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# Government's Income Support Responses to the Covid-19 Pandemic

**Abstract**

Income support policy was already a contentious issue before the arrival of Covid-19, but it has assumed increased significance as a result of the job losses and disruption to people's earnings following the border closures, trade disruption and the period of nationwide lockdown. This article documents the government's income support and social welfare responses to the pandemic and places them in the context of the pre-existing debates around welfare policy. The article finishes with a brief discussion of possible future directions for the welfare state.

Keywords: Covid-19, income support, welfare, unemployment, social insurance, social assistance, New Zealand

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The New Zealand government's labour market and income support response to the Covid-19 pandemic was focused principally on maintaining workers' attachment to their employment, using a wage subsidy scheme and other support for businesses (see Rosenberg, 2020 in this issue). Additional income support for the unemployed and other beneficiaries was also provided, but was considerably less generous. With one exception, all the policies put in place have been time limited. A strong case can be made that welfare policy should not be designed in times of crisis. However, the response to the pandemic has left the government open to criticism as to why its temporary assistance measures were not more even-handed in respect of pre-existing beneficiaries, especially given their prospects of finding work have also been damaged by the pandemic's effects. As we emerge from the immediate health crisis, it also raises the question of where to from here for welfare. It would be unfortunate if any bigger, 'transformational' welfare policy changes focused on responding to issues highlighted by the pandemic's impacts without first dealing with the well-known pre-existing problems. This article summarises and assesses the government's income support responses to the Covid-19 disruption and then briefly comments on possible implications for the future. It covers the period up to 30 May 2020.

#### The pre-Covid welfare context

Welfare policy was already contentious before Covid-19. Following its election in 2017, the Labour-led government more or less completely ended the previous, National government's 'social investment approach', which had emphasised conditionality and strict administrative measures to reduce welfare rolls and costs.[1] It also replaced National's pre-election tax package with its own Families Package, which provided substantial additional support to families with children, including beneficiary families. The new government also passed the Child Poverty Reduction Act 2018 and set three- and ten-year targets for reducing child poverty rates.

As part of the confidence and supply agreement with the Green Party to 'overhaul the welfare system', the government also established the Welfare Expert Advisory Group. The group had a wide mandate to provide advice by February 2019 on how to achieve the government's vision of 'a welfare system that ensures people have an adequate income and standard of living, are treated with respect and can live in dignity and are able to participate meaningfully in their communities' (Welfare Expert Advisory Group, 2019, p.184).

The group's report, *Whakamana Tāngata*, was thorough in its analysis, and damning in its findings. Among other things, it emphasised the serious inadequacy of income support levels, the demeaning treatment benefit applicants and recipients often faced, the decay in active labour market programme provision and the inappropriateness of relationship status rules to 21st-century home and work lives. Its recommendations were designed, in the words of the chair, Professor Cindy Kiro, to produce a welfare system that would 'move beyond being a "safety net" to enable "whakamana tāngata" – restoring

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dignity to people so they can participate meaningfully with their families and communities' (ibid., p.2). It is important to note, though, that the group's package of recommendations are not necessarily the only way of meeting their goal.

When the government released the Welfare Expert Advisory Group's report in May 2019 it immediately put almost all its recommendations on a '3 to 5 year work programme' back burner (Office of the Minister for Social Development, 2019, p.2), acting only on a couple of recommendations that were already Labour policy. The May 2019 Wellbeing Budget also contained little by way of welfare reform or additional assistance. The amount of allowable earnings before benefits begin to abate was increased by $10 to $15 per week. Future annual benefit adjustments were linked to growth in average weekly earnings rather than to consumer prices, a change that will be significant long-term, but equated to only about $3 per week extra from 1 April 2020. Ministers continued to signal that further progress on income adequacy could be expected in 2020 (RNZ, 2019). One, perhaps surprising, consequence of the decision not to do more in the 2019 Budget was that the government would almost certainly be too late to achieve its own 2020/21 child poverty reduction targets (Fletcher, 2019).[2] Certainly, none of the publicly available information suggests Labour would have preferred to act more quickly but was held back by its coalition partner, New Zealand First. Whatever the behind-the-scenes thinking, long before Covid-19 struck it was already clear that in welfare policy the government's first term was not going to be 'transformational' and that the welfare overhaul promise was, at best, a second-term objective.

