



**MINISTRY OF SOCIAL
DEVELOPMENT**

TE MANATŪ WHAKAHIATO ORA

Evidence Brief

**The impact of COVID-19 on benefit
receipt rates in historic perspective**

August 2020

Disclaimer

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Purpose of this paper

This paper compares rates of benefit receipt in New Zealand following COVID-19 with rates observed during significant economic downturns since the Depression.

Comparing New Zealand's current and historic benefit numbers helps contextualise the relative scale and pace of the social and economic impacts of COVID-19.

But drawing such historic comparisons is not an exact science. Changes in the benefit system and policy settings, as well as the wider social context, can affect the comparability of these numbers over time and this needs to be kept in mind, especially for rates observed prior to 1990. Although the forecasts included in this paper are a best estimate, they are subject to significant uncertainty.

Key Findings

- The proportion of the working age population aged 18-64 years receiving a main benefit in June 2020 was 11.8%¹, and is forecast to peak at about 16.2% in January 2021^{2,3}. This compares with peak annualised rates observed in earlier shocks, including the Global Financial Crisis (12.4%), the Asian Crisis (15.8%), and the early 1990's downturn (16.1%).
- The proportion of the working age population aged 18-64 years receiving an unemployment-related benefit in June 2020 was 4.1% and is expected to peak at about 8.1%². This compares with peak annualised rates of unemployment-related benefits observed in earlier shocks, such as the Global Financial Crisis (2.6%), the Asian crises (6.6%), and the early 90s downturn (7.9%).
- The peak of the Depression, in the early 1930s, occurred prior to the introduction of the Unemployment Benefit in 1938. However, around 6.6% of the working age population were unemployed but recruited into government subsidised work programmes or received a government allowance without participating in these programmes (mostly because sufficient schemes could not be implemented, due to cost). It is important to note that women were not included in these figures

¹ To facilitate comparisons over time the "percent of the estimated working age population" is expressed as a percentage of the working age population aged 18-64 years from 1990 to the present. Prior to this, 15 year olds were eligible for some main benefits and so a working age population of 15-64 is used.

² These provisional forecasts are based on early Treasury modelling and are subject to significant uncertainty. They are likely over-estimates as they do not account for the impacts of the wage subsidy and COVID-19 Income Relief Payment. See <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/forecasts-and-scenarios.html>

³ This does not include the Wage Subsidy protecting existing jobs. The COVID-19 Income Relief Payment (CIRP) was introduced in June 2020 and will run until 13 November 2020. It is not included as a form of benefit receipt here.

and this figure does not take account of the high rates of *underemployment* (estimated to be about 20.7% of the working age population in 1933⁴).

- It is too soon to say with any certainty what the peak rate of main benefit receipt will be post-COVID-19, but the *rate of change* in benefit numbers observed in April 2020 (11.7% increase) is unprecedented in modern history. This increase corresponded with the strict Alert Level 4 restrictions and significant reductions in global demand. During this period there was the highest percentage change in main benefit numbers, month-on-month, in the twenty-four years for which monthly benefit data is available, noting that this period includes the GFC and the Asian crisis. This rate slowed significantly in May (1.7% increase) and June (0.4% increase) 2020.
- Changes in benefit receipt rates vary significantly by demographic characteristics, including ethnicity and age⁵. In the current downturn, the percentage increase in unemployment-related benefit receipt was higher for New Zealand Europeans than Māori or Pacific people - likely reflecting how Māori and Pacific people are over-represented in benefit numbers to begin with.

Scope

Major events have long impacted both benefit numbers and benefit system settings. In 1918, for example, New Zealand introduced an Epidemic Pension to relieve distress arising out of the Spanish influenza pandemic⁶.

The present review focuses on the following major economic downturns in New Zealand's history:

1. The Depression (**D**)– 1930s
2. The Wool Bust – (**WB**) mid-1960s
3. The First Oil Shock – (**FOS**) mid 1970s
4. The Second Oil Shock – (**SOS**) 1979 to early-1980s
5. Black Monday and the restructuring events of the 1980s and early 1990s – (**BMER**) 1987-1992
6. The Asian Crises – (**AC**) late 1990s/early 2000s
7. The Global Financial Crises – (**GFC**) 2008 and arguably ongoing⁷
8. COVID-19 – (**C19**)

⁴ Rankin, K. (1994), "Unemployment in New Zealand at the peak of the Great Depression" Paper first prepared for the 1994 Conference of the Economic History Association of Australia and New Zealand, at the University of New England, Armidale, NSW, Australia; July 6-10, 1994. <http://keithrankin.co.nz/NZunem1933/>

⁵ See the MSD evidence brief "[Jobseeker Support Work-Ready grants to end of April 2020](#)"

