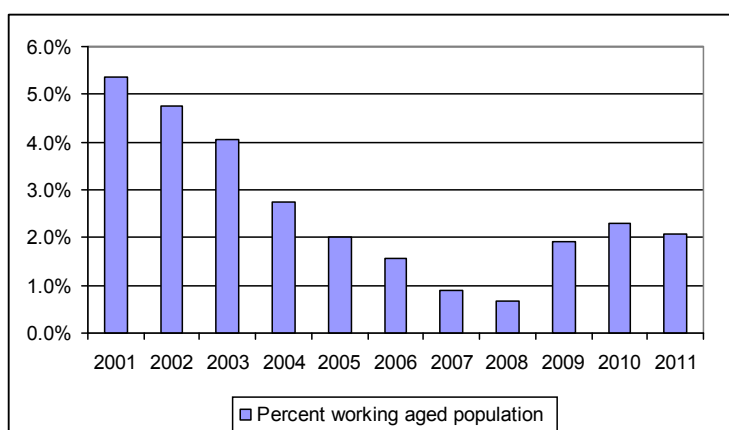


Trends in Unemployment Benefit



The unemployment benefit is the only main benefit that has risen steeply *and* declined. For the decades following its creation NZ governments followed a policy of full employment. This included subsidising jobs and operating work schemes. From the seventies unemployment began to grow due to loss of guaranteed and protected access to European markets, the influx of baby-boomers and females into the workforce and, later, the removal of agricultural subsidies and tariffs. While the end of protectionist policies added to unemployment growth short-term, countries which had not undergone rapid economic reform – Australia, the UK and Canada – experienced similar unemployment levels as NZ in the early 1990s. However, the rate dropped dramatically from the end of the nineties and was the lowest in the OECD by 2005. The recent recession has seen unemployment rise again. The rate was 6.5 percent at June 2011. Numbers on the unemployment benefit reflect the unemployment rate.



At the same time the number of people on sickness and invalid benefits has continued to grow. Long-term unemployed gravitated to the sickness benefit, and then invalid's benefit, which pays better. To some extent these benefits have become *de facto* unemployment benefits. The OECD has described the heavy reliance on disability benefits as the 'medicalisation' of labour market problems.

The good news is that throughout the economic boom of the early 2000s fewer people needed to resort to an unemployment benefit. Because uptake of the unemployment benefit largely reflects the economy and labour market, in terms of dependence it creates less of a problem than other benefits. Claimants are

work-tested and kept in touch with the labour market. Most rely on an unemployment benefit for only a short period. At June 2011 71.6 percent of people on the unemployment benefit had claimed it for less than 1 year. Only 2.2 percent had been on the unemployment benefit for 4 or more years.

In NZ the unemployment benefit is means-tested and funded from general taxation. Social assistance is targeted at the greatest need. Thus many people who lost employment during the recent recession discovered they had no entitlement because they had savings, assets or working family members. Paying tax does not guarantee entitlement to the dole.

In other countries provision for unemployment is based on an insurance model. In the US unemployment insurance is paid for through payroll taxes. Greater accessibility and higher payments result. Payments are not means-tested. However the payment of unemployment insurance is not open-ended. Except in times of elevated general unemployment, when payments may be extended using state and federal funds, there are time limits. In New Zealand there is no limit on the period for which an unemployment benefit can be paid.