

Towards Personal Independence
and Prosperity: Income Support
for Persons of Working Age in
New Zealand

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EXECUTIVE SUMMARY

- Over 19 percent of New Zealand adults of working age, and 30 percent of children, are dependent on benefit. Most spells of benefit are of short duration, but around 10 percent are for three years or longer.
- Government expenditure on benefits for people of working age is vastly greater (as a share of GDP) than it was a generation ago. The main reason for increased spending is the much greater number of beneficiaries.
- A significant reduction in the level of basic benefits occurred during the late 1980s and early 1990s. This has since been reversed for many beneficiaries because of more generous supplementary and discretionary benefits. Not only have the rates of accommodation supplement increased in recent years but policy changes have made it more readily available.
- New Zealand places few explicit obligations on beneficiaries and tends to encourage compliance by persuasion rather than financial sanctions.
- New Zealand spends a higher proportion of GDP on income support than Australia. This is due to relatively more generous benefits (on average) and a higher ratio of beneficiaries to the working age population in New Zealand than in Australia. In particular, New Zealand has a higher proportion of sole parent families (and especially sole parent families who are beneficiaries) than Australia. But New Zealand has fewer invalids beneficiaries and unemployment beneficiaries than Australia in relation to population.
- New Zealand's maximum rates of domestic purposes and invalids benefits are a higher proportion of average earnings than their Australian equivalents. This is particularly true if assistance for housing costs is taken into account. Maximum rates of unemployment benefit (including assistance for housing costs) are broadly similar in each country.
- The conditions governing eligibility for, and payment of, benefits are generally more restrictive in Australia than New Zealand. For example: residence qualifications are tighter in Australia (especially for newly-arrived migrants); Australia makes more extensive use of income and assets testing; and supplementary and discretionary

benefits are less widely available in Australia than in New Zealand. But New Zealand has more work-testing for benefits than Australia.

- Dependency on welfare tends to have adverse consequences for recipients, their children and other family members (including absent parents).
- New Zealand and overseas research indicates that children who grow up in families that are poor, single parent or dependent on welfare tend to suffer adverse consequences during childhood, adolescence and young adulthood. For example, children who are raised in sole parent families are less likely to complete their education, and more likely to be unemployed after completing their education, than children who are raised in two-parent families.
- There is a group of conflict-ridden and disorganised families whose children are particularly likely to experience difficulties and adverse outcomes both in childhood and in adolescence. The problems include: an increased risk of poor child health, adverse educational and behavioural outcomes; problems in adolescence, including attempts at suicide; early offending against the law; and child sexual abuse. Not all beneficiary families have these problems, but welfare reform could limit the number of disorganised families.
- Social policy in the United States has moved from providing incentives to work to requiring beneficiaries to work (or increase their skills). There has also been an increased emphasis on paying benefits subject to time limits. The experience of the United States is of relevance to New Zealand. The United States has – due to a number of factors, including welfare reform – been successful in reducing the number of welfare recipients in recent years.
- Existing government policies in New Zealand are likely to result in an increase rather than a reduction in the number of beneficiaries over the next few years. The government's recent projections suggest that the total number of unemployment, sickness, invalids and domestic purposes beneficiaries will increase by almost 11 percent between 1995/96 and 2000/01.
- Economic analysis shows that lower benefits and higher abatement rates are likely to result in less dependency both in the short and the long term.
- Mandatory work requirements and time-limited welfare benefits, if successfully implemented, are likely to increase hours of work by beneficiaries and reduce the number of beneficiaries.

- Training programmes in practice result in, at best, modest increases in the earnings of beneficiaries. It is not clear whether training programmes will increase or reduce the number of beneficiaries.
- New Zealand already provides a good deal of assistance to working families who earn modest incomes. There are limits, arising from fiscal pressures and worries about incentives, to the additional assistance that can be provided to this group.
- Recent history in New Zealand indicates that the number of beneficiaries is significantly affected by the incentives provided by the levels of benefits and the terms and conditions under which benefits are paid. For example, the benefit reductions of the early 1990s increased employment above the level that would otherwise have occurred.
- Full-time work, rather than benefits, is the most secure route out of poverty. The benefits system needs to be reconsidered to ensure that it does not unnecessarily limit participation in the more flexible labour market that now exists in New Zealand.
- Recent changes in social policy (including more generous supplementary and discretionary benefits, easier income tests, increased assistance for non-beneficiary families and increased assistance for training and child care) are likely to have limited success in reducing dependency. The introduction of work testing for further groups of beneficiaries and the recent decision by the Coalition Government to emphasise the reciprocal obligations of beneficiaries are, however, encouraging developments.
- More effective approaches to dealing with dependency include: lower rates for some benefits, including for supplementary and discretionary assistance; higher abatement rates; revised eligibility conditions for some benefits; time limits for some benefits; and new work and other obligations for some beneficiaries. Any new arrangements would need to be accepted by New Zealanders as being fair, be capable of being enforced and should have, as far as can be anticipated, few side effects. New obligations for beneficiaries should be phased in to be consistent with the growing capacity of the Department of Social Welfare to administer them successfully.
- General economic policies that encourage high levels of employment are needed if progress in reducing dependency is to be made. In combination with macroeconomic stability and a flexible labour market, welfare reform can significantly reduce the number of beneficiaries.

- The voluntary sector should be given an expanded role in providing emergency assistance. Temporary government support for the voluntary sector may be needed. If so, support should be provided by transparent subsidies and not through the income tax system.
- The child support programme should be reviewed to result in higher minimum payments and more effective enforcement of obligations.
- The incentives facing the staff of state welfare agencies should be reviewed to ensure that, as far as possible, they are consistent with reducing dependency.
- The government must ensure that a safety net is provided for those who have no other income and who cannot be helped in other ways. However, the government does not itself have to provide the safety net to the extent that has occurred in New Zealand in recent decades. Greater emphasis should, for example, be placed on contributions by absent parents and emergency assistance from the voluntary sector.
- The recommendations of this study are for significant changes to the existing income support arrangements. More fundamental reforms of the kind proposed, for example, by David Green would have more far-reaching consequences and warrant careful consideration as possible options for the longer term.

1 INTRODUCTION

The Debate about Dependency

It is accepted by policy makers and commentators in New Zealand that the trend towards increased reliance on income support by persons of working age is an undesirable one. There is less agreement about why the problem has arisen and what should be done to remedy the situation.

In responding to the report of the Employment Task Force, the National government noted that, despite the recent reduction in unemployment, many New Zealanders lacked the skills and experience necessary to get work. A number of changes to the income support arrangements were proposed to encourage such people to gain some work experience. These included: revisions to the benefit abatement system to encourage beneficiaries to take up part-time work; less severe (but more consistently enforced) penalties for work test failure and voluntary unemployment; and a requirement that domestic purposes beneficiaries with a youngest child aged 14 years or older should be looking for part-time work, and spouses of unemployment beneficiaries with no children or a youngest child aged 14 years or older should be looking for full-time work (New Zealand, 1995a, pp 19–22). These changes became part of the government's Tax Reduction and Social Policy Programme which it began to implement during 1996. This programme also included measures to increase the margin between the level of benefits and income from full-time work.

In introducing the Department's 1996 annual report (DSW, 1996a), the Director-General of Social Welfare wrote that the "work of all [the Department's] business units firmly focuses on helping people to break cycles of dependence and to make a positive contribution to their communities" (p 1). The General Manager of the Income Support Business Unit added (p 4) that: "We firmly believe that it is not acceptable just to pay money to people. It is our role to assist our customers to look at the future, improve their lives and ultimately move away from benefit dependency". In a newspaper article (*New Zealand Herald*, 2 November 1996), the Director-General of Social Welfare wrote about her concern that the domestic purposes benefit continues to gather adherents at an alarming rate.

In its post-election briefing papers (DSW, 1996b), the Department of Social Welfare noted that "The benefit system fulfils a positive social purpose: to provide an adequate income to those who would otherwise

be in hardship. But there is growing concern that it also has a negative side. Benefit receipt may erode self confidence or skills, stigmatise recipients in a way that limits opportunities, or weaken personal or family and community responsibility. It may unnecessarily lock people into long-run reliance on benefit (and consequent low income). Despite incremental changes to improve incentives and a significant fall in unemployment in recent years, the number of people on benefits continues to grow" (p 17). The Department argues that it is reasonable for working age people to be as independent as possible and that the benefits system should encourage working age people to be independent of the need for longer-term benefit receipt.

The Treasury, in its briefing paper to the incoming government in 1996, noted that the New Zealand economy had performed strongly over the past five years. There were, however, a number of concerns, including the level of dependency. "The number of sickness, invalids and domestic purposes beneficiaries is still high and rising. In particular, the proportion of beneficiaries who have been on the benefit for long periods remains high" (Treasury, 1996, p 13). The Treasury then emphasised the adverse social, economic and fiscal consequences of high levels of dependency. In responding to the briefing paper, the Treasurer noted that the Coalition Government was committed to implementing policies that reduce reliance on welfare benefits (Press Statement, 19 December 1996).

The New Zealand government's December Economic and Fiscal Update (Treasurer, 1997c) includes projections of the number of beneficiaries to 2000/01. The economic outlook suggested by these projections is a moderately favourable one. For example, GDP, which grew by 2.4 percent in 1996/97, is forecast to grow by 2.7 percent in 1997/98; and projected to grow by 4.0 percent in 1998/99, by 3.3 percent in 1999/2000 and 2.6 percent in 2000/01 (p 22). Despite this, the total of domestic purposes, unemployment, invalids and sickness beneficiaries is expected to grow from 320,000 in 1995/96 to 354,000 in 2000/01 (p 113). Although the number of unemployment beneficiaries is expected to fall after 1997/98, the numbers of domestic purposes beneficiaries, invalids beneficiaries and sickness beneficiaries are expected to continue to increase. The government's experts, it seems, are pessimistic about the extent to which existing policy will reduce the number of beneficiaries – even in favourable economic circumstances.

In his wide-ranging report to the New Zealand Business Roundtable (NZBR), David Green argues that New Zealand shows many of the

symptoms of social decay, including rising crime, diminished work effort and family breakdown, that also afflict Britain and the United States (Green, 1996, pp 77–92). In Green's view, generous benefits, especially for sole parents, have contributed to these problems. The welfare (or dependency) problem is moral in nature: "It is having harmful effects on human character, encouraging the breakdown of the family, crowding out the voluntary associations on which the moral order of a free society rests and, if these were not serious enough, it also fails to achieve its chief declared aim of reducing poverty" (p 97). Green makes a number of recommendations to encourage the development of a genuinely independent voluntary sector as an alternative to government benefits, make government benefits the income source of last resort and more strictly enforce the payment of maintenance (pp xii–xiii).

The most eloquent denunciation of reliance on welfare in a New Zealand context has been provided by the writer, Alan Duff. According to Duff (1993, p 79): "welfarism keeps the child in us alive and quite well. Welfarism does not allow the realistic, mature adult to develop. Welfarism says to the collective brown child, "You are blameless. Indeed, a victim. So here, take this, your lifetime promise of my hand just whenever you need it". Noting the growth in sole parenthood, he writes (p 73): "The welfare system is feeding this. Government, therefore, whether deliberate or not (and I can't believe it is that deliberate) is funding the ultimate destruction of a society. In this case, Maori society. My society. All of New Zealand's society". Ultimately, Duff calls on Maori to throw off the "curse of welfarism".