⁶ The New Zealand Official Year-Book, 1921-22, https://www3.stats.govt.nz/New_Zealand_Official_Yearbooks/1921-22/NZOYB_1921-22.html?_ga=2.109083653.1239150673.1593372687-1390559115.1561513247#idsect1_1_202446

⁷ More information on events preceding the Global Financial Crises can be found in the report: Michael Reddell and Cath Sleeman, 'Some perspectives on past recessions' Reserve Bank of New Zealand, Vol 71, No. 2, June 2008. <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Bulletins/2008/2008jun71-2reddellsleeman.pdf?revision=0fad4ce4-9f25-49be-8522-f216d2aae829>

Throughout these events (with the exception of the Depression) the Social Security Act (1938) provided the foundation for the basic working age benefit structure and benefits system we see today. There have been multiple occasions when specific benefits have been adjusted and renamed, but many of the fundamentals there at the beginning remain⁸.

To facilitate historic comparisons, this paper adopts the following benefit categories⁹ - equating broadly similar benefits over time:

Benefit category used in this paper	Current and past benefits these categories relate to:
Unemployment-related Benefit	<ul style="list-style-type: none"> • The Unemployment Benefit, now called Jobseeker Support - Work Ready. <p><i>Out of scope:</i></p> <ul style="list-style-type: none"> • The Wage Subsidy and Wage Subsidy Extension introduced post-COVID-19 are without historical precedent. As these subsidies relate to protecting existing jobs, they are not considered unemployment-related benefits and are not included here. • The COVID-19 Income Relief Payment (CIRP) can arguably be understood as a type of unemployment-related benefit, however, it has not been included in this report because CIRP is not considered a main benefit, but a payment aimed to provide financial support to those eligible, aged 16 years and older, during a specific timeframe only. As at the end of June 2020, 10,579 people were receiving CIRP.
Temporary Incapacity Benefit	<ul style="list-style-type: none"> • The Sickness Benefit – now called Jobseeker Support – Health Condition and Disability.
Permanent Incapacity Benefit	<ul style="list-style-type: none"> • Invalids Benefit – now called the Supported Living Payment.
Sole Parent Benefit	<ul style="list-style-type: none"> • Domestic Purposes Benefit – now called Sole Parent Support.
Widows Benefit	<ul style="list-style-type: none"> • Widows Benefit – no equivalent today although some aspects are captured by sole parent benefits.

⁸ See <https://www.msd.govt.nz/about-msd-and-our-work/about-msd/history/social-assistance-chronology-programme-history.html>.

⁹ A good source of information on historic benefit activity can be found at <https://www.msd.govt.nz/about-msd-and-our-work/about-msd/history/social-assistance-chronology-programme-history.html> and <https://www.msd.govt.nz/about-msd-and-our-work/about-msd/history/social-developments-organisational-history.html>

Benefit rates are broadly comparable over time, subject to a number of important caveats

While there are similarities in the types of benefits that have existed over time, it's important to emphasise that benefit numbers can be influenced by a range of factors in addition to the economic context, including:

- **Changes to benefit system settings.** The structure, scope, and eligibility of benefit types have changed in various ways over the past century. Importantly, economic shocks can increase the number of main beneficiaries but also influence policy makers to change benefit system settings (e.g. to provide additional support to some groups) in ways that influence benefit numbers for better or worse. These effects can be difficult to disentangle.
- **Policy interventions, including subsidised employment and training programmes.** Since the Depression, various employment subsidies, and subsidised training and employment programmes, have been offered to people who might otherwise apply for benefit. These policy interventions can have a significant impact on benefit numbers and in some cases are best considered as a form of benefit payment.
- **Societal changes.** For example, people increasingly live longer, work until later in life and the demographic composition of the population has changed considerably. Societal attitudes towards the provision of welfare have also changed and welfare receipt has been stigmatised to varying degrees at different times. It's also important to note that in earlier periods the husband's wage was generally the household wage. By contrast, increases in women's workplace participation over the past forty years mean that two incomes have become the norm and partner income is taken into account when assessing an individual's eligibility for benefit. It should also be noted that women and Māori¹⁰ are poorly represented in early statistical records.

It is not feasible to statistically adjust benefit numbers to fully account for these historical changes. The following points should be kept in mind when drawing comparisons over time:

- The time series presented here is adequate to reflect high level trends and draw broad comparisons, subject to the assumptions and notes set out in Appendix One.
- Benefit numbers since 1990 are more comparable than numbers from earlier time periods, noting in particular the younger age of eligibility for main benefits prior to 1990. For this reason, benefits are reported as a percentage of the working age population 18-64 years from 1990 and 15-64 years before this.

