

Helping the Newly Unemployed in the Recession

by Keith Rankin (Unitec Business School), 2 November 2008

Late last week, Labour and National announced proposals to assist some persons who lose their jobs as a result of the 2008 recession which is being exacerbated by the global financial crisis.

National's proposal ([Transitional Relief Package](#)), which has some flaws, at least addresses the central flaw in the current system of In-Work Tax Credits. Labour's [Job Search Allowance](#) does not.

The recession is exposing major deficiencies in a number of assistance programmes, in particular Working for Families and the Accommodation Supplement.

The central deficiency of Working for Families is that, when the income earner of a single income family loses his or her job, the family loses around \$60 per week of In-Work Tax Credits in addition to losing all of their wages. The family (Family A) suffers a double blow.

On the other hand, at present, a two income family has the blow of one income earner losing their job softened. Such a family (Family B) currently stands to gain about \$60 per week in In-Work Tax Credits as a compensation for losing half of its wages.

National's proposal helps Family A by forestalling the double blow by 16 weeks. Labour's proposal ignores Family A. Labour's proposal only helps Family B.

Working for Families contains other major deficiencies. Family B will most likely not qualify for tax credits if the person becomes unemployed towards the end of the tax year (eg in January), but will qualify if the person becomes unemployed in April. However, if Family B does experience unemployment in April, subsequent re-employment will oblige that family to repay most (possible all) of their tax credits.

In the Great Depression of the 1930s, the experience of "short-time" was as common as that of unemployment. Also, then as now, casual work was common, meaning that hours varied from week to week. Working for Families does not address such variations.

Under the current rules, if single income families have their hours reduced to less than 30 hours per week, they lose their In-Work Tax Credits as well as some of their wages. Marital separation would be one means of restoring those payments, because the rules differ for single-parent families.

The Accommodation Supplement has been around in its present form for about 15 years. It is a programme to assist individuals and families of limited means to pay their rent or mortgage. The payments are calculated via a formula too complex for most intelligent people to address, let alone understand.

In real terms, the Accommodation Supplement programme is being run down. The payment thresholds have not been indexed for inflation in recent years. Indeed, the Accommodation Supplement has been run down as a means of funding Working for Families.

A critical anomaly in this programme is that it provides substantial assistance to families with mortgages, but denies assistance to persons saving for a deposit to finance their first home. Persons with assets in property qualify, whereas persons with more than minimal cash assets do not qualify.

National proposes to raise the upper limit for assistance. This will not help savers (who have cash assets), and will not help unemployed persons who need help but who do not pay levels of rent that are high enough.

For example, a newly unemployed Auckland couple with children would have to be paying more than \$410 per week rent before National's boost to the Accommodation Supplement would become effective, and would have to be paying at least \$550 per week rent to get the maximum boost.

There are better ways to raise Accommodation Supplements than by raising the theoretical maximum payments. National at least addresses the accommodation issue.

To qualify for any part of National's proposed assistance, a worker has to have been in a job for six months. That's clear.

Labour's five-year qualifying pre-condition for its Job Search Allowance is ambiguous, however. Labour's fact sheet says "at least five years in the workforce". Most journalists have interpreted that as being in a job for five years.

Labour does not say that the person has to have been *continuously* in the workforce.

The term "workforce" is usually regarded as having the same meaning as "labour force". Adopting international conventions, a person is in the labour force if they are employed for wages for at least one hour per week, are self-employed, are working in a family business, *or are unemployed*.

A literal reading of Labour's proposal would qualify persons who had been unemployed for five years and had become redundant from a job that only lasted a few months. On the other hand a 30-year old graduate might not qualify because of his or her delayed entry into the workforce.

While National's proposal at best offers limited help, Labour's proposal is subject to the same kinds of inconsistencies that make Working for Families a political time bomb.