#### Responses to the pandemic

On 17 March 2020, the day after border closures were announced[3] and before the 'level 4' lockdown began on 26 March, the finance minister, Grant Robertson, presented the government's first Covid-19 economic support package. As well as additional health spending, business cashflow assistance and support for the aviation industry, the main focus of the package was a wage subsidy programme designed to keep people attached to the labour market and an income support package for beneficiaries, superannuitants and some low-income earners. The total cost of the package was estimated at $12.1 billion over four years, of which the wage subsidy was estimated to cost $5.1 billion over six months and the income support measures $2.8 billion over the longer four-year time horizon.

##### *The wage subsidy scheme*

The wage subsidy scheme, available to all employers and the self-employed who suffered, or expected to suffer, a 30% or greater fall in revenue due to Covid effects, paid the employer an up-front lump sum amount equal to 12 weeks' subsidy at $585.80 per week for a full-time worker (20 hours or more) and $350 per week for a part-time work worker.[4]

The initial version of the scheme limited the maximum any employer could receive to $150,000, but the rules were soon amended to remove the cap. An understandable desire to 'get money out the door' quickly (Robertson, 2020a) meant that employers were only required to declare that 'on their best endeavours' they would continue to employ the affected staff and to pay them at least 80% of usual earnings. Following suggestions of misuse, this requirement was tightened so that employers were required to retain their employees, to use their best endeavours to pay at least 80% of their usual wage and, if that was not possible, to pay at least the full value of the subsidy. By the end of May 2020, $11 billion had been paid out in wage subsidies in respect of 1.66 million jobs. (Approximately 2.66 million people were employed in March 2020.) A more targeted extension to the scheme was announced in mid-May allowing an extra eight weeks' subsidy for firms with revenue losses of at least 40% and new and high-growth firms. The extension was open until 19 August.

The New Zealand scheme was similar to the jobkeeper subsidy introduced slightly later in Australia. The main differences were that, in Australia, the subsidy was for six months from 30 March,[5] is payable monthly in arrears rather than as a lump sum, and has a higher threshold for very large firms (a 50% decline in revenue for firms with an annual turnover in excess of $1 billion (Morrison, 2020). Both schemes paid about 58% of earnings for someone working a 40-hour week at the median hourly wage.[6]

*Assistance to beneficiaries*

The economic support package on 26 March included two main changes for beneficiaries. From 1 April 2020, all core benefit rates were increased by $25 per week net per household. This is a permanent increase. It represents an 11.4% increase in the single adult jobseeker support rate, 7.4% for the sole parent rate, 6.8% for couples and 6.4% for couples with children. From the same date the annual adjustment took effect, adding an additional 3.1% to all main benefit rates.

The second initiative was a one-off doubling of the cash winter energy payment, payable for 22 weeks from 1 May to 1 October. This amounts to an additional $450 for single people without children

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and $700 for couples and singles with children. It applies to all beneficiaries and recipients of New Zealand Superannuation. Interestingly, the minister of finance's paper to Cabinet recommended a $1,500 increase to all winter energy payment recipients (Office of the Minister of Finance, 2020) at a cost of $1.301 billion, but Cabinet decided to cut this to the smaller amount and lower cost of $0.479 billion. The $1,500 would have aligned much more closely to the Australian government's two $750 payments to beneficiaries, superannuitants and concession card holders[7] (Department of Social Services, n.d.). It is not clear why Cabinet decided against the more substantial targeted fiscal stimulus package, opting instead for what looks more like a household financial assistance measure (albeit one that is also paid to the minority of New Zealand Superannuation recipients who have high incomes).[8]

*Working for Families tax credits*

Criteria for entitlement to the in-work tax credit were changed in response to Covid-19 to remove the hours test. The in-work tax credit pays up to $72.50 per week (more for families with more than three children), in addition to the family tax credit, to families who are not in receipt of a welfare benefit and who meet the minimum work-hours requirement of 20 hours per week for a sole parent and 30 hours combined for a couple. From 17 March existing recipients could continue to receive the credit even if they were unable to work due to the impacts of Covid-19. From 1 July the in-work tax credit is available to families not on a benefit or student allowance as long as they have 'some income from work each week' (Inland Revenue, n.d.).

*Hardship assistance and support for food banks*

As well as the pre-existing Work and Income hardship and special needs grants, the government provided funding through the National Emergency Management Agency for local authorities, NGOs and regional Civil Defence Emergency Management groups for the delivery of food and other essentials to households in need. The funding came in two lots totalling $57 million through Vote: Civil Defence. A further $37 million was allocated in Budget 2020 for the Ministry of Social Development to provide funding for foodbanks through to the end of the 2021/22 financial year. The funding allocation was based on 'an estimated additional 500,000 individuals and families impacted by Covid-19 who are struggling to afford food' (Robertson, 2020b, p.26).