Incentives versus Shortage of Job Opportunities

Not everyone agrees that dependency is a problem. In a number of press articles (eg *The Dominion*, 28 April 1997) Charles Waldegrave has argued against the proposition that there is a culture of dependency in New Zealand. He argues that the increase in the number of beneficiaries since 1991 is due to developments such as the deinstitutionalisation of the mentally ill, restrictions on eligibility for accident compensation and the police campaign against domestic violence. There is, in his view, "no scientific indication" that more people are choosing to take benefits as a way of avoiding work. The fundamental problem is the shortage of job opportunities in New Zealand. Moreover, the rhetoric about welfare dependency "is not only inaccurate but is disparaging about vulnerable people who have few other choices".

This is an important set of arguments. Since many New Zealanders appear to share these views it is worth taking some care to explain why I think they are incorrect. It is necessary, first of all, to be clear about what precisely is meant by the "dependency proposition". This is, to my mind, the argument that growth in the number of beneficiaries is, to a significant extent, a response to the benefits themselves and the circumstances under which people can become eligible for and continue to receive benefits. This is not the same as saying that beneficiaries are defrauding the taxpayer or avoiding work. Common sense suggests that some fraud occurs; moreover census data regularly indicate that the number of sole parents who qualify for benefits exceeds the number of eligible sole parents identified in the census, which may be an indication of fraud (Rochford, 1993, pp 10–11). However, the number of beneficiaries can be increased by behaviour which is perfectly understandable and, indeed, prudent. For example, people may decide to take longer to look for the best possible job if unemployment benefits become more generous. As will be argued later in this paper, such behaviour can be an important influence on the number of beneficiaries.

It is true, of course, that changes in the number of beneficiaries depend on the opportunities available in New Zealand as well as on behavioural responses to the welfare system. The regulated labour market that existed prior to the 1990s limited opportunities by making it harder for employers and employees to enter into employment arrangements that were mutually satisfactory. (The consequences of regulated labour markets were, however, hidden up to the mid-1980s by what proved to be unsustainable government policies.) Generous social welfare benefits for those who were excluded from participation in the labour market were probably unavoidable. Equally, however, the benefits system needs to be reconsidered to ensure that it does not unnecessarily limit participation in the more flexible labour market that now exists in New Zealand.

There is, as it happens, a good deal of evidence that changes to the New Zealand benefit system can affect the amount of work undertaken by people who would otherwise have been beneficiaries. This is important because people who are working full time (or close to it) are most unlikely to be beneficiaries. For example, the age of eligibility for national superannuation has been gradually increased since April 1992. Those no longer eligible for national superannuation may be eligible for less generous benefits such as unemployment benefit, but the result has been substantially less generous benefits on average for 60 to 64 year olds. The employment of 60 to 64 year olds has increased from 24 percent

of the population in this age group in the year ending March 1992 to 39 percent in the year ending March 1997, and appears still to be increasing. Full-time employment of persons aged 60 to 64 has increased from 23,000 in the March quarter 1992 to 36,400 in the June quarter 1997 (Statistics New Zealand, 1995a, 1997a). This represented 17 percent and 28 percent of this age group, respectively. This is a reversal of the previous trend for the employment of 60 to 64 year olds to decline and is a most impressive achievement for a group which is often thought to be hard to employ. It is reasonable to suggest that the change in trend is due to the policy changes since April 1992. In particular, there have been large increases in employment for those aged 60 to 62 who have been most directly affected by the rising age of eligibility for superannuation. As will be argued below, this suggestion is confirmed by a detailed econometric study.

The minimum age of eligibility (in most circumstances) for unemployment benefit and domestic purposes benefit was increased from 16 to 18 years in December 1990 and August 1991, respectively. This substantial change in the incentives facing young people in New Zealand seems to have resulted in greater participation in education. This impression is confirmed by a detailed econometric study (Maloney, 1997, p 64).

The number of domestic purposes beneficiaries stabilised following the benefit reductions in 1991. It is reasonable to suggest that growth in the number of such beneficiaries would have continued at the previous rate in the absence of the benefit changes. The number of domestic purposes beneficiaries began to increase again by mid-1993 but, by then, the benefits system was becoming more generous.

The amount of income that beneficiaries can earn before their income is reduced through the income test was increased on 1 July 1996. According to the Government Statistician: "As a consequence, it appears that more women than usual were actively seeking and available for work in the September 1996 quarter. This number reduced in the December 1996 quarter (when women actively seeking but not available for work increased) and increased again in the March 1997 quarter. These changes may be due to school holidays, or to women earning up to the limit of the abatement" (Statistics New Zealand, 1997a). The increase in hours of work in response to an enlarged free area will not, of course, reduce the level of dependency.¹ But this episode illustrates the

¹ The term 'free area' refers here to the maximum amount of non-benefit income a beneficiary can earn before his or her benefit is reduced.

responsiveness of beneficiaries to changes in the incentives facing them (and, indeed, the importance of beneficiaries in the New Zealand labour market).

A most careful econometric study by Tim Maloney (Maloney, 1997) confirms that beneficiaries respond to the incentives provided by income support. Maloney has worked with detailed data from successive household labour force surveys in which individuals are classified by age, sex, marital status, numbers and ages of dependent children in their families and other demographic circumstances. These characteristics determine the maximum benefit an individual can receive if he or she has no other income. The sample provides both cross-section and time-series variation. This is important because the impact of the new policies varies among the groups of beneficiaries. Moreover, it is possible (through regression analysis) to control for factors other than changes to the benefit system that may have affected labour market outcomes.

Maloney concludes that his best guess is that the benefit reforms since 1990 "increased the labour market participation rate by between 1.5 and 2.4 percentage points, and increased the aggregate employment propensity by between 1.1 and 2.2 percentage points" (p 63). Between 40 and 80 percent of the growth in employment can be attributed to the benefit reforms. In particular, the importance for labour market participation of the increases in the ages of eligibility for superannuation, and domestic purposes and unemployment benefit, is confirmed by Maloney's analysis. Maloney concludes that his analysis reinforces "the abundant overseas evidence" on the existence of work disincentive effects from social welfare programmes.

By contrast with the weight of evidence supporting the dependency proposition, the alternative explanations suggested by Charles Waldegrave are not persuasive. The number of sickness, invalids and domestic purposes beneficiaries has been growing since the mid-1970s. This cannot be explained by short-term phenomena such as, for example, the police advertising campaign against domestic violence. Margaret Bazley has noted (*The Dominion*, 29 April 1997) that grants of earnings-related compensation by the ACC have grown in recent years and that, because benefits have always been paid to persons in psychiatric hospitals, the movement of such persons into the community would not have influenced the number of beneficiaries. Although the state of the labour market and population growth undoubtedly influence the number of beneficiaries, the total number of beneficiaries continued to grow during the period from 1995 to 1996 when employment was increasing

rapidly. This suggests that the benefit system was exerting an important influence independent of the state of the labour market.

The fact that beneficiaries respond to income support programmes, including by reducing hours of work, does not by itself mean that those programmes should be made more stringent. A broader assessment is required, including of any hardship that might result. It must, however, also take account of the longer-term consequences of easily available benefits. Superficially attractive benefits, for example, may only too easily prevent some teenagers from gaining the skills and experience required for success in the labour market.

It has been argued that concern about dependency as defined in this study (the number of people of working age who are supported by benefits or similar payments) is exaggerated or misplaced. In contemporary conditions, it is suggested, the distinction between beneficiaries and non-beneficiaries is increasingly becoming blurred. Beneficiaries are increasingly earning non-benefit income. Governments are increasingly providing assistance to low income working families. There may not be a great difference between the situation of a beneficiary with substantial earnings and a working family whose earnings are supplemented through the taxation or benefits system. Some groups, such as the severely disabled, may have no alternative to dependency. Some people, moreover, are dependent on the state only for short periods.

I wish to argue, nevertheless, that it is useful to focus on the number of beneficiaries of working age. The important issue here is an empirical one. Few New Zealand beneficiaries earn substantial amounts of private income while they are on benefits. Department of Social Welfare data indicate that 15 percent of domestic purposes beneficiaries, 13 percent of unemployment beneficiaries and 10 percent of sickness and invalids beneficiaries reported more than \$49 a week in non-benefit income in June 1997 (DSW, 1997d, p 13). About 12,500 non-beneficiary low-income families were receiving supplementary assistance from the Department at that time (DSW, 1997d, p 11). There is, moreover, a difference in character between a payment, such as New Zealand's Independent Family Tax Credit, which is payable only to those with significant earnings, and benefits that are reduced as earnings increase. Beneficiaries are a distinct group, it seems, and it is reasonable to investigate the reasons why the numbers of beneficiaries have grown. It may well be informative also to construct more complex measures of dependency (taking account of hours of work etc). Such measures are not readily available.

Against this background of rising concern about dependency, the New Zealand Department of Social Welfare organised a conference in March 1997, with speakers from several countries, on possible approaches to the problems of welfare dependency. According to the conference brochure: "New directions in thinking and realistic solutions are now emerging in many different countries. No-one has all the answers, but many have a contribution to make".

This paper makes a further contribution. It does this in a number of ways:

- Spending on income support for New Zealanders of working age is described and analysed in Chapter 2 of this report. I then discuss why spending on income support in New Zealand has grown so remarkably over the past two decades.
- Chapter 3 compares New Zealand and Australian income support arrangements. These comparisons draw attention to the generosity of the benefits that are provided to sole parents and invalids in New Zealand and the wide range of payments for special circumstances that are made available by the New Zealand Department of Social Welfare. New Zealand also has very expensive arrangements for paying income maintenance to the victims of accidents.
- An economic analysis of income support and training programmes is set out in Chapter 4. This Chapter points out that, even if behaviour does not change, more generous benefits are likely to lead to increased numbers of dependents. Moreover, the best research evidence suggests that higher benefits have adverse effects on the willingness of potential recipients to depend on benefits, labour supply and family structure. By contrast, there does *not* appear to be a trade-off, through income testing, between government spending and labour market supply. Easier income tests result in greater dependency and government spending, but do not seem to result in increased hours of work. This finding raises questions about the likely success of the policy approach that has recently been adopted in New Zealand. Although the research literature suggests that training and work experience programmes can be modestly successful, it is most unlikely that governments would be willing to invest the very large amounts required for earnings to replace welfare programmes (or, indeed, that sufficient successful investments could be made). Compulsory work programmes, although hard to implement, can help to reduce dependency.
- Chapter 5 discusses the more paternalistic approach to welfare policy which has recently been adopted – especially in the United States. The

essence of this approach is that the obligations of beneficiaries are carefully specified and enforced. In particular, the chapter shows that there is a group of disorganised and conflict-ridden families in New Zealand which are likely to be particularly reliant on welfare and whose children are especially likely to experience difficulties and adverse outcomes both in childhood and adolescence. Recent developments in the United States are discussed, and the likely success of those approaches in New Zealand is assessed.

- Finally, Chapter 6 discusses recent policy changes in New Zealand and outlines policies that can be expected to be more successful in reducing dependency.