¹⁰ The introduction of the Māori Social and Economic Advancement Act (1945) aimed to remove discrimination against Maori from social security provisions. Prior to this Māori were routinely under-represented in the welfare system.

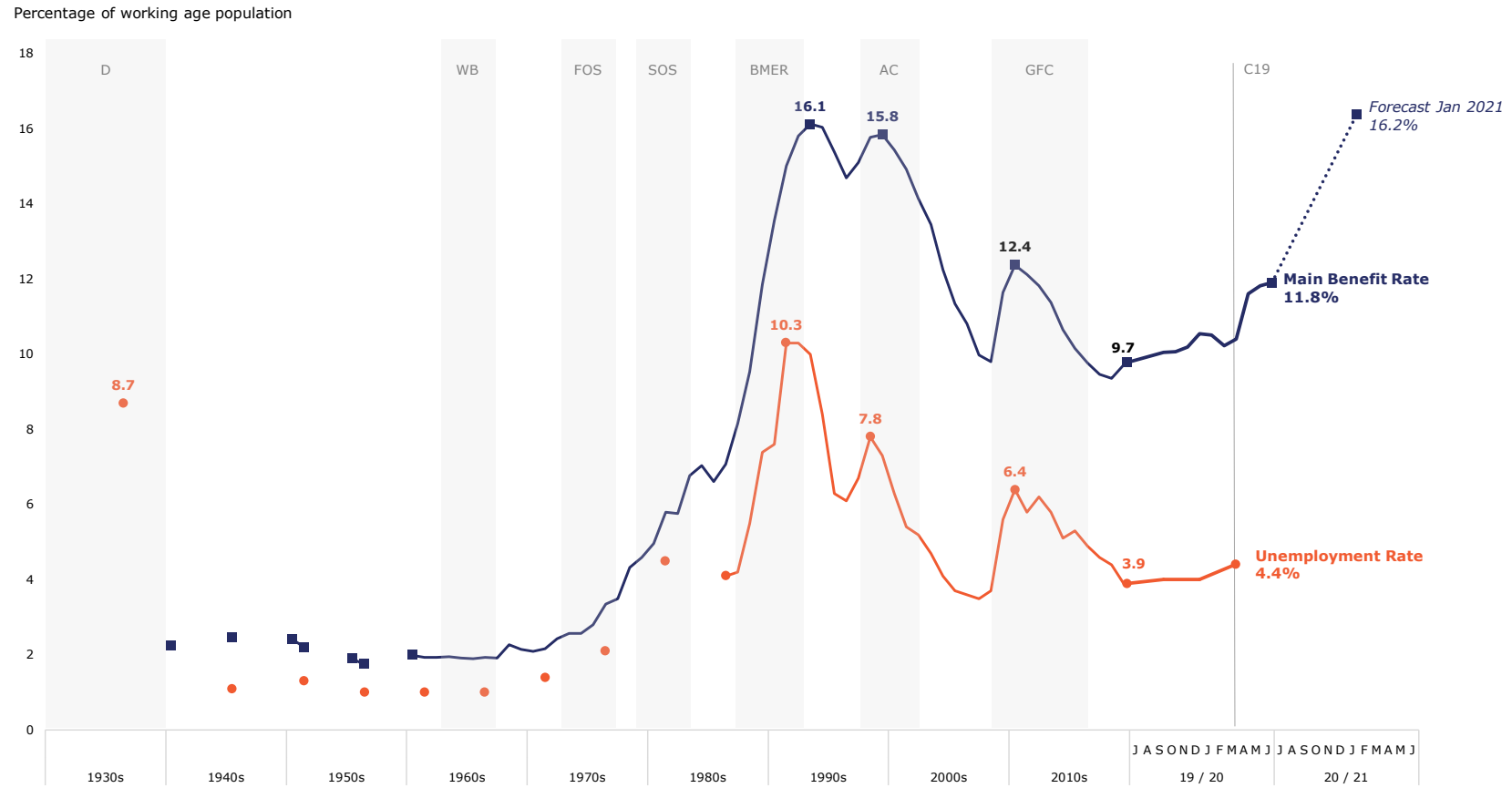
- A brief narrative discussion of key social and policy changes, and how they have impacted benefit rates over time, is provided to further contextualise any comparisons.

It's too soon to say how high main benefit receipt rates will go, but they have been much higher in the past.

