. Some kept their full normal income, and employers were expected to pay at least 80% (though see below). Two income earners in a household could receive it because it was not income-tested.
- It applied to all types of work arrangements. Permanent, fixed-term, immigrant workers without resident status, casual workers and the self-employed were covered (but see below).
- It slowed the rise in unemployment. The number of people on a jobseeker 'Work Ready' benefit rose 50,579 between 17 May 2019 and 15 May 2020 – approximately 2% of the labour force – despite over 1.641 million workers being affected by the lockdown.

Weaknesses

- A low income-replacement rate: there was ultimately no assurance that employees would receive more than the bare subsidy (for example, if their work ceased). The subsidy was only 58% of a 40-hour week on the June 2019 median hourly wage, and 48% of the average wage (pre-tax).¹
- It required the employer to apply and pass it on. This gave rise to multiple problems. Employers paid employees varying amounts, with little control in practice by employees. Some unlawfully demanded employees take leave. Casual

workers relied on employers listing them as employees. Some employers laid workers off rather than claim the subsidy.

- It was open to abuse. Conditions were very difficult to enforce. Unions and labour inspectors attempted to police it, but their resources were far from enough. The New Zealand Council of Trade Unions website received 2,100 complaints in less than three weeks (Young, 2020); by 24 May, the Ministry of Business, Innovation and

and relaxed means testing that allowed most two-income households to claim it; yet it failed to cover temporary immigrant workers and showed other design problems.

It was, therefore, appropriate that the government simultaneously announced that it was working 'on the possibility of a more permanent unemployment insurance scheme in New Zealand. The Future of Work ministers group has commissioned the work following a request from Business New Zealand and the Council of Trade Unions' (Robertson and Sepuloni, 2020).

To make our active labour market programmes fit for purpose, programmes must suit not only workers most frequently needing social assistance but all workers, because most workers experience major involuntary change in employment some time in their working lives, and that may happen more often.

Employment had received 3,888 complaints, including of employer fraud (RNZ, 2020). Auditing was also at an inadequate scale.

The wage subsidy was therefore a very effective response in the circumstances, but showed many signs of having been put together in haste. It was a place-filler because New Zealand did not have adequate systems to cope with income and employment loss in such an emergency – systems as basic as being able to pay all workers directly. Its payment level and conditions were implicit acknowledgement that social security benefits were much too low and conditions too tight to provide an acceptable response.

A temporary 'Covid-19 income relief payment' announced on 25 May for workers who lost their jobs after 1 March was further acknowledgement. Welcome features included direct payment to workers at roughly twice a jobseeker benefit,

What is needed to prepare New Zealand better for such disruptions?

Disruptions to employment are unfortunately not rare. Climate change, technological change, globalisation and changing demographics are affecting the 'future of work'. Natural disasters, pandemics, global crises, business cycles and company closures and restructuring may well recur more frequently. This demands policies and institutions that support people through change so that costs do not land on those with least control over, responsibility for or ability to withstand them: a 'just transition'. It is unfair and will create resistance to needed change if the costs continue to be loaded on those least able to offload them onto someone else.

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Table 1: Possible types of income support schemes

	Personal provision	Redundancy payment	Social insurance	Status quo
Description	For example: <ul style="list-style-type: none"> • Allow use of KiwiSaver savings • Personal loan scheme • Personal insurance 	Mandated, lump sum either <ul style="list-style-type: none"> • Paid by employer; or • Levy or government funded 	Common fund, like ACC Pays proportion of previous income for defined period	Social welfare benefit system, with or without the Welfare Expert Advisory Group's proposed reforms
Availability	<ul style="list-style-type: none"> • Disadvantages low-income workers and higher-risk jobs (e.g. insecure jobs) 	<ul style="list-style-type: none"> • Mandating creates availability • But failed firm may not be able to pay • Not portable: depends on service with each employer 	<ul style="list-style-type: none"> • High if mandatory and universal (like ACC) • Individual entitlement 	<ul style="list-style-type: none"> • Conceptually universal • But currently many are not eligible due to household-based income testing • Numerous other barriers
Non-discriminatory	<ul style="list-style-type: none"> • Disadvantages young people, Māori, Pasifika, women • Could cover self-employed 	<ul style="list-style-type: none"> • Those in insecure work or shorter tenure receive less; they are more likely to be young or female • Does not assist self-employed 	<ul style="list-style-type: none"> • Depends on design (e.g. minimum and maximum payment rate) • Could cover self-employed 	<ul style="list-style-type: none"> • Household-based income tests discriminate against women • Currently focuses on low-skilled workers • Covers self-employed
Effectiveness	<ul style="list-style-type: none"> • Income available will be very low for some people, including some with most need • Transfers full cost to workers unless subsidised or contribution negotiated from employer • No pooling of risk 	<ul style="list-style-type: none"> • Not means-tested • Most pay-outs are limited to a few weeks pay, regardless of need • If employer pays, it: <ul style="list-style-type: none"> – takes on some of the costs of its actions to others – may increase preference for casual, fixed-term or contractor employment 	<ul style="list-style-type: none"> • Depends on income replacement rate and other features • Funding design determines cost sharing • Conditional on job search or training • Falls back to benefit system when payment period expires 	<ul style="list-style-type: none"> • Welfare Expert Advisory Group proposals would create income adequacy for basic living standard • Otherwise most beneficiaries will remain in poverty • Even the advisory group's proposals leave many people unable to service commitments such as mortgages, rent • Necessary for broader social purposes