This report is about income support policy and does not consider how other welfare services that are financed or provided by the government can contribute to reducing dependency. There is an interesting discussion about welfare services in the post-election briefing papers of the Department of Social Welfare (DSW, 1996b). As the Department notes (p 49), there is a need for greater knowledge about some important topics, including the relationship between formal and informal welfare effort (by families, friends and neighbours) and the effectiveness of preventive programmes in reducing the need for rehabilitative or protective programmes. The Department argues for experimentation at the local level to test the effectiveness of differing approaches.

Income support policy is a difficult subject. Real-world income support policies are complex, and implement a compromise between the desire to provide adequate assistance, on the one hand, and to avoid excessive costs and adverse incentives on the other. It is in the nature of such compromises to be unsatisfactory. The continuing rise in dependency, and the adverse consequences of this, strongly suggest that aspects of New Zealand's income support arrangements need reconsideration. My aim in writing this paper is to show how such arrangements might be changed without causing hardship for beneficiaries; indeed, the lives of beneficiaries and their families will be improved to the extent that work replaces welfare as a consequence of benefit reform.

Ultimately, however, dependency is a matter of choice for the New Zealand community. The recent fall in the number of unemployment beneficiaries in New Zealand shows that rising dependency is not inevitable. In writing this paper I have tried to set out the relevant facts and analysis that New Zealanders can use, if they wish, to reduce dependency. The Secretary to the Australian Treasury has noted that unemployment also is a matter of choice. Unlike Australia to date, New

Zealand has chosen policies that have resulted in a rapid reduction in unemployment. I hope that, when presented with the evidence, New Zealanders will also choose policies that will lead to lower levels of dependency on welfare.

2 GOVERNMENT SPENDING ON INCOME SUPPORT IN NEW ZEALAND AND WHY IT INCREASED

In this paper I concentrate on the main benefits for persons of working age, such as unemployment benefit, invalids benefit, sickness benefit and domestic purposes benefit. Benefits for the retired, such as New Zealand Superannuation, transitional retirement benefit and veteran's benefit are not considered here. The supplementary payments which are made available to beneficiaries by the Department of Social Welfare are considered. These include accommodation supplement, child care subsidy, disability allowance, special benefit, special needs grants and benefit advances. (These payments go mainly to beneficiaries although a few low income earners also qualify for some of them.) Family support, which is payable through the Inland Revenue Department, is considered where relevant.

I have also included within the scope of the paper periodic income maintenance payments from the Accident Rehabilitation and Compensation Insurance Corporation (ACC). This is because compensation payments provide income support (in addition to compensation for physical impairment and trauma, and restitution of economic loss) and have many of the consequences of benefits. According to the 1995 annual report of ACC, "in the 21 years since ACC began there has been a steady growth in the number of claimants who have become long-term beneficiaries of the scheme. In the year under review around 27,000 claimants had been receiving income related payments from ACC for more than 12 months. In effect this means that of all work-age New Zealanders about one in every 100 has become an ACC beneficiary" (ACC, 1995, p 16). The Corporation believes that, "in many cases", the claimants could make at least some contribution to their own support with appropriate assistance. By June 1997, the number of long-term beneficiaries had increased to almost 30,500 (ACC, 1997, p 50).

GOVERNMENT SPENDING ON INCOME SUPPORT

Expenditure on the main benefits, including supplements and emergency payments, is listed in Table 2.1. It will be seen that government expenditure on the benefits considered in this paper, although less than New Zealand Superannuation, amounts to over 5 percent of GDP. (Payments of family support to beneficiary families by the Inland Revenue Department are included within the table.)

TABLE 2.1: Expenditure^(a) on Main Benefits for Persons of Working Age, New Zealand, 1995/96 and 1996/97

	1995/96 \$NZ, millions	1996/97 \$NZ, millions
Unemployment Benefit	1,276.540	1,370.882
Training Benefit	96.973	97.406
Sickness Benefit	378.850	406.164
Invalids Benefit	494.849	555.200
Domestic Purposes Benefit	1,440.122	1,563.488
Widows Benefit	85.008	91.249
Orphans and Unsupported Children	22.929	26.870
ACC Periodic Payments ^(b)	820.155	844.195
Family Support ^(c)	500.000	532.000
Total ^(d)	5,115.426	5,487.454
Gross Domestic Product (\$m)	89,470	94,592
Benefits as Share of GDP (%)	5.72	5.80

Notes:

- (a) Expenditure on main benefits includes supplements and emergency payments. Taxes on income tested benefits are excluded. (Arguably, they should be included. If so, total expenditure would be increased by \$620m (1995/96) and \$650m (1996/97), and total benefits would be recorded as 6.4 and 6.5 percent of GDP respectively.)
- (b) Figure is for earnings-related compensation.
- (c) Amount paid to beneficiary families. [IRD estimate.]
- (d) Including family support.

Source: DSW (1997d) and ACC (1997).

Expenditure on income support programmes depends on the numbers receiving benefits and the average benefit they receive. The next two tables provide some information on this. Table 2.2 shows that about 17.5 percent of the New Zealand population of working age was receiving a benefit or weekly payments from ACC in June 1997. Most of these adults were receiving unemployment benefit, sickness benefit, invalids benefit, domestic purposes benefit or weekly payments from ACC. Around 19.5 percent of adults of working age, including the spouses of beneficiaries,

TABLE 2.2: Recipients of Main Benefits for Persons of Working Age, New Zealand, 1996 and 1997

	<i>June 1996</i>	<i>June 1997</i>
Unemployment Benefit	134,133	140,628
Training Benefit	11,389	11,567
Sickness Benefit	33,386	34,371
Invalids Benefit	42,450	46,099
Domestic Purposes Benefit	108,789	112,395
Widows Benefit	9,047	9,174
Orphans and Unsupported Children	4,662	4,816
ACC Periodic Payments ^(a)	55,995	54,875
Total Income Support Recipients	399,851	413,925
Spouses of DSW Beneficiaries ^(b)	45,115	47,106
Total Pop ⁿ aged 15 to 64 ^(c)	2,345,000	2,365,700
Income Support Recipients as Percent of Pop ⁿ of Working Age	17.0	17.5

Notes:

- (a) Personal communication, ACC. Refers to active claims.
- (b) Personal communication, Department of Social Welfare. These are mainly the spouses of unemployment beneficiaries.
- (c) This definition of the working age population (ie population aged 15 to 64) has been used in this paper to facilitate comparisons over time and between New Zealand and Australia. It is arguable that the population of working age in 1996 was the population aged from 16 to 63 years. If this alternative definition had been used, income support recipients would have amounted to over 20 percent of the population of working age.

Source: DSW (1997d).

TABLE 2.3: Estimated Average Benefit^(a) Per Beneficiary,
New Zealand, 1995/96 and 1996/97

	1995/96	1996/97
	\$NZ	\$NZ
Unemployment Benefit	9,517	9,748
Sickness Benefit	11,348	11,817
Invalids Benefit	11,657	12,044
Domestic Purposes Benefit	13,238	13,911
ACC Periodic Payments ^(b)	n.a.	18,797

Notes:

- (a) Includes Accommodation Supplement and supplementary and emergency payments.
- (b) The average weekly compensation paid to claimants in June 1997 expressed as an annual amount. Data supplied by ACC.

Source: Calculated from Tables 2.1 and 2.2 except for ACC.

were dependent on the Department of Social Welfare or ACC periodic payments for income. In addition, the Department of Social Welfare reports that around 277,500 children were living in families receiving an income-tested benefit in June 1997. Around 250,000 of these children were under 15 years of age (DSW, 1997d, p 12). This amounted to 30 percent of all such children in New Zealand.

A rough estimate can be made of the average benefit level by dividing expenditure in 1995/96 and 1996/97 by the number of beneficiaries at 30 June 1996 and 1997 respectively. (The accuracy of this estimate will depend on whether the number of beneficiaries at the end of each year is a good measure of average beneficiary numbers during the related year.) The estimated average benefit paid to each beneficiary is presented in Table 2.3. The high average payments to domestic purposes beneficiaries and recipients of ACC weekly payments are worth noting.

GROWTH IN GOVERNMENT SPENDING ON INCOME SUPPORT

The history of spending on the main benefits is shown in Table 2.4. This table also includes periodic payments of earnings-related compensation from ACC.

It will be seen from the table that spending on benefits for people of working age was minor until the middle 1970s. Spending on first the

TABLE 2.4: Growth in Spending on the Main Income Support Benefits, 1940–1997

\$NZ million								
Year	Unemploy- ment ^(a)	Sickness	Invalids	Domestic Purposes ^(b)	ACC Earnings -Related Compen- sation ^(c)	Total ^(d)	GDP ^(e)	Total as % of GDP
1940	0.869	0.418	1.844	1.572		4.703	514	0.91
1945	0.056	0.704	2.145	1.971		4.876	772	0.63
1950	0.021	2.017	2.795	4.320		9.153	1063	0.86
1955	0.011	2.554	3.233	5.329		11.127	1869	0.59
1960	0.380	3.439	4.237	7.832		15.888	2472	0.64
1965	0.197	3.914	4.830	10.215		19.156	3,591	0.53
1970	1.465	6.073	6.093	13.742		27.373	4,954	0.55
1975	5.155	15.887	13.665	58.123	18.709	111.539	9,754	1.14
1980	66.077	33.236	40.924	222.791	53.421	416.449	19,795	2.10
1985	278.689	72.550	105.724	538.880	148.150	1,143.993	39,346	2.91
1990	1,291.516	229.568	260.751	1,251.606	456.975	3,490.416	70,742	4.93
1991	1,483.324	248.672	289.212	1,313.926	573.554	3,908.688	73,885	5.29
1992	1,519.794	239.415	348.810	1,246.659	633.560	3,988.238	75,218	5.30
1993	1,638.905	284.597	372.786	1,244.714	662.721	4,203.723	78,198	5.38
1994	1,591.047	329.995	422.324	1,314.719	705.487	4,363.572	82,590	5.28
1995	1,407.266	352.167	463.598	1,381.431	776.647	4,381.109	87,420	5.01
1996	1,373.513	378.850	494.849	1,525.130	820.155	4,592.497	89,470	5.13
1997	1,468.288	406.164	555.200	1,654.737	844.195	4,928.584	94,592	5.21

Notes:

- (a) Includes training benefit from 1990.
- (b) Includes widows benefit. The Domestic Purposes Benefit was introduced in 1973.
- (c) Excludes spending on workers' compensation prior to the introduction of ACC.
- (d) Total of benefits shown.
- (e) From 1991, NZIER estimates for years ending 30 June. Up to 1990, Statistics New Zealand (1996b) estimates for years ending 31 March. (Successive series were chain linked; GDP for the years for which this statistic is not available were estimated from GDP estimates and movements in GNP between years.)

Source: DSW (1997d); ACC (1997); Statistics New Zealand (1996b).

domestic purposes benefit and then the unemployment benefit began to increase. Spending grew particularly rapidly during the late 1980s. Spending on benefits was stabilised after 1991 and fell slightly as a share of GDP in succeeding years. However, pressures for increased spending were beginning to re-assert themselves by 1995/96. Increased spending on invalids benefit, sickness benefit and domestic purposes benefit in that year more than outweighed reduced spending on unemployment benefits.

Payments of earnings-related compensation from accident compensation increased rapidly from the inception of the scheme to 1990 and were 85 percent higher in 1997 than they had been in 1990.