Figure 1 shows the periods when major economic downturns occurred alongside the trends in total working age main benefit receipt rates and the official unemployment rate. The main points to note are that:

- Total working age main benefit receipt rates (11.8%) for the month of June 2020 are (as yet) lower than the peak annualised rates observed in recent downturns including the GFC (12.4%), Asian Crisis (15.8%), and early 1990s recession (16.1%).
- Because of the more limited scope and range of benefit payments in existence prior to the 1938 Social Security Act, it is not meaningful to compare current working age main benefit receipt rates with the corresponding rates during the Depression.
- Although total working age main benefit receipt rates have been forecast to peak at around 16.2 percent in January 2021, these forecasts (formulated in early April 2020) are subject to considerable uncertainty. For example, they do not take into account the impacts of the introduction of the wage subsidy, the wage subsidy extension, or the CIRP.
- Trends in total working age benefit receipt rates correlate closely with the official unemployment rate. As discussed later, this is largely driven by changes in the rates of unemployment-related benefit receipt.

Figure 1: Trends in main benefit receipt are associated with the official unemployment rate



During lockdown there was an unprecedented *rate of change* in working age benefit numbers

Although peak rates of working age main benefit receipt have been higher in the past, what is striking is the *rate of change* in working age main benefits during April 2020 – during the month when the most stringent, “Alert Level 4” public health measures were introduced, prompting significant job losses in exposed sectors such as hospitality, tourism and much of the retail sector. As well as the direct impacts of New Zealand’s public health measures, this period was characterised by significant global uncertainty, increased border restrictions globally, and reduced international economic demand.

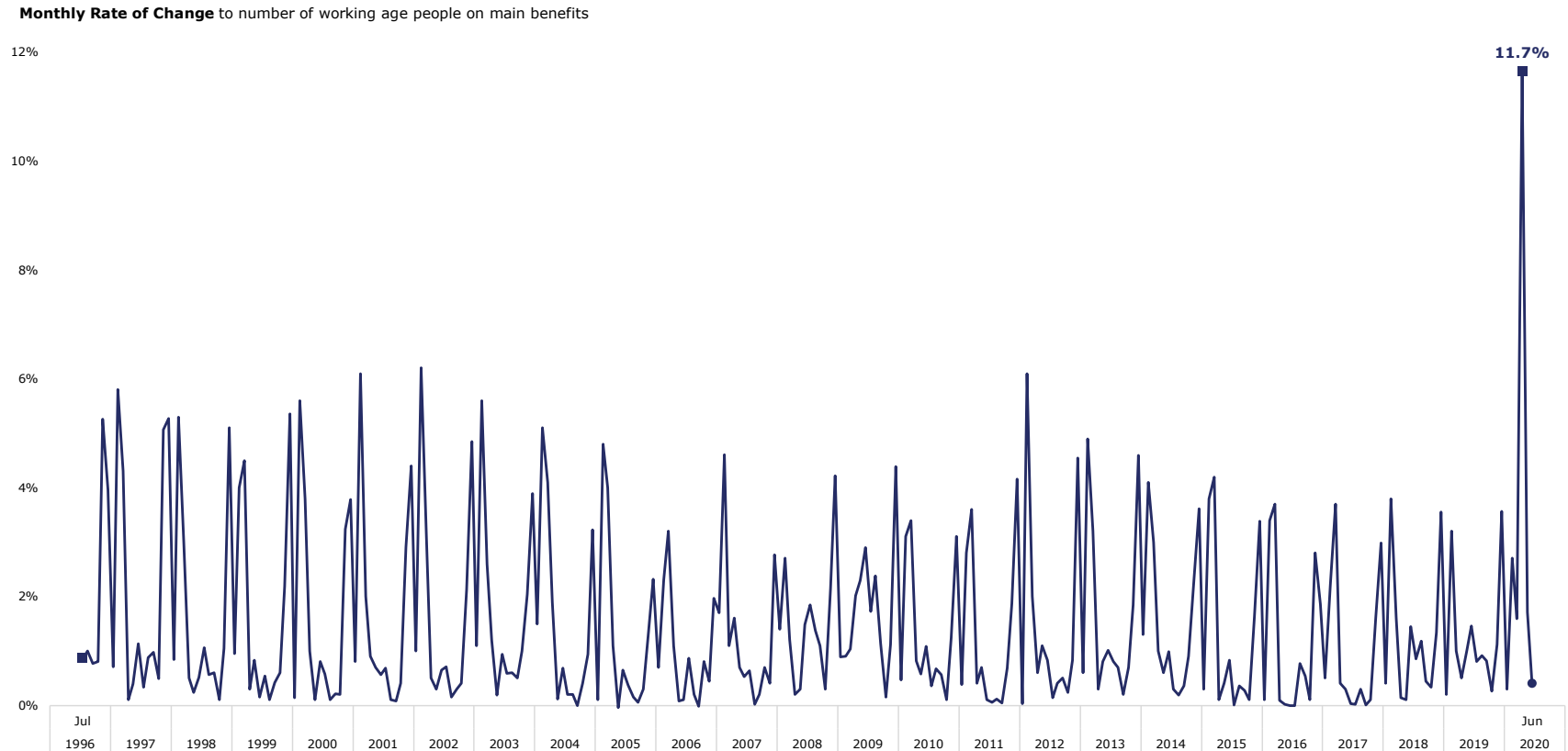
To illustrate the scale of the increase, Figure 2 shows the rate of change (either positive or negative) in the number of working age people on main benefits, month on month (in percent), since 1996. Monthly data is not available prior to this.