needing social assistance but all workers, because most workers experience major involuntary change in employment some time in their working lives, and that may happen more often. Programmes should help workers into good jobs that match their skills and experience rather than the present priority of getting them off benefits. That will require higher quality, more personalised career advice, assistance with job searching, relocation assistance and, perhaps most importantly, support for retraining if career change or updating of existing skills is required. There is an increasing need for education and training throughout people's working lives. Other countries, particularly in northern Europe, have well-developed active labour market policies we can learn from.

For workers to find a job that matches their skills and experience, they must have the time to consider options, search and retrain. Card, Kluge and Weber (2010, 2015) find that giving workers more time to do this can have better longer-term employment outcomes. Yet many cannot afford to spend the time needed. Effective income replacement is essential.

I suggest the criteria for the design of an income replacement scheme should include:

- *Availability to all workers.* For example, it must be useful and accessible for vulnerable and low-income workers, and to both income earners in a household. Universality overcomes problems such as discrimination on the basis of scheme membership, self-

selection by those most likely to need it, affordability, and insurers refusing to cover higher-risk workers.

- *Non-discriminatory.* It should not in practice disadvantage groups such as young people, Māori, Pasifika and women because of their income or work patterns.
- *Effectiveness.* It must be effective in maintaining the wellbeing of workers and their dependants, and enable reasonable time for job search and training. It should protect them from unfair costs of adverse events. Conditions should respect workers' dignity and needs, and society's expectations.

Three general types of scheme have been proposed. Table 1 summarises some features compared to the status quo.²

Personal provision would set up government-regulated accounts (or use KiwiSaver) for individuals to save or insure against redundancy. They could be state-subsidised or a contribution could be negotiated with an employer. Even if subsidised, personal provision puts the main burden of redundancy on the worker. Workers with low incomes have less discretionary income to save or pay insurance premiums. Insurers will charge higher premiums or refuse to cover workers in insecure employment, who may face recurring redundancies. There is little ability to share social costs and benefits more equitably. In most aspects, this is inferior to enhancing the status quo.

A **mandatory redundancy payment** scheme would mandate a tenure-based severance payment on a minimum formula (e.g. four weeks' pay for the first year plus two weeks for each additional year up to a limit). It would be funded by employers (as at present), a levy or government.

Advantages include simplicity and lack of means testing. However, payment size depends on tenure rather than need. In 2019 the median time in a job was under five years.³ Median payments are, therefore, likely to be under 10–12 weeks' pay (depending on the formula), inadequate when it is difficult to find a suitable job. Some would typically have even lower pay-outs: women's median tenure is less than men's, particularly in middle age; young people inescapably have short tenure.

Requiring employers to pay internalises some costs of their actions to the workers, their families, whānau and the state. However, employers may try to avoid the cost by hiring more temporary workers or using contractors. Payment may be problematic if the business has failed. Entitlements are not portable between employers. Availability therefore is problematic. Even if funded by levy or the government, other issues remain.

Whether mandated or not, workers and employers undoubtedly will still negotiate such arrangements.