As noted, spending on income support payments depends on the number of beneficiaries and average benefit levels. Some information on trends in the number of beneficiaries is shown in Table 2.5. This shows that dependency on benefits was at a very low level from the 1940s to the mid-1970s and that, during this period, the number of beneficiaries increased at a rate no faster than the growth of the population of working age. Growth in the number of beneficiaries was particularly rapid during the late 1970s and the 1980s, but the number of beneficiaries has tended to stabilise since about 1992. The number of unemployment beneficiaries fell by 20 percent between 1992 and 1996 but the number of sickness and invalids beneficiaries has grown throughout the period. The number of domestic purposes beneficiaries stabilised between 1990 and 1994 but has increased in each of the past three years. The number of unemployment beneficiaries grew over the year to June 1997. Although not shown in Table 2.5, the number of persons receiving periodic compensation payments from ACC for more than 12 months increased from 22,952 in 1992/93 to 30,483 in 1996/97 (ACC, 1997a, p 50).

In its briefing to the incoming government, the Treasury notes how disappointing it is that the number of persons receiving income tested payments has fallen only slightly in recent years (if at all) at a time when employment has been growing rapidly (Treasury, 1996, p 70). There are two important points that need to be made here about the growth in the numbers of people receiving income support payments. First, there is nothing inherent in the New Zealand environment (such as history or the ethnic mix of the population) that leads to high levels of dependency on benefits. Indeed, dependency levels in New Zealand were very low until the introduction of domestic purposes benefit in 1973. Secondly, although there is undoubtedly some relationship between the state of the labour market and the number of beneficiaries, the experience of the

TABLE 2.5: Numbers of Beneficiaries, Main Benefits, 1940–1997

<i>Year</i>	<i>Unemploy- ment^(a)</i>	<i>Sickness</i>	<i>Invalids</i>	<i>Domestic Purposes^(b)</i>	<i>Total^(c)</i>	<i>Persons of Working Age^(d)</i>	<i>Total as % of Psns of Wkg Age</i>
1940	4,053	2,565	11,811	10,174	28,603	1,072,400	2.67
1945	198	4,233	12,205	10,965	27,601	1,132,800	2.44
1950	12	4,931	9,476	14,834	29,253	1,181,300	2.48
1955	19	4,277	8,110	12,678	25,084	1,270,900	1.97
1960	312	4,064	8,024	13,049	25,449	1,384,200	1.84
1965	208	4,681	7,951	14,529	27,369	1,546,600	1.77
1970	983	5,876	8,342	15,663	30,864	1,683,400	1.83
1975	2,894	7,830	9,414	33,969	54,107	1,879,100	2.88
1980	20,580	7,504	15,647	53,160	96,891	1,991,900	4.86
1985	38,419	9,627	21,464	70,105	139,615	2,136,200	6.54
1990	149,078	19,511	27,824	107,499	303,912	2,219,600	13.69
1991	160,742	20,147	30,746	107,989	319,624	2,258,200	14.15
1992	178,224	24,093	31,831	106,595	340,743	2,259,900	15.08
1993	181,236	28,729	34,957	106,594	351,516	2,281,800	15.40
1994	170,016	31,534	37,030	109,268	347,848	2,306,000	15.08
1995	151,052	34,037	39,686	113,034	337,809	2,306,300	14.41
1996	145,552	33,386	42,450	117,836	339,224	2,345,000	14.45
1997	152,195	34,371	46,099	121,569	354,234	2,365,700	14.97

Notes:

- (a) Includes training benefit.
- (b) Includes widows benefit. The Domestic Purposes Benefit was introduced in 1973.
- (c) Total of benefits shown.
- (d) Population aged 15 to 64 years. Data are for the de facto population. Figures for years earlier than 1980 are interpolated from census estimates.

Source: DSW (1997d); Statistics New Zealand (1978, 1996a, 1997a).

past few years shows that the link is not always a close one. Although adverse developments in the labour market are likely to increase the number of beneficiaries, the reverse is not necessarily the case. Over the medium to long term, therefore, the reason for growth in the number of beneficiaries is likely to be found from within the benefit system itself rather than in external circumstances such as the state of the labour market. This is especially true for benefits other than unemployment benefits.

The link between changes to the benefit system and the number of beneficiaries is a complex one. For example, the introduction of domestic purposes benefit in 1973 was in part a response to the increasing prevalence of sole parenthood in New Zealand. The introduction of the new benefit made sole parenthood financially easier than previously and, after a time, people began to respond to the changed set of incentives now provided by the welfare system. Moreover, as the number of domestic purposes beneficiaries has increased, the receipt of a benefit has become less unusual and hence more acceptable. Thus, over time, the proportion of sole parents who receive benefits has tended to increase (see Rochford, 1993, pp 11–12, 43).

Average benefit levels depend both on maximum benefits and the relationship of average benefits to the maximum. The second of these factors depends on how much non-benefit income beneficiaries have and how the income test for benefits works. These complex issues are discussed in Chapter 4 of this report.

Data on *maximum* basic benefits in real terms (ie after adjustment for inflation) are presented in Table 2.6. It will be seen that benefits remained broadly constant in real terms during the period from 1981 to 1988.¹ They then fell rapidly, but stabilised at a lower level from 1991. The increased rates of family support payable from 1 July 1996 have led to a modest increase in real benefit levels for families with children. (A further increase in family support was payable from July 1997.)

Over the period as a whole there has been a substantial reduction in the rate of benefits – especially for unemployment beneficiaries and domestic purposes beneficiaries – after allowing for inflation. Unemployment benefit rates in April 1997 were 84 percent (single adult without children) or 82 percent (married beneficiaries with children) of

¹ Benefits increased in terms of earnings following implementation of the recommendation of the 1972 Royal Commission on Social Security. Real wage decline and 'fiscal drag' (arising from the effect of inflation on unchanged tax scales) also tended to increase the ratio of benefits to average earnings during the later 1970s and 1980s.

TABLE 2.6: Benefit Rates^(a) in Real Terms (1997 NZ dollars), 1981–1997

	Unemployment Benefit			Invalids Benefit		Domestic Purposes Benefit	
	<i>Single</i>	<i>Married</i>	<i>Single Adult</i>	<i>Single</i>	<i>Married</i>	<i>Single Adult</i>	<i>Married</i>
	<i>18–19 (no chldn)</i>			<i>18–19 (no chldn)</i>			
Jan 81	133.18	174.91	370.97	204.03	370.97	340.06	370.97
Jan 82	133.53	175.33	370.34	204.53	370.34	340.89	370.34
Jan 83	132.00	173.32	364.71	202.29	364.71	337.14	364.71
Jan 84	129.53	170.14	357.12	198.59	357.12	331.00	357.12
Jan 85	139.78	180.26	371.59	203.40	371.59	338.98	362.42
Apr 86	144.52	178.31	363.26	201.52	363.26	335.77	363.26
Apr 87 ^(c)	144.64	178.45	371.96	201.84	371.96	339.05	370.92
Apr 88	143.51	177.06	363.15	200.12	363.15	331.52	360.59
Apr 89	138.45	173.07	360.48	195.60	360.47	319.09	356.60
Apr 90	135.23	169.04	349.78	191.03	349.77	300.40	344.82
Apr 91	121.41	145.70	305.16	182.12	350.69	255.83	299.49
Apr 92	121.49	145.80	304.89	182.24	350.44	255.53	298.98
Apr 93	121.46	145.77	304.23	182.21	349.77	254.89	298.00
Apr 94	121.43	145.73	303.52	182.16	349.05	254.17	299.12
Apr 95	121.43	145.73	302.29	182.15	347.80	252.93	300.32
Apr 96	121.43	145.73	301.04	182.15	346.55	251.68	298.28
Jul 96 ^(d)	120.86	145.05	302.17	181.29	347.46	253.04	301.96
Apr 97	121.77	146.13	303.30	182.65	348.92	253.80	302.34

Notes:

- (a) Benefit rates include family benefit, child supplement (before October 1986) and family support where relevant. Amounts shown are net (ie after tax) amounts.
- (b) After 1994, child aged 0 to 12 years.
- (c) Benefits other than unemployment benefit became taxable in October 1986 (unemployment benefit had previously been taxable). Benefit rates were also increased at that time to compensate for the introduction of GST.
- (d) Tax rates were reduced and family support was increased in July 1996.

Source: Department of Social Welfare (personal communication).
 Statistics New Zealand (1997b).
 Author's calculations.

the January 1981 levels. The invalid benefit rate in April 1997 was 90 percent of its real January 1981 value for single adults without children and 94 percent for married beneficiaries with children. The rate of domestic purposes benefit was 75 percent (1 child) or 81 percent (2 children) of the 1981 real benefit level.

One consequence of the introduction of differences in benefit rates in recent years has been a tendency for migration to occur from unemployment benefit to invalids and sickness benefits. This in part reflects a more accurate classification of beneficiaries by the Department of Social Welfare but is also a response by individuals to the incentives now provided by the benefit system.

The benefit levels in Table 2.6 include the additions for children, such as family support. But Table 2.6 does not present the complete picture because it excludes consideration of the supplementary payments, such as accommodation supplement, that are paid largely (but not exclusively) to beneficiaries, and emergency payments (such as special benefit) that are also paid largely to beneficiaries of working age. These supplementary and safety net payments are an important part of the recent history of New Zealand's income support arrangements. This history is presented briefly in the next section.

RECENT DEVELOPMENTS IN INCOME SUPPORT IN NEW ZEALAND

Accommodation Supplement

As noted, the New Zealand government reduced benefits substantially in 1991. In the most recent years, however, the benefit cuts have been partially reversed through increases in supplementary payments. For example:

- Access to special needs grants was made easier from December 1994. (Special needs grants for beneficiaries have now been merged into the benefit advances programme.)
- Special benefit was increased, and access to it made easier, from April 1995. (Expenditure has declined since November 1995 due to a more careful application of regulations.) A further easing in eligibility conditions occurred from July 1997.
- Maximum rates of accommodation supplement were increased in July 1995, July 1996, April 1997 and July 1997. (The number of centres in which the intermediate – formerly Wellington – rate of accommodation supplement is payable was increased in April 1997.)
- The rates of family support were increased in July 1996 and July 1997.

These changes were thought to be needed because of changes to government housing policy and increases in rents in some centres. Accommodation supplement was introduced in July 1993. From 1991, New Zealand has progressively replaced the former policy, in which housing assistance was provided through a combination of limited income support in the private sector, subsidised mortgages for first home owners from the Housing Corporation and direct delivery of (subsidised) housing for state tenants, with income support on a tenure-neutral basis for all households with high housing costs and low incomes. The introduction of the new policy resulted in an increase in recorded government spending because the cost of the previous policy was partly disguised by low returns on Housing Corporation assets. The real cost of the new policy was intended to be broadly equivalent to that of the former policy. Because many state tenants faced a steep increase in housing costs as a result of the changed policy, the change was phased in over the period to 1995. By contrast, many private sector tenants, owners and boarders gained from the new policy. Over 80 percent of all beneficiaries and pensioners who received accommodation supplement in June 1997 were in private accommodation (DSW, 1997d, p 61).