The increase to working age main beneficiaries from March to April 2020 represents an 11.7% rate of change in one month, almost twice the 6.2% peak change experienced over the whole 24 years prior. Although there were significant crises in the 24 years leading up to March 2020, the rate of change to working age main benefit numbers that we have seen over those periods has been far more gradual.

Despite the very sharp increase in working age benefit rates observed in April, it is notable that the rate of increase slowed considerably in May (1.7% growth) and June (0.4%) – corresponding with the lifting of Alert Level 4 restrictions and the gradual opening up of the New Zealand economy.

There is also significant variation in the change in benefit receipt by demographics, including age and ethnicity. Younger people and New Zealand Europeans (compared to Māori and Pacific) experienced the largest percentage increases in unemployment-related benefit receipt during the Covid-19 downturn. This likely reflects the fact that Māori and Pacific are over-represented in the benefit system to begin with.

Figure 2: Monthly rate of change (positive or negative) in main benefit numbers – showing a sharp increase in April 2020 associated with “Alert Level 4” public health measures and decreased global demand



Trends by benefit category

Unemployment-related benefit receipt is associated with the official unemployment rate

Unemployment-related benefit numbers are the most volatile of the benefit categories and, as shown in Figure 3, the trends broadly track the official unemployment rate, with the following two exceptions:

- Periods when significant subsidised job creation schemes were in place (i.e. the early 1980s and during the 1930s – as discussed in more detail below). In these situations, the unemployment rate is more closely related to the combined total of unemployment-related benefits and subsidised employment schemes.
- The period from 2004 to the present. Between 2003 and 2004 there was a strong improvement in employment rates and benefits declined dramatically. However, the subsequent divergence between unemployment-related benefit and the unemployment rate is hard to fully explain through benefit policy changes or employment patterns and clearly needs more explanation given the impact remains apparent up to March 2020.

The rate of unemployment-related benefit receipt is likely to increase but is currently lower than in recent shocks

The proportion of the working age population receiving an unemployment-related benefit in June 2020 was 4.1% and is expected to peak at around 8.1% by January 2021. Again, given the uncertainties around these forecasts, it is too soon to say how high unemployment-related benefit rates may go as a result of COVID-19. At this early stage, rates of unemployment-related benefit receipt observed in May are higher than the peak annualised rates observed during the Global Financial Crisis (2.6%) but lower than during the Asian crisis (6.6%), and the early 90s downturn (7.9%).

Job creation schemes and societal changes explain the relatively low peak rates of unemployment-related benefit receipt during the second oil shock and the Depression

Following the second oil shock, programmes such as the Project Employment Programme¹¹ (PEP), created large numbers of jobs for the unemployed. The combined total receiving an unemployment-related benefit or participating in job creation programmes (4.9% - indicated by the triangle in Figure 3) therefore provides a better estimate for comparing the scale of the impact on unemployment-related benefit numbers.

¹¹ The Project Employment Programme (PEP) provided temporary work in order to assist job seekers to maintain their work habits, motivation and skills. See MSD's social assistance chronology for more details: <https://www.msd.govt.nz/about-msd-and-our-work/about-msd/history/social-assistance-chronology-programme-history.html>

Similarly, during the 1930s there were some men receiving income support and not working - but the majority were registered as unemployed and recruited into large-scale subsidised employment or public work schemes. For example, in 1933 there were approximately 1,000 men unemployed and receiving income support but a further 69,000 registered as unemployed and in subsidised work. Again, triangles in Figure 3 show the combined total receiving an unemployment-related benefit or participating in job creation schemes in 1933 and 1936 (the two years for which data is available).

A further point to note is that female workforce participation was much lower during this time and data relating to women was not well recorded during the 1930s, even if they were in the workforce. To put this in context the number of women registered as unemployed in 1933 was only 975¹².

Secondly, during the 1930s, there was severe and widespread material hardship among those counted as employed. In particular there were high levels of *underemployment* (estimated to be about 20.7% of the working age population in 1933). In addition to this, there were also an estimated 240,000 with wages well below what was then considered a living wage¹³.