Social insurance for unemployment is common in the non-Anglo OECD and conceptually similar to ACC's weekly

compensation payments in its levy- and government-funded system. Typically social insurance schemes pay a proportion of previous earnings (ACC pays 80%) to some maximum, but pay-outs are not directly related to levy contributions. A voluntary scheme risks cost escalation if joined mainly by those with a high risk of job loss. ACC has shown that a mandatory scheme can be cost-effective and world-leading (see PricewaterhouseCoopers, 2008), and politically sustainable despite frequent modifications (for international experience, see Boston, 2019, p.36ff).

be progressive. A state contribution would be appropriate for disadvantaged groups and during crises like the present.

Provisions for 'short-time work', becoming common in Europe, could maintain employer–employee connections. In periods when, for prescribed reasons, an employer is temporarily unable to maintain staff numbers, its employees would have their pay topped up to normal levels.

The problems of the status quo benefit system have already been described. The Welfare Expert Advisory Group's enhancements would raise benefits and

A well-designed social insurance scheme for unemployment, accompanied by sound active labour market policies, would be a major step towards a much more resilient society, equipped both for emergencies such as a pandemic and the small and large disruptions that will continue in the future of work.

Availability, non-discrimination and effectiveness depend on scheme design. An 80% rate (which is not out of line internationally) provides a reasonable assurance of maintenance of living standards and commitments such as mortgages and rent. Payments would be conditional on participation in job search, active labour market programmes or training, for a period, typically one–to–two years, after which social welfare benefits would apply. Capping payment rates and providing an adequate minimum improve equity in gender, income distribution and ethnicity terms (Leschke, 2007 provides a gender analysis) permanent, dependent. Other features should be designed with equity in mind. An employer levy would recognise that in general lay-offs are employer decisions and experience rating would incentivise use of more secure forms of employment. Any employee levy could

increase availability but still provide low replacement rates for many. For example, the net income after raised jobseeker benefits, tax credits and accommodation supplements would still provide only between 52% and 70% of net income for parents, both in paid work on the average and median wage, and between 52% and 57% for full-time single people.⁴ Many households on modest wages would still have difficulty servicing mortgages or rents. Nonetheless, the system remains important to underpin other income replacement and for broader social needs. Its reform is essential to eliminate poverty.

The options are not mutually exclusive: for example, a sound social welfare system underpins social insurance; redundancy pay will still be negotiated and co-exist with other options.

The advantages of social insurance are clear in this comparison, with the proviso

that sound design is critical. Like ACC and KiwiSaver, it would create another layer of social support, but one more connected to the social welfare system than ACC, and without KiwiSaver's dependence on personal provision. It may, of course, reopen debate about the use of social insurance in other areas of health and welfare.

The government has announced that work has started. A well-designed social insurance scheme for unemployment, accompanied by sound active labour market policies, would be a major step

towards a much more resilient society, equipped both for emergencies such as a pandemic and the small and large disruptions that will continue in the future of work.

- 1 In the UK a furlough scheme paid workers 80% of their wage up to £2,500 per month (approximately 2019 median full-time employee earnings: Office for National Statistics, Employee earnings in the UK, 2019). Australia's 'JobKeeper' wage subsidy was A\$1,500 per fortnight per employee (58% of a 40-hour week on the August 2019 median hourly wage for employees: Australian Bureau of Statistics, Characteristics of Employment, Series 6333.0, 9 December 2019). New Zealand wages are from the June 2019 income survey collected with Statistics New Zealand's Household Labour Force Survey.
- 2 A universal basic income is not included because to be affordable it would be too low to maintain living standards

on its own.

- 3 Statistics New Zealand's Household Labour Force Survey: Infoshare series HLF265AA.
- 4 Cases are those used in the Welfare Expert Advisory Group report (2019, p.96). Wages from the June 2019 income survey of Statistics New Zealand's Household Labour Force Survey. The higher replacement rate for parents is when one works half time.

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Public issues, Party solutions in 2020: Economic issues

With the 2020 general election almost upon us, Covid-19 infections reaching record highs across the globe, and the world economy nose-diving towards once-in-a-century lows, we invite spokespeople from parties in the current parliament to put forward their economic plans for the future.

Speakers:

Paul Goldsmith, National;
Fletcher Tabuteau,
New Zealand First;
Julie Anne Genter, Greens;
Deborah Russell, Labour.

MC: Susie Ferguson

Date: Monday 24 August

Time: 12.30 pm - 1.30 pm

Venue: Old Government Building
lecture theatre 2



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