One consequence of these developments was increased reliance during 1994 and 1995 on emergency assistance from the government. Another was increased pressure on private sources of emergency relief, such as foodbanks. This seems to have been taken by the New Zealand community, including the government, as an indication that benefit levels were inadequate (see, for example, the Minister of Social Welfare's media release dated 15 December 1994). The eventual result was an increase in accommodation supplement which benefited mortgagors and renters in the private sector as well as those adjusting to a higher level of state sector rents. At the same time, foodbanks apparently report a continuing high level of demand for their services, which may include advice on budgeting as well as the distribution of food parcels. An alternative approach might have included greater government support (at least on a temporary basis) for the emergency relief programmes of voluntary agencies. This approach is discussed further in Chapter 6 of this report.

In its post-election briefing papers, the Department of Social Welfare (DSW, 1996b, pp 70–76) notes that there has been a change in the balance between basic benefits and supplementary payments since 1991. The increased emphasis on supplementary payments has enabled welfare spending to be directed to the truly needy to a greater extent than in the past. Expenditure on supplementary payments has also risen because

people are now more willing to seek this type of assistance. Greater emphasis on supplementary payments has some disadvantages: they are more complex, can reduce work incentives because of high rates of abatement, have higher administration costs and are more intrusive. In particular, the Department notes (pp 73–74) that "discretionary programmes are more costly to deliver and questions have been raised about the ability to ensure a consistent application of discretion – so that a person in the same situation is treated in the same manner from one office to another ... The appropriateness of large and costly programmes (such as the \$87 million special benefit) remaining discretionary, rather than subject to rules which have had parliamentary scrutiny, is debateable".

Expenditure on accommodation supplement rose by 213 percent between 1992/93 and 1996/97, and is expected by the Department of Social Welfare to rise by about 10 percent a year. There were 297,134 recipients of accommodation supplement at the end of June 1997, an increase of 16,765 (6 percent) over June 1996 (DSW, 1997d, p 59). Spending on other supplementary and safety net programmes has increased significantly in recent years and is expected to continue to increase.

Accommodation supplement is a significant programme in its own right and deserves some analysis. This is provided in Table 2.7. The first column shows the average amount received in accommodation supplement by each beneficiary who receives accommodation supplement. The second column shows the percentage of people receiving each type of benefit who also receive accommodation

TABLE 2.7: Accommodation Supplement, June 1997

	<i>Average Amount per Recipient (\$NZ pw)</i>	<i>Proportion of Beneficiaries Receiving Accommodation Supplement (%)</i>	<i>Percentage Addition to Average Benefit (%)</i>
Unemployment Benefit	37.21	70.0	13.9
Training Benefit	24.23	62.7	9.4
Sickness Benefit	43.27	71.8	13.7
Invalids Benefit	38.93	53.3	9.0
Domestic Purposes Benefit	57.87	84.9	18.4
Widows Benefit	50.06	37.7	9.9

Source: DSW (1997d); own calculations.

supplement. Taking account of this information, the third column shows the average addition that the supplement makes to benefit for all beneficiaries. It will be seen that for unemployment benefit, sickness benefit and domestic purposes benefit, the average addition to benefit exceeds 10 percent.

Finally, Table 2.8 shows that the increases in accommodation supplement over the past two years have been substantial. There have been important policy changes, including an increase in the maximum proportion of accommodation costs that can be subsidised by the Department of Social Welfare and an increase in the number of residential centres in which the intermediate rate of accommodation supplement is payable.

TABLE 2.8: Maximum Amounts of Accommodation Supplement (\$NZ pw), 1995 and 1997

<i>Household Size^(a)</i>	<i>Auckland^(b)</i>	<i>Wellington^{(b) (c)}</i>	<i>Rest of New Zealand^(b)</i>
1 person	100 (60)	65 (50)	45 (41)
2 persons	115 (75)	75 (60)	55 (50)
3 persons	150 (100)	100 (65)	75 (55)

Notes:

- (a) Adults and children are both counted as persons. Thus, a 3-person household could comprise an adult and two children, or two adults and one child.
- (b) Unbracketed figures give rates at July 1997. Figures in brackets give rates prior to July 1995.
- (c) From April 1997 the supplement has also been payable at the intermediate rate in other high cost centres (Christchurch, Nelson, Tauranga, Palmerston North, Rotorua, Napier/Hastings and Hamilton).

Source: New Zealand, Minister of Housing.

Discretionary Payments

It is useful to describe New Zealand's system of special needs grants in some detail. Payments may be made to cover a very wide range of contingencies indeed. For example, special needs grants are payable, subject to a cash assets test, to beneficiaries and non-beneficiaries for:

- assistance in transition to work;
- bedding;
- dental treatment;
- food;
- health travel costs;
- laser therapy for birthmark removal;
- medical emergency expenses;
- medical treatment overseas;
- occupational training course fees;
- travel for stranded persons;
- vasectomies and pregnancy terminations;
- wigs and hair pieces.

Advance payments of benefit may be made, subject to a cash assets test, for:

- accommodation costs;
- bedding;
- beds, tables, chairs;
- bonds, rental payments in advance;
- car repairs;
- car restraints, cycle helmets;
- clothing;
- dental treatment;
- dentures, glasses and hearing aids;
- doctor's bills;
- electricity and gas;
- fire, loss and burglary;
- funeral/tangihanga;
- laser therapy for birthmark removal;
- medical treatment overseas;
- other appliances;
- other furniture;
- prescription charges;
- school uniforms;
- school stationery;
- school examination fees;
- telephone installation;
- urgent home repairs and maintenance;
- vasectomies;
- washing machines and fridges;
- wigs and hairpieces;
- women travelling to have abortions.

ACTIVE ASSISTANCE

In its post-election briefing the Department of Social Welfare describes its efforts to move from a "passive" system of income support, which merely involves paying benefits to eligible people, to a more "active" system in which beneficiaries are expected to engage in activities that will improve their situation. An active policy might involve: providing incentives to beneficiaries to work or train, and assistance with child care, transport and so on; requiring beneficiaries to engage in such activities as a condition for receiving benefits; or a mixture of both. The Department of Social Welfare notes (DSW, 1996b, p 29) that New Zealand places relatively few explicit obligations on beneficiaries. With the exception of the stand-down period for voluntary unemployment, persuasion rather than financial sanctions tends to be used to encourage beneficiaries to comply with the few obligations they have. I discuss in Chapter 6 of this paper whether additional obligations should be placed on beneficiaries and whether greater use should be made of financial sanctions.

New Zealand has recently encouraged a more active approach to income support through the following measures:

- increased free areas and a dual abatement rate;
- the introduction of a family tax credit for low-income working families;
- a case management approach for some beneficiaries. This involves more intensive monitoring than previously by a particular staff member within the Department of Social Welfare;
- new obligations for certain beneficiaries (eg sole parents and spouses of unemployment beneficiaries with older children);
- targeted programmes to encourage particular groups of beneficiaries into education and training. These programmes include COMPASS (for sole parents) and BOOST (for young people receiving independent youth benefit).

The likely success of these programmes in achieving their objectives is also discussed later in this report.

THE DYNAMICS OF DEPENDENCY

In a recent paper, George Barker (1996) points to the substantial degree of mobility that exists within the New Zealand income distribution. Using income tax data he estimates that 25 percent of taxpayers in the lowest quintile of the income distribution between 1980 and 1987 had moved up the income scale one year later, and 46 percent had moved

up seven years later. It is easy to understand why there should be significant flexibility within the income distribution of a market economy. There is a random element in incomes – for example, a business owner may have a bad year – that may reverse itself in subsequent years. Moreover, a period of low income may be planned in the expectation that the skills and knowledge gained will lead to higher incomes later. Examples of this include education and training and, indeed, the initial stages of building up a business.

Concern about dependency is focused on the reverse phenomenon – that some persons may remain in the lower part of the income distribution for some time. Changes in the average duration of receipt of benefits, moreover, will affect the aggregate number of beneficiaries. To see this, consider a benefit that is in a "steady state", ie the number of persons joining the benefit each week equals the numbers leaving it. Then:

Number on benefit = Number joining each week x Average Number of weeks on benefit.

A study of the duration of benefit receipt, which has been undertaken by the Treasury and the Department of Social Welfare, has drawn attention to important aspects of the benefits system. This study followed a group of beneficiaries and investigated how long they remained on benefits and the reason why they ceased to receive benefits. The main findings are as follows:

- Nearly 50 percent of New Zealand's working age population have received benefits at some time during the past four and a half years.
- Many spells on benefit are of short duration. Fifty percent of the beneficiaries in the study leave benefit during the first six months and 70 percent during the first 12 months.
- Seventy-five percent of the unemployment and sickness beneficiaries, 41 percent of the domestic purposes beneficiaries, 17 percent of the widows beneficiaries and 16 percent of the invalids beneficiaries left benefit during the first year.
- Finding work was an important reason for leaving unemployment benefit, but much less so for the other benefits.
- Around 10 percent of spells on benefits are for three years or longer. The study found that 59 percent of the invalids beneficiaries, 46 percent of the widows beneficiaries and 31 percent of the domestic purposes beneficiaries were receiving benefits after three years.²

² Source for this paragraph: George Barker, private communication, 25 August 1997.

The study focused on spells on benefits. Some people who leave benefit may quickly return. Nevertheless, it seems clear that the majority of spells on benefits are of short duration and that most expenditure on benefits arises from short-term beneficiaries. A minority of beneficiaries receive benefits continuously for a long time.

In its briefing to the incoming government, the Treasury (1996) reports that it is worried about the duration issue. For example, the briefing notes that, as at June 1996, 54 percent of working age beneficiaries had been in receipt of benefit for more than a year and that 109,000 children in March 1996 lived in families that had been continuously in receipt of benefit for two or more years (p 82). The average duration of receipt of domestic purposes benefit had increased from three years in 1982 to three and three quarter years in 1996. Moreover, although "around 40 percent of [DPB] benefit recipients move off benefits within 12 months of entry, many of these do not stay off. Nearly 60 percent of DPB recipients who exited the benefit in the second half of 1992 returned at least once within the three years to June 1995. As at June 1996, nearly a quarter of the total DPB population had continuously received the DPB for at least six years" (p 87).

It is natural to be worried about long-term beneficiaries.³ It is sensible, nevertheless, to focus on the total number of beneficiaries because the incentives for people to qualify for and remain on benefits for short periods of time are also of concern. Greater attention will be paid to the needs and circumstances of long-term beneficiaries if the number of short-term beneficiaries can be minimised.

S U M M A R Y

The main points in this chapter are as follows:

1. Expenditure on benefits for persons of working age is over 5 percent of GDP (over 6 percent if taxes on income tested benefits are also included). Over 19 percent of New Zealand adults of working age (including spouses), and 30 percent of its children, are dependent on benefit.
2. Expenditure on benefits for persons of working age is vastly greater than it was a generation ago. As a result of benefit reductions and the improved economic circumstances of recent years, benefits were broadly stable as a share of GDP during the period from 1991 to 1995. There are signs that growth in government spending on benefits has now resumed.

³ The reasons why dependency on welfare is of concern are discussed briefly in Chapter 1, and at greater length in Chapter 5, of this study.