Sole parent benefits are also associated with the unemployment rate

Changes in sole parent benefit rates are driven by a combination of labour market, social, and policy factors. Because sole parent benefits incorporate some work obligations, trends in this payment type are associated with unemployment and so rates are sensitive to economic downturns.

The longer-term trend increase in the take-up of sole parent benefits since the 1970s was largely related to the growth in the number of sole parent families. While there was similar support available earlier, the Domestic Purposes Benefit was introduced in 1973 for women aged 16 years and over, during a period when legal and social barriers to divorce were being relaxed. Prior to this, marriage separation and divorce were difficult to achieve, including from long term bad or violent relationships, and financial support for women was limited.

The more recent trend decrease in sole parent benefit rates reflects societal changes, such as less teen pregnancy and demographic change (e.g. smaller numbers in high risk age groups as women tend to delay motherhood to pursue education and careers) as well as shifts in eligibility of sole parents across benefit types. Following the 2013 welfare reforms those sole parents with the youngest dependent child 14 years or older were included with the unemployment-related benefit types (i.e. Jobseeker Support – Work Ready). This highlights the shifting dynamics of sole parent benefit from a wellbeing focus to a greater work focus. Unfortunately, it is now difficult to identify or separate out the group affected by this change and as such difficult to gauge the

¹² Rankin, K. "Unemployment in New Zealand at the peak of the Great Depression" Paper first prepared for the 1994 Conference of the Economic History Association of Australia and New Zealand, at the University of New England, Armidale, NSW, Australia; July 6-10, 1994. <http://keithrankin.co.nz/NZunem1933/>

¹³ *ibid*

impacts¹⁴. What can be said is that those on this benefit type in 1989 made up 1.8 percent of the working population and by June 2013, just before Welfare Reform, they made up 3.0 percent of the population. A more recent comparison is unavailable.

¹⁴ There have always been sole parents accessing unemployment assistance and it is this group who are now difficult to disaggregate from those who would have previously accessed the Domestic Purposes Benefit.

Figure 3: Trends in unemployment-related benefit, and to a lesser extent sole parent benefit, are associated with the unemployment rate