*The Covid-19 income relief payment*

As of early July 2020, the most recent income support initiative was the introduction of the Covid-19 income relief payment. This provides up to eight weeks' payment to people who lose their jobs or self-employment between 1 March and 30 October due to the impacts of Covid-19. Recipients must have usually worked 15 or more hours per week for at least 12 weeks prior to being laid off. Those with private income insurance or a redundancy pay-out of $30,000 or more are not eligible. The Covid-19 income relief payment pays $490 per week for people who had been working 30 or more hours per week and $250 per week if previously working 15–29 hours. The $490 figure is approximately equal to the wage subsidy after the deduction of income tax. The payment is near-individualised: that is, both partners in a couple can receive it (if both lose their jobs) and a person with a working partner qualifies for the full payment unless their partner earns in excess of $2,000 per week before tax. (Above this figure, they are entitled to nil.)

The Covid-19 income relief payment is therefore similar in form to a short-term social insurance payment for job loss. Like many European social insurance schemes, it has a prior-employment eligibility requirement; entitlement is based (mostly) on individual, not household, circumstances; and, although not linked to percentage of prior earnings, the rate of payment is considerably higher than the social assistance benefit floor – $490 net per week compared to $251 net per week for a single adult on a benefit.

### Discussion: looking to the future

Except for the $25 increase in benefit rates, the social policy changes in response to Covid-19 have all been set up as temporary measures. The government appears to have deliberately avoided bedding in either permanent changes or changes that would be politically hard to unwind.[9] This is a sensible approach. The 'never waste a good crisis' school of thought notwithstanding, welfare reform should not be structured around times of crisis. Rather, while it needs to be able to respond to emergencies and large, economy-wide shocks, it must first and foremost be designed to protect people against the myriad individual-level shocks and misfortunes that happen in ordinary economic times. Allowing for some hasty and rather makeshift modifications, most of the income and job support tools necessary to respond to the crisis were either already available or were able to be brought back into service. For example, the wage subsidy was modelled on a similar programme used following the Canterbury earthquakes in 2011. That said, the crisis did highlight some pre-existing problems. Two in particular are relevant for considering future directions.

The first is the inadequacy of the minimum safety net. The core benefit increase and the one-off doubling of the winter energy payment, even if it was made permanent, have not resolved this problem. Analysis commissioned by the Child Poverty Action Group concluded that after-housing costs incomes for ten working-age beneficiary household types were all below the 50% of the after-housing costs equivalised median-income poverty line, even after including the government's Covid-19 assistance measures, with estimates ranging from 29% to 46% of the equivalised median depending on household composition, location and benefit type (McAllister, 2020).[10] Significantly, it is single people without children receiving either jobseeker support or the supported living payment[11] whose equivalised incomes are lowest relative to the median.

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The second problem is the failure of the existing welfare system to provide income support to most non-employed people who have an employed partner. This problem comes about primarily because eligibility for welfare is based on joint couple income, but is exacerbated by the low level of the minimum safety net and its tight targeting. A person's entitlement to jobseeker support begins to reduce once their partner's income is $115 per week and is fully extinguished when it reaches $664 per week gross ($34,500 pa).[12] This issue pre-dates Covid-19 and has resulted in very few couples being entitled to any welfare benefit: in 2018 only 7% of all benefits were paid to partnered people (Welfare Expert Advisory Group, 2019, p.44). It is a significant contributor to child poverty among working families, which is low among two-earner families with children (5% in 2017/18), but high among couple families with only one earner (17%) (Fletcher, 2018).

The Covid-related sharp and large increases in unemployment and in the numbers on benefits have emphasised the significance of both of these issues. By late June 2020, total beneficiary numbers had risen to 364,000, an increase since February 2020 of 58,900 or 19.3%. (This includes 10,500 people receiving the Covid-19 income relief payment). The number of people unemployed but not entitled to a benefit is unknown.[13] It is clear, however, that unemployment – or the fear of impending unemployment – is affecting a large group of people who previously thought themselves to be at low risk. Among these are likely to be a significant number with medium-to-high incomes who will experience relatively larger falls in income when they lose employment.

This latter point is one factor that has led to suggestions, including from the minister of finance, that New Zealand should consider some form of social insurance for unemployment in addition to the existing social assistance welfare system (and as well as the social insurance-based ACC scheme). The issues, and benefits, of doing so are canvassed in Bill Rosenberg's article here (Rosenberg, 2020).