3. The main reason for increased spending on benefits is the much greater number of beneficiaries. During the late 1970s and the 1980s the numbers first of domestic purposes beneficiaries and then of unemployment beneficiaries began to increase rapidly. Despite strong growth in employment since 1991, the total number of beneficiaries has increased. The number of unemployment beneficiaries fell between 1993 and 1996 but increased in 1997. The number of sickness, invalids and domestic purposes beneficiaries has been increasing since 1994.
4. A substantial reduction in the level of basic benefits in real terms occurred during the 1980s and the early 1990s. This change has been partly reversed since 1993 largely because more generous supplementary benefits (including accommodation supplement) and discretionary benefits have been made available. Not only have the rates of accommodation supplement increased in recent years but policy changes have made it more readily available.
5. New Zealand places relatively few explicit obligations on beneficiaries and tends to encourage compliance by persuasion rather than financial sanctions.
6. Most spells of receipt of benefit are of relatively short duration, but a minority of beneficiaries are dependent on benefits for long periods of time. Around 10 percent of spells on benefits are for three years or longer.

3 THE NEW ZEALAND INCOME SUPPORT SYSTEM IN A COMPARATIVE PERSPECTIVE

This chapter compares the New Zealand and the Australian arrangements for providing income support for persons of working age. As noted in an earlier publication by the New Zealand Business Roundtable (Smith, 1990) there are good reasons why comparisons between the New Zealand and Australian arrangements are of interest. These include the similarity between the social and political traditions and institutions of the two countries, the increasing freedom of movement of labour, capital and goods across the Tasman, and the absence of social insurance in both countries. Comparisons between New Zealand and Australia are more likely to be directly relevant than comparisons of either country with countries (including most European countries) with quite different institutions.

The purpose of making these comparisons is not to suggest that the Australian arrangements are right and the New Zealand ones are wrong (or vice versa). Rather, it is to suggest alternative policies that may realistically be available because they have been adopted in another country with similar institutions.

SPENDING ON INCOME SUPPORT IN NEW ZEALAND AND AUSTRALIA

A comparison of New Zealand and Australian government spending on the main benefits for the population of working age is provided in Table 3.1. The most contentious aspect of Table 3.1 is the inclusion of periodic income maintenance from ACC for New Zealand but payments only of weekly workers compensation benefits for Australia. Australia has highly regulated, compulsory insurance programmes for workers compensation and injuries to third parties in motor vehicle accidents. The Australian insurance programmes tend to make lump sum payments. These have been excluded from the table both for New Zealand and Australia. Workers compensation programmes in Australia also pay weekly benefits, but these are often limited. For example, benefits cease after two years in Victoria unless the injury results in total permanent impairment. Although there are special rules in Australia that restrict

access to government pensions for those receiving periodic or lump sum compensation payments, the disability support pension may still be received while the beneficiary is awaiting compensation or once compensation has been exhausted. And, while lump sum compensation payments notoriously generate 'compensation neurosis' prior to receipt, they are less likely than periodic payments to generate long-term dependency following receipt.

According to Table 3.1, Australia spent 4.17 percent of its GDP on the main benefits for the population of working age in 1995/96. By contrast, New Zealand spent 5.72 percent of GDP on these benefits.¹ (If

TABLE 3.1: Spending on Income Support in New Zealand and Australia, 1995/96

	<i>New Zealand</i>		<i>Australia</i>	
	<i>Expenditure (\$NZ,m)</i>	<i>as Share of GDP (%)</i>	<i>Expenditure (\$AUS,m)</i>	<i>as Share of GDP (%)</i>
Unemployment Benefit ^(a)	1,276.540	1.43	6,201.724	1.27
Training Benefit ^(b)	96.973	0.10	130.628	0.03
Sickness Benefit ^(c)	378.850	0.42	354.012	0.07
Invalids Benefit ^(d)	494.849	0.55	4,917.412	1.01
Domestic Purposes Benefit ^(e)	1,440.122	1.61	2,760.105	0.57
Widows Benefit ^(f)	85.008	0.10	554.480	0.11
Orphans and Unsupported Children	22.929	0.03	1.654	
Special Benefit ^(g)			157.088	0.03
Partner Allowance ^(h)			424.926	0.09
Parenting Allowance ⁽ⁱ⁾			1,020.000	0.21
ACC ^(j)	820.155	0.92	1,033.000	0.21
Family Support ^(k)	500.000	0.56	2,810.000	0.57
Total	5,115.426	5.72	20,365.399	4.17

¹ As noted in Chapter 2, it is arguable that income tax payments on income tested benefits by the Department of Social Welfare should be included in the expenditure total in Table 3.1 for New Zealand. This would increase expenditure by \$620m and increase the share of income support spending in GDP to 6.41 percent. The Australian figures include income tax payable by pensioners and beneficiaries. There are, however, important differences between the New Zealand and Australian income tax systems including, most relevantly here, an income tax threshold in Australia but not New Zealand.

Table 3.1 continued

Notes:

- (a) Newstart allowance, job search allowance and mature age allowance in Australia.
 - (b) Youth training allowance for Australia.
 - (c) Sickness allowance in Australia.
 - (d) Disability support pension in Australia. Includes spending on wives and carer's pensions.
 - (e) Sole parent pension in Australia.
 - (f) Widow Pension (Class B) and widowed person allowance in Australia.
 - (g) Special benefit in Australia is a separate benefit for those who do not otherwise qualify. For New Zealand, expenditure on special benefit is included in the main benefit totals.
 - (h) Included in main benefit totals for New Zealand (this especially affects unemployment and sickness benefit totals).
 - (i) Author's estimate of amount going to beneficiary families. Included in main benefit totals for New Zealand.
 - (j) For New Zealand, amount of earnings-related compensation paid by ACC. For Australia, Industry Commission estimate of weekly workers compensation benefits in 1991/92, adjusted for Commonwealth Schemes.
 - (k) For Australia, author's estimate of amount of family payment to beneficiary families.
-

Source: New Zealand: DSW (1996e); ACC (1996a).

Australia: DSS (1996); Industry Commission, (1994).

compensation payments are excluded, the figures are 4.0 percent of GDP for Australia and 4.8 percent for New Zealand.) New Zealand spent proportionately more than Australia on domestic purposes benefits, sickness benefits and ACC payments. Spending on invalids benefits was significantly higher in Australia.

A comparison of the number of people receiving each of the main benefits in the two countries in the middle of 1996 is shown in Table 3.2. These data are for the number of *benefits* and hence exclude spouses. In Australia, there is an increasing tendency to make separate payments to each member of a married couple. For consistency, I have excluded the numbers receiving (but not the expenditure on) such payments in Australia as wife's pension, carer's pension, parenting allowance and partner allowance.

TABLE 3.2: Recipients of Main Benefits for Persons of Working Age, New Zealand and Australia, 1995/96

	<i>New Zealand</i>		<i>Australia</i>	
	<i>Recipients (Number)</i>	<i>Recipients as Share of Population of Working Age (%)</i>	<i>Recipients (Number)</i>	<i>Recipients as Share of Population of Working Age (%)</i>
Unemployment Benefit	134,133	5.72	858,300	7.03
Training Benefit	11,389	0.49	34,200	0.28
Sickness Benefit	33,386	1.42	34,500	0.28
Invalids Benefit	42,450	1.81	490,300	4.02
Domestic Purposes Benefit	108,789	4.64	341,960	2.80
Widows Benefit	9,047	0.39	61,611	0.50
Orphans Benefit	4,662	0.19	1,319	0.01
Special Benefit			18,200 ^(a)	0.15
ACC Payments	55,995	2.39	n.a.	
Total	399,851	17.05	1,840,390	15.08

Notes:

- (a) DSS advise that "approximately half" of special beneficiaries are classified as "not residentially qualified for age pension". They are therefore not of working age.

Source: DSW (1996e); DSS (1996).

It can be seen from the table that around 17 percent of New Zealanders of working age rely on the main income support payments. (If periodic payments from ACC are excluded, beneficiaries represent 14.7 percent of the working age population.) By contrast, around 15 percent of Australians of working age rely on the main income support payments. (I have been unable to obtain accurate data on the number of people obtaining weekly compensation payments from workers compensation in Australia. Because of the restricted nature of Australian earnings-related compensation it is likely that the proportion of the population receiving such benefits is less than in New Zealand.)

Because of the lower level of unemployment, the proportion of people relying on unemployment benefit is lower in New Zealand than Australia. The percentage dependent on invalids benefits is also lower in New Zealand than in Australia; however over 2 percent of New

Zealand's population of working age receives periodic income maintenance from ACC. But the proportion of the working age population that receives sickness benefit or domestic purposes benefit (or their equivalents) is higher in New Zealand than in Australia. Because this issue is of such concern, the reasons for it are discussed further in the next section.

TABLE 3.3: Average Benefit per Beneficiary^(a), New Zealand and Australia, 1995/96

	<i>New Zealand</i> \$NZ a year	<i>Australia</i> \$AUS a year	<i>Australia^(b)</i> \$NZ a year
Unemployment Benefit	9,517	9,085	9,993
Training Benefit	8,515	3,786	4,165
Sickness Benefit	11,348	10,732	11,805
Invalids Benefit	11,657	10,094	11,103
Domestic Purposes Benefit	13,238	8,071	8,879
Widows Benefit	9,396	9,000	9,900

Notes:

- (a) Amounts include supplements for spouses (wives' pensions, partner allowance and parent's allowance for Australia). Supplementary payments for housing included; family payments excluded. Subsidies for public transport fares, pharmaceuticals, utility bills (both countries) and rents in public housing (Australia) are excluded.
- (b) Assumes \$1AUS equals \$1.10NZ.

Source: DSW (1996e); DSS (1996).

An estimate of the average benefit per beneficiary is provided in Table 3.3. After allowing for the exchange rate between the two dollars (at present, \$1AUS equals about \$1.10NZ), it can be seen that the average rate of unemployment benefit and sickness benefit is higher in Australia than in New Zealand, but the average rate of invalids and (especially) domestic purposes benefit is higher in New Zealand than in Australia. (This comparison does not take account of the differing average income levels in the two countries.) These data, however, provide only a rough indication of the relative benefit levels. They are influenced, for example, by the varying extent to which assistance is provided in the two countries through benefits, or through family assistance which is excluded from these calculations. Family assistance is relatively more important in

Australia than New Zealand. A careful comparison of maximum benefits in the two countries is provided in the section 'Maximum Benefit Rates in New Zealand and Australia' (page 37).

SOLE PARENTS IN NEW ZEALAND AND AUSTRALIA

The term 'sole parent family' is sometimes defined by statistical agencies to include all families headed by a lone parent and sometimes defined by these agencies to include only those families where dependent children are present. This can lead to confusion. Except where noted, 'sole parent family' is used in this report to refer to all families that are headed by lone parents.

New Zealand has more sole parents in proportion to population than Australia. According to census data (Statistics New Zealand, 1993b, pp 32–33) there were 151,755 one parent families and 423,816 two parent families in private dwellings in New Zealand in 1991. The percentage of sole parents was therefore 26.36 percent of all families. A similar calculation shows that sole parents were 19.32 percent of all families in Australia at the 1991 census (ABS 1993a). Some 22.7 percent of New Zealand families with either a European sole parent or (in two parent families) a European mother were sole parents; this exceeds the percentage for all Australian families. By contrast, 45 percent of Maori families and 33 percent of Pacific Islands families were sole parents.