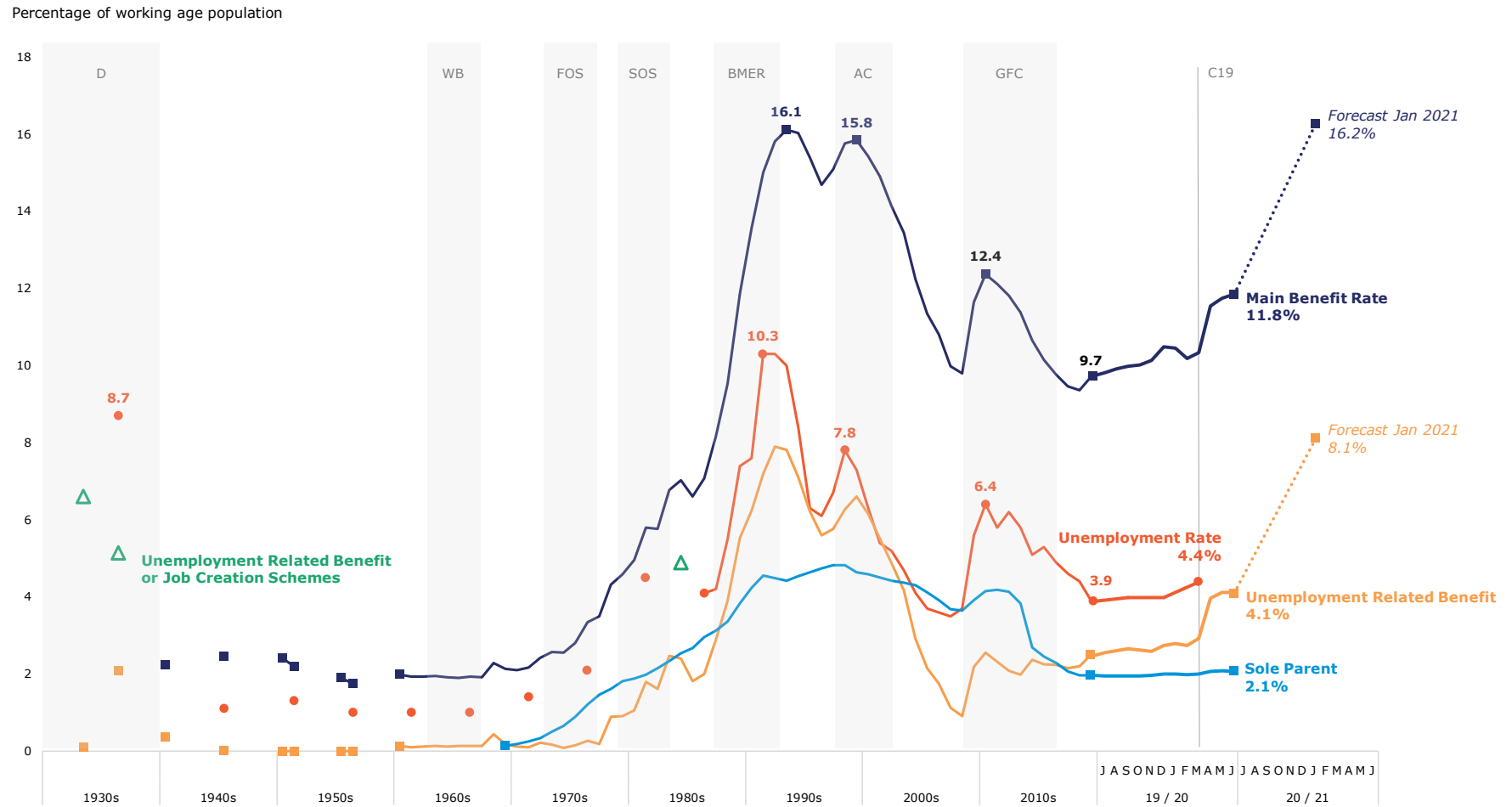
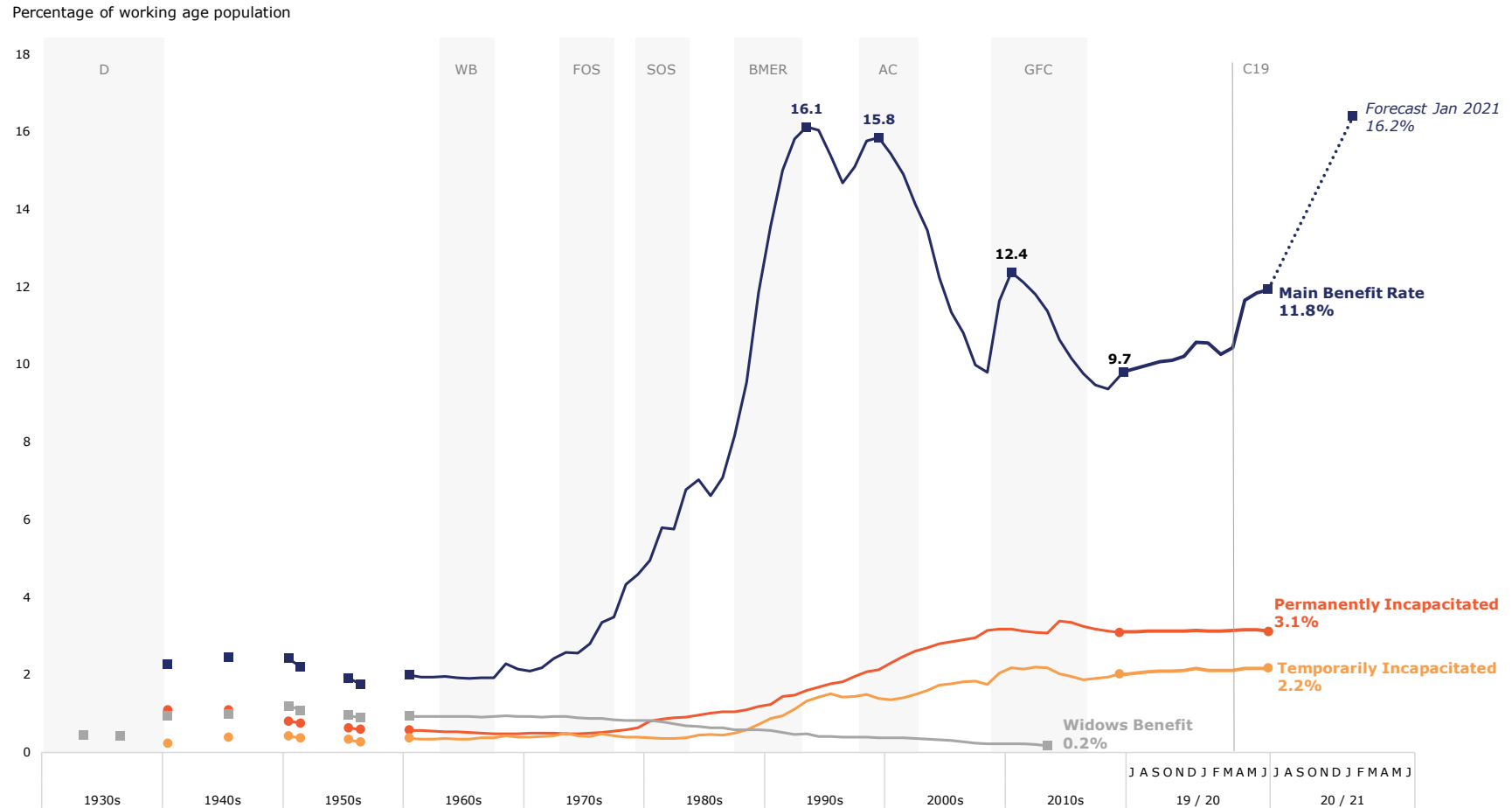