Two-tier social insurance/social assistance systems exist in most OECD countries. Because of the insurance focus on compensation for loss, rather than alleviating need, they have the advantage of protecting even those with moderately high prior earnings from a sudden sharp reduction in income. At periods during the life cycle when outgoings are high (and savings low) this can be crucial in cushioning the impact. The flipside is that the distributional impact of social insurance schemes tends to favour the better off, relative to New Zealand's flat-rate social assistance welfare. While the maximum cap and the pay percentage can be set so as to limit high pay-outs, both need to be reasonably high or the scheme fails to meet its income-smoothing goal for many people.

Moreover, social insurance only covers those who meet the eligibility criteria. Even if the scheme is as comprehensive as possible, there will be significant groups not covered, and who will be reliant on the welfare minimum income protection floor. In the present New Zealand context this is likely to include many sole parents, young people, people with disabilities or severe health conditions, and marginal workers and long-term unemployed where these people do not have the required work history or their entitlement period has been exhausted.

An alternative way forward is to focus on the pre-existing problems with the current welfare system noted above. Raising core benefit rates and allowing at least some level of individualisation (such as disregarding partner income below, say, the average wage, for the purpose of benefit abatement calculations) would substantially alleviate the long-standing income inadequacy problem identified by the Welfare Expert Advisory Group and others. It would also go some way towards cushioning the impact of job loss for middle-income families, including in times of economy-wide disruption. It also has the advantage that the changes could be introduced far more easily and quickly than an unemployment insurance scheme.

Responding to the problems highlighted by the pandemic by introducing unemployment insurance also risks making the system more socially divisive, rather than more socially unifying. Those covered by unemployment insurance may see themselves as having less reason to support adequate welfare, even in times of crisis. It is sometimes argued (e.g. Boston, 2019) that evidence from other OECD countries shows that generous social insurance schemes tend to be associated with support for (and the reality of) generous minimum safety net provisions. There is some support for this across countries (but less so across time within a country) (Noël, 2019), but it is far from clear that, in the current New Zealand context, the introduction of unemployment insurance would be associated with an increase in the social assistance welfare floor. In the short term at least, the political and financial realities are that expenditure on one (whether via taxation or payroll levies) is likely to be at the expense of the other. As a society we may want to move towards introducing an unemployment insurance scheme at some point in the future, but there is a strong case for improving our base welfare system first so that it provides adequate minimum income protection and minimises poverty.

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1 Non-New Zealand readers should note that the National government's use of the term 'social investment' bore little resemblance to its use elsewhere. For example, the European Union defines social investment as being 'about investing in people. It means policies designed to strengthen people's skills and capacities and support them to participate fully in employment and social life. Key policy areas include education, quality childcare, healthcare, training, job-search assistance and rehabilitation' (European Union, n.d.).

2 This is because the survey from which the relevant child poverty measurements will be taken is spread over the period July 2019 to June 2021.

3 At this stage the restrictions required all people arriving at the border, other than from the Pacific Islands, to self-isolate for 14 days. Complete travel bans had already been placed on inward movements from China and Iran.

4 The $585.80 per week figure comes from the maximum rate of paid parental leave.

5 Although the first payment was not made until the first week of May.

6 All employees, New Zealand, July 2019, https://www.stats.govt.nz/information-releases/labour-market-statistics-income-june-2019-quarter#:~:text=Hourly%20wage%20and%20salary%20earnings,last%20year%20(2.0%20percent); Australia, August 2019, https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6333.0Main+Features1August%202019?OpenDocument.

7 The second of these payments excluded those already receiving the coronavirus supplement.

8 The papers released by the government on 8 May include an 'Annex' provided by Treasury to the minister of finance on the day of the Cabinet meeting which includes two lower-cost alternative increases in the winter energy payment. Neither of these, however, is the option agreed to by Cabinet (Treasury, 2020).

9 There are other areas, outside the scope of this article, where this is not the case, for example in new spending on trades training.

10 This analysis is based on the 'fixed-line', or constant-value, equivalised median, adjusted for consumer price inflation to obtain a 2019/20 estimate.

11 The supported living payment replaced the invalid's benefit in 2015 and recipients either have a permanent or long-term illness or disability preventing them from working more than 15 hours per week, or are unable to work because they are caring full-time for someone with a long-term or permanent illness or disability.

12 The figure is $702 per week if the couple has children.

13 It will be some months before robust estimates based on Statistics New Zealand's Household Labour Force Survey become available. A small survey conducted by the Institute for Governance and Policy Studies and the Roy McKenzie Centre for the Study of Families and Children suggested unemployment may have reached close to 10% by the third week of the lockdown period (9–15 April) (Prickett et al., 2020).


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