New Zealand sole parents are, on average, younger than Australian sole parents. Around 12 percent of sole parents in New Zealand in 1991 were aged under 25 years and 40 percent were aged under 35 years. The corresponding figures for Australia were 8 percent and 29 percent, respectively.²

New Zealand sole parents are more likely to be unmarried (as opposed to separated, divorced or widowed) than Australian sole parents. Some 27 percent of New Zealand sole parents were unmarried in 1991. Thirty-six percent of sole parents with dependent children had never married (Rochford, 1993, p 44). The corresponding figure for Australian sole parent pensioners (not total sole parents) in 1993 was 18 percent. There may be differences between the two countries in the classification of persons who had separated from de facto relationships; Whiteford (1997, p 27) indicates that 25 percent of Australian lone mothers and 13 percent of lone fathers had never married.

² Although Maori and Pacific Islands sole parents tend to be younger than European sole parents, New Zealand sole parents of European ethnic origin are also on average younger than Australian sole parents (see Rochford, 1993, p 52).

New Zealand sole parents are less likely to work than their Australian counterparts. This is especially true for part-time work.

A detailed comparison of changes in employment rates for sole parents with dependent children is presented in Table 3.4. This table is drawn from census data for New Zealand and survey data for Australia. It will be seen that the employment rates of sole mothers and sole fathers are higher in Australia than in New Zealand. Whereas the employment rates of sole parents and especially sole fathers has fallen sharply in New Zealand as domestic purposes benefit has become more widely accepted, this has not occurred to nearly the same extent in Australia. Indeed, the employment rate of sole mothers increased in Australia over the 1980s. The recent increase in employment rates for sole parents in New Zealand is interesting and is discussed in Chapter 6 (page 97).

The proportion of sole parents receiving benefits is higher in New Zealand than in Australia. For example, 74 percent of sole parents aged under 60 years in New Zealand in 1991 received the main benefit for sole parents, domestic purposes benefit. By contrast, 58 percent of

TABLE 3.4: Employment Rates for Sole Parents with dependants in Australia and New Zealand, 1976–1995

	New Zealand				Australia			
	Sole Mothers		Sole Fathers		Sole Mothers		Sole Fathers	
	Full	Part	Full	Part	Full	Part	Full	Part
	Time ^(a)	Time ^(b)	Time ^(a)	Time ^(b)	Time ^(c)	Time ^(d)	Time ^(c)	Time ^(d)
	%	%	%	%	%	%	%	%
1976 ^(e)	25	15	81	2	22	15	78	n.p.
1981	22	13	74	2	22	15	78	n.p.
1986	22	11	61	4	24	15	61	n.p.
1991	17	11	44	4	25	19	66	n.p.
1996	20	16	47	8	22	21	63	8

Notes:

- (a) Usually worked 30 hours or more a week.
- (b) Usually worked 1 to 29 hours a week.
- (c) Usually worked 35 hours or more a week (or did so in the reference week).
- (d) Usually worked 1 to 34 hours a week.
- (e) 1979 for Australia.
- n.a. Not available.
- n.p. Not provided (for statistical significance reasons).

Source: Rochford, 1993, Table 12; Statistics NZ (personal communication); ABS (1996c); and ABS Catalogue No 6224.0, various issues.

Australian sole parents under 60 years received sole parents pension in 1991.³ Some sole parents in both countries would have received other benefits, such as unemployment benefit, if they were looking for work.

In its post-election briefing, the Department of Social Welfare includes (DSW, 1996b, p 80) some interesting tables on sole parents as a percentage of all families with dependent children in a number of countries, and the proportion of sole mothers in various countries who are not employed. These tables are reproduced as Tables 3.5 and 3.6 below. Although the Department warns about the difficulty of making such comparisons – for example, definitions of key terms may not be uniform – the tables confirm that New Zealand has a high proportion of sole parents and a high proportion of mothers who do not work. Australia is closer to the average for the countries shown in these respects. Combining both pieces of information, it will be seen that the proportion of families which are headed by sole mothers who are not employed is particularly high in New Zealand.

TABLE 3.5: Sole Parent Families as a Proportion of all Families with Dependent Children, 1991^(a)

<i>Country</i>	<i>Proportion (%)</i>
United States	25
New Zealand	24
United Kingdom	22
Canada	20
Norway	19
Australia	18
Sweden	18
Denmark	17
France	13
Netherlands	11
Italy	5
Spain	5
Japan	4

Notes:

(a) Or year close to 1991.

Source: DSW (1996b).

³ In these comparisons, sole parents include those with and without dependent children. The corresponding figures for sole parents with dependent children are 69 percent (Australia) and 98 percent (New Zealand).

TABLE 3.6: Proportion of Sole Mothers not Employed, 1990^(a)

<i>Country</i>	<i>Proportion (%)</i>
New Zealand	74
Netherlands	71
United Kingdom	62
Australia	55
Canada	47
United States	39
Austria	31
Sweden	13
Finland	13

Notes:

(a) Or year close to 1990.

Source: DSW (1996b).

MAXIMUM BENEFIT RATES IN NEW ZEALAND AND AUSTRALIA

A comparison of maximum benefit rates with average earnings for both New Zealand and Australia is presented in Table 3.7. Because this is an important table, it is worth saying a little about its construction before turning to the main findings. For New Zealand, the benefit rates are those applying from 1 July 1996 to 31 March 1997. The net benefit rates (ie benefit rates after payment of income tax) are used because these are the amounts that people actually receive. Benefits are compared with average ordinary time weekly earnings because this is the comparison which is usually made in New Zealand. Before making the comparison, income tax is deducted from average weekly earnings on the assumption that the same amount of income is earned in each week of the year.

I have attempted to draw the same picture for Australia. The benefit rates are the ones applying over the period from 1 January to 19 March 1997. It should be noted that rent assistance in Australia is payable only to boarders, renters in private accommodation and persons in nursing homes and hostels. Persons renting accommodation from government housing authorities are likely to receive subsidised rentals. ABS income distribution data (ABS, 1993b) show, however, that only 11 percent of income units whose principal source of income is government benefits are tenants of government housing authorities. By contrast, the New

Zealand accommodation supplement is potentially available to all households, whether they rent, board or own their homes, provided that their housing expenses are sufficiently large in relation to their incomes.

TABLE 3.7: Benefits as Percentage of Net Average Ordinary Time Weekly Earnings,^(a) Australia and New Zealand, 1996/97

	<i>Benefit Only</i>		<i>Benefit plus Family Support^(b)</i>		<i>Benefit, Family Support & Accommodation Supplement^(c)</i>	
	<i>New Zealand</i>	<i>Australia</i>	<i>New Zealand</i>	<i>Australia</i>	<i>New Zealand</i>	<i>Australia</i>
	%	%	%	%	%	%
UB, ^(d) 18 to 19 years, no children	23.53	25.20	23.53	25.20	35.42	32.30
UB, 20 to 24 years, no children	23.53	30.48	23.53	30.48	35.42	37.58
UB, Single Adult, ^(e) no children	28.24	30.48	28.24	30.48	40.13	37.58
UB, Married, 1 child	50.01	55.01	58.83	64.14	77.65	72.43
UB, Married, 2 children	50.01	55.01	64.67	73.28	83.50	81.57
UB, Married, 2 children, IFTC ^(f)	47.07	49.07	60.87	65.38	78.59	72.77
IB, ^(g) Single Adult, No children	35.30	32.98	35.30	32.98	47.19	40.08
IB, Married, 1 child	58.83	55.01	67.65	64.14	86.47	72.43
IB, Married, 2 children	58.83	55.01	73.49	73.28	92.32	81.57
IB, Married, 2 children, IFTC	55.37	49.07	69.17	65.38	86.89	72.77
DPB, ^(h) 1 child	40.45	33.96	49.27	46.95	64.13	53.88
DPB, 2 children	44.12	33.96	58.79	56.37	77.62	63.02
DPB, 2 children, IFTC	41.53	29.42	55.33	48.83	73.05	56.22

Table 3.7 continued

Notes:

- (a) New Zealand: benefit rates from 1 July 1996; average ordinary time weekly earnings (males and females combined: all surveyed industries), November 1996. Australia: benefit rates from 1 January to 19 March 1997; average ordinary time weekly earnings of full time adults (persons), February 1997. Adjusted for tax (for both countries) as discussed in text.
- (b) New Zealand: assumes child aged 0 to 12 years. Australia: family payment (includes guardian's allowance where relevant). Assumes children aged 5 to 13 years. Excludes family payments for persons in employment (but see note (h) below).
- (c) New Zealand: maximum accommodation supplement at intermediate (Wellington) rate. Australia: maximum rent assistance.
- (d) New Zealand: unemployment benefit. Australia: newstart allowance.
- (e) Adult rate payable from 21 years in Australia.
- (f) Takes account of family payments available to a family on average earnings. New Zealand: family support and the independent family tax credit. Australia: basic parenting allowance, family payment and the family tax initiative. It could be argued that it is inconsistent to compare benefits only with benefits plus family support for persons in employment. However, the table illustrates the relative importance of the various components of the benefit package.
- (g) New Zealand: invalids benefit. Australia: disability support pension.
- (h) New Zealand: domestic purposes benefit. Australia: sole parents pension.

Source: New Zealand: DSW (1996d); Statistics New Zealand (1996c); Minister of Finance (1996); 1996/97 income tax scale.
Australia: DSS (1997); ABS (1997); 1996/97 income tax scale.

Because Australian pensioners and beneficiaries have the benefit of the tax threshold, gross (ie before tax) benefit rates have been used. The average weekly earnings series is for the average ordinary time earnings of full-time adult employees (males and females, combined). This series seems to be conceptually similar to the average earnings series commonly used in New Zealand, although the New Zealand series refers to full-time equivalent employees, not just full-time employees. Employees under 18 years are excluded from the Australian but not the New Zealand series. Comparison with other ABS data (ABS, 1995, Table 2) suggests that the exclusion of full-time juniors does not make much difference to the average. This average ordinary time earnings series differs from the earnings series, male total average weekly earnings, which is commonly

used in making comparisons with pensions and allowances in Australia – although, once again, the difference is not a large one.

With these preliminaries out of the way, we can now approach the data in Table 3.7. The main points arising from the table are as follows:

- The rates of unemployment benefit tend to be lower in relation to earnings in New Zealand than in Australia. In particular, single unemployment beneficiaries aged 20 to 24 years and married unemployment beneficiaries are less favourably treated in New Zealand than in Australia.
- The rates of invalids benefit are higher in relation to earnings in New Zealand than in Australia. This is particularly true for families with children.
- The rate of domestic purposes benefit is much higher in relation to earnings in New Zealand than in Australia. The rate of benefit for domestic purposes beneficiaries with one child is 81 percent of the benefit for married couple unemployment beneficiaries with one child. The corresponding figure for Australia is 62 percent.
- The additions for family support are larger in relation to earnings in Australia than in New Zealand. Even so, the total amount of invalids and domestic purposes benefit plus family support is significantly higher in relation to earnings in New Zealand than in Australia. This conclusion is also true if after-tax earnings are further adjusted to take account of the family payments that would be received in each country by a family receiving average earnings.
- The maximum rate of accommodation supplement is much higher in relation to earnings in New Zealand than in Australia. This is particularly true for families with children. Thus, families in receipt of invalids benefit and domestic purposes benefit plus family support plus the maximum accommodation supplement would receive significantly higher benefits in relation to earnings than a family in similar circumstances would in Australia. The same is also true of many unemployment beneficiaries. As noted in Table 2.7, 85 percent of domestic purpose beneficiaries, 72 percent of sickness beneficiaries, 70 percent of unemployment beneficiaries and 53 percent of invalids beneficiaries receive accommodation supplements.