Figure 4: Incapacity related benefits and widows benefits receipt rates are unrelated to economic downturns in the short term



Flows from unemployment to incapacity-related benefits following downturns

There is ongoing debate about the causes of the long-term increase in incapacity related benefits. The increasing incidence of health conditions and disabilities, the functioning of the labour market and policy changes partly explain the increase¹⁵. Recent experience suggests that following recessions, as the economy starts to recover, there is a rapid reduction in unemployment-related benefits but also flows from unemployment-related benefit to incapacity-related benefits, with longer durations of benefit receipt.

Widows Benefit once played a significant part in the benefit system but rates were largely unrelated to economic downturns

Widows Benefit was introduced in 1912 for widowed women who had a child under the age of 14 years, during a time when women were expected to stay at home to look after children. The take up rate for this benefit peaked around World War II but then continued to decline over the years until it was disestablished in 2013. The rise of women's participation in the labour force and the advent of the Domestic Purposes Benefit in 1973 contributed to the decline in the use of this benefit.

¹⁵ See the Welfare Expert Advisory Group Report - "[Current State: The Welfare System and People with Health Conditions or Disabilities](#)" for a review.

Appendix One:

Subject	Comments
Years	The years used and time of year vary across the period and across variables. For example, benefit fiscal years are to 31 March up to 1989 inclusive and move to 30 June from 1990 onwards. Household Labour Force Survey data is for the June year all the way through. Historic populations figures and employment rates also vary given multiple sources are used to cover the period including census data, estimates and working age populations from the Household Labour Force Survey and numbers reported in New Zealand Year Books.
Sole Parent	From 1969 to 1974, these are emergency benefits for domestic purposes. The statutory DPB was introduced on 14 November 1973 and was in place up to 2013. From 2013 this is the Sole Parent Payment but from this point excludes sole parents with the youngest child 14 years or older. This group were transferred to Jobseeker Work Ready from 2013 and are now difficult to separate out from Jobseeker Work Ready for analysis.
Permanently incapacitated	This includes the Invalids Benefit up to 2013 and Supported Living Payment from then on.
Temporarily incapacitated	This includes the Sickness Benefit up until 2013 and Jobseeker Health Condition and Disability from then on. It also includes the emergency sickness benefits where applicable for some earlier periods.
Unemployment-related	This includes the Unemployment Benefit up to 2013 and Jobseeker Work Ready from then on. Note the comments related to sole parents. Unemployment includes both standard and emergency unemployment benefits, as well as 55+, Job Search Allowance and Independent Youth Benefits before 1996 were applicable. As such this series has some inconsistencies.
Widows Benefit	Deserted wives had been eligible for Widows Benefit since 1936. During the years 1960 to 1974, the average number of deserted wives receiving Widows Benefit was 1,300. With the advent of the DPB these were shifted into the new benefit category.
Total Main Benefits	Includes unemployment, domestic purposes and sickness benefits as specified above, invalids, widows, training and transitional retirement benefits up to 1995 and includes all core benefit types from then on. Not all these groupings are discussed separately here.
Officially Unemployed	This is from the Household Labour Force Survey (March 2020 release) from 1986, and from Census data for earlier periods as derived by Stats NZ.
Estimated labour force	This is from the Household Labour Force Survey (March 2020 release) from 1986 and from Census data and estimates for earlier periods as reported in the New Zealand Year Books. Some periods may have been interpolated where a figure was not available.
Wage subsidies (job creation)	Numbers in subsidised job creation schemes have been provided for specific time periods rather than all the years shown. These exclude the many training and youth-related programmes that have been put in place over the period. Deriving all these programmes from historic sources is not always possible.
Sources:	The data compiled here is based on benefit data back to 1996 from the IAP Data Warehouse, Ministry of Social Development. Historic benefit data series derived from a range of sources but mainly the New Zealand Year Book, Ministry of Social Development, Stats NZ. A range of sources including the Household Labour Force Survey, Long Term Data series and population estimates, Stats NZ.
Additional notes	The results here are largely for the main beneficiary not all the people supported by a benefit, so spouses are excluded. Carers are also excluded for Invalid Benefit / Supported Living Payment.