Housing assistance is provided in both countries subject to thresholds, and these thresholds are higher in New Zealand than Australia. The Australian system is more generous to those paying moderate amounts in rent but the New Zealand system is more generous to those paying

high rents or mortgages. Beneficiaries may respond to the incentives provided by the programmes – for example, New Zealand beneficiaries may choose more expensive accommodation than otherwise. The importance of the accommodation supplement in New Zealand was discussed in Chapter 2 of this study; similar data are not readily available for Australia. This clearly is a complex situation. I have tried to present the range of possible outcomes fairly in Table 3.7 by calculating benefits both without housing assistance and with the maximum amount of housing assistance (at the intermediate rate for New Zealand).

Emergency payments from the Department of Social Welfare, such as special benefits, special needs grants and benefit advances, are not considered in Table 3.7. They are more extensively available in New Zealand than in Australia and expenditure on them is growing rapidly (see Appendix 1 for more details).⁴

It is noteworthy that two countries that are so similar as are Australia and New Zealand – and increasingly closely connected – have chosen to pay significantly different amounts to invalids and sole parents. Although the Australian disability support pension and sole parent pension may seem austere by New Zealand standards, they too have been gaining recipients in recent years. Australia not only has lower benefits for sole parents than New Zealand but also has fewer sole parents, a greater proportion of working sole parents, a lower proportion of sole parents receiving benefits and a lower proportion of unmarried and young sole parents. As the discussion in Chapter 4 of this paper makes clear, there are good reasons to believe that lower rates of benefit will lead to less dependency. A reduction in benefit rates to the Australian level is, in my view, an option which New Zealand should consider. Experience suggests, however, that many beneficiaries would have transitional difficulties in adjusting to a lower benefit level. This would need to be planned for in designing the transition to lower benefits. I discuss policy issues further in Chapter 6 of this paper.

⁴ The most recent OECD economic survey of Australia (OECD, 1996, pp 94–95) includes comparisons of the ratios of unemployment benefits (at a "typical rate", including housing assistance) to earnings for Australia, New Zealand and other countries. These comparisons show that Australian and New Zealand benefit rates for the long-term unemployed tend to be higher than the social assistance that is paid in other countries. These comparisons also show that unemployment benefits are broadly similar as a percentage of earnings in New Zealand and Australia for a person earning average earnings, and slightly greater in New Zealand for a person earning two thirds of average weekly earnings.

Some Australian beneficiaries (such as invalids and sole parents) receive in-kind benefits – including subsidised rents in public housing and fare concessions on public transport – which are probably more generous than those available to similar beneficiaries in New Zealand. The value of such benefits to Australian beneficiaries varies greatly however, depending on, for example, whether they live in public housing or have ready access to government-owned public transport. It is unlikely that the results of this study would be greatly affected if in-kind benefits were to be fully recognised.

OTHER COMPARISONS BETWEEN THE NEW ZEALAND AND AUSTRALIAN BENEFIT SYSTEMS

So far, I have compared the New Zealand and Australian income support systems largely in terms of the amounts of benefits that are paid, the number of beneficiaries and the total amount of expenditure that is generated. Real-world benefit systems are very complex and involve many conditions governing both eligibility for payment and the amount of payment that is made. The aspects of benefits which affect incentives include the following:

- the circumstances under which people are eligible for benefits;
- what (if anything) needs to be done to ensure continuing eligibility for benefit;
- the sanctions that can be imposed if those conditions are not met;
- the additional assistance that may be available both for beneficiaries and persons in employment;
- the rate at which benefit income is reduced when other income is received;
- special programmes to encourage beneficiaries to find work;
- links with rehabilitation, education, employment and social services;
- the length of time for which benefits can be received.

The tables in Appendix 1 summarise this complexity for the main benefits and compare New Zealand with Australia.

The main points that arise from this analysis are as follows:

- There is, in Australia, a defined medical requirement that must be met before disability support pension (invalids benefit equivalent) can be paid. New Zealand seems to allow more discretion for individual circumstances to be taken into account.
- Sickness allowance is only available in Australia to those who have a job to return to and its receipt is limited to 12 months. After this,

individuals who are unable to work are transferred to unemployment benefits.

- Residential qualifications for eligibility seem to be stricter in Australia than in New Zealand. Migrants are unable to obtain many benefits during their first two years of residence in Australia.
- Domestic purposes benefit has been payable from 1 April 1997 subject to an activity test in New Zealand but not in Australia. Persons whose youngest child is aged 14 years or more must be looking for part-time work or be engaged in employment, education or training. But only sole parents who have a child aged under 16 years qualify for sole parents pension in Australia.
- The conditions allowing the spouses of beneficiaries to gain access to benefits are generally stricter in Australia than in New Zealand. However, from 1 April 1997, the spouses of unemployment beneficiaries in New Zealand who have no children or a youngest child aged 14 years or more are required to be looking for full-time work (or engaged in an activity that will increase their opportunities to gain paid work).
- Housing assistance through the income support system is more widely available and more generous in New Zealand than Australia.
- Income test 'free areas' (the level of income that may be earned without affecting the maximum benefit) are generally higher in New Zealand than in Australia for single people, the sick and the unemployed. However, accommodation supplement in New Zealand is abated from the first dollar of private income.
- Income support payments in Australia, but not New Zealand, are payable subject to an assets test. However, accommodation supplement in New Zealand is payable subject to its own income and cash assets test (and emergency payments are payable subject to a cash assets test).
- Australia, but not New Zealand, pays benefits to unemployed and sick young people that are subject to tests of the parent's income and assets. (At present, the parental income test applies only to young people aged less than 18 years, but this limit will be extended upwards as part of the introduction of a common youth allowance.)
- Child support (maintenance) payments appear to reduce benefits to a greater extent in New Zealand than in Australia where only the additional payments, and not the sole parent pension, are reduced.

- There is a large range of incentives in both countries to encourage beneficiaries to engage in rehabilitation, education, training or work.
- There is a greater range of benefits for those in emergency situations, or for those who do not qualify for mainstream benefits, in New Zealand than in Australia.
- Except for work tested benefits, beneficiaries in neither country are subject to many obligations while receiving benefits (other than to be honest and inform the relevant government department about changes in circumstances). Work-tested benefits are more common in New Zealand than in Australia.

In general terms, the structure of benefits is very similar in the two countries but there are differences in emphasis. The rules governing eligibility and payment appear, on balance, to restrict access to benefits more in Australia than New Zealand.

The tables in the Appendix to this study are based on my understanding of the situation in each country in early 1997. The Australian government has since passed legislation to end the earnings credit scheme for pensioners and the unemployed and to replace housing assistance to persons in nursing homes and hostels by direct assistance to these institutions. The employment and education entry payments remain. The most recent annual report of the Department of Social Security (DSS, 1996, pp 170–171) suggests that there were doubts about the effectiveness of some of these initiatives. For example, a review of the effectiveness of changes to the earnings credit scheme (which allows beneficiaries to store unused portions of the 'free area' of private income before benefit is reduced against future earnings while on benefit) concluded that "the scheme's contribution to work incentives was negligible" because of "the complexity of the scheme itself". By contrast, a programme of benefit advances to unemployment beneficiaries ostensibly to meet labour market expenses "was enthusiastically accepted by customers" and "the consequent demand for advances far exceeded the Department's expectations". The implications of these findings for the successful design of policy to reduce dependency are discussed further in Chapter 6.

S U M M A R Y

The main points in Chapter 3 of the paper are as follows:

1. New Zealand spends a higher proportion of GDP on income support for persons of working age than Australia.
2. A higher proportion of New Zealanders than Australians of working age rely on income support from government. Australia has a higher

proportion of invalids and unemployment beneficiaries than New Zealand, but New Zealand has a higher proportion of sole parent and sickness beneficiaries. New Zealand relies far more heavily than Australia on periodic income maintenance payments for accident compensation.

3. A higher proportion of New Zealand families than Australian families are sole parents. New Zealand sole parents are more likely to be dependent on a benefit and less likely to be working. They are more likely to be young and unmarried than Australian sole parents. Although the employment rate of New Zealand sole mothers fell during the 1980s, that of Australian sole mothers increased.
4. New Zealand's maximum rates of domestic purposes and invalids benefits are a higher proportion of average earnings than Australia's. This is particularly true once account is taken of accommodation supplement.
5. By contrast, New Zealand's unemployment benefit rates are lower than Australia's. This is particularly true for young single people. But once accommodation supplement is taken into account, New Zealand's unemployment benefit rates are higher than Australia's.
6. New Zealand makes much greater use of supplementary, emergency and discretionary benefits than Australia.
7. The conditions governing eligibility for, and payment of, benefits are generally more restrictive in Australia than in New Zealand. But a greater range of benefits is work-tested in New Zealand than Australia.

4 AN ECONOMIC ANALYSIS OF DEPENDENCY

This chapter of the paper introduces a change of perspective. In Chapters 2 and 3, I described the growth in spending on income support in New Zealand and made some comparisons with Australia. In this chapter I analyse the relationship between financial incentives and dependency. Using both this analysis and the previous discussion, conclusions can be reached about the reasons for high levels of dependency in New Zealand and what might be done to address the problem.

David Green (1996, p 94) has recently warned against the view that "poor people were understood to be the victims of circumstance, and the duty of government was to devise programmes to remedy their problem". In the New Zealand context, he wrote (p 127) that "the difficulties inherent in creating incentives to work by manipulating abatement rates are exemplified by the evidence given to the Employment Task Force. A wide variety of opinions were expressed, suggesting that it is simply not possible to find the 'right' abatement scheme because personal circumstances are so different".

Writers such as Lawrence Mead have also doubted the effectiveness of providing incentives. Mead notes that fairly strong incentives were introduced into the Aid to Families with Dependent Children (AFDC) programme¹ in the United States in 1962 and 1967. Most of these incentives were removed by the Reagan Administration in 1981. Neither the introduction of the incentives nor their subsequent removal seemed to have much effect on the amount of work undertaken by sole parents.² Mead comments (1992, p 162): " 'Making work pay' is popular because it suggests that the poor respond to the same suasions as the middle class.

¹ AFDC is the US equivalent of the domestic purposes benefit, although payments are made to two-parent families in some states. The programme has recently been renamed Temporary Assistance to Needy Families (TANF). The old name is used here for convenience. In addition to AFDC, needy families in the US receive food stamps.

² Peter Whiteford has pointed out to me that the proportion of AFDC recipients with earnings fell from 12.8 percent to 7.5 percent over the 1980s although there was no particular change in the employment of all lone mothers. This appears to be an example of the "mechanical effect" discussed in the next section and does not necessarily imply that recipients did less work than they otherwise would have done because of the tighter income test.

But the people who respond to incentives are mainly those who are already functional, already within the economy. No incentive has shown a power to pull many people across the line from non-work to work. For that, stronger medicine is required. Incentives assume competence; the need is to create it".

Although some beneficiaries may lack competence as Mead suggests, the evidence reviewed in this study (eg Chapter 1) suggests that most beneficiaries do respond to incentives. A careful analysis of all the incentives, however, gives good reasons to doubt whether easier abatement rates will lead to more work by beneficiaries. It appears from this analysis that the likely success of the policy approach of encouraging beneficiaries to work part-time while continuing to receive benefits is called into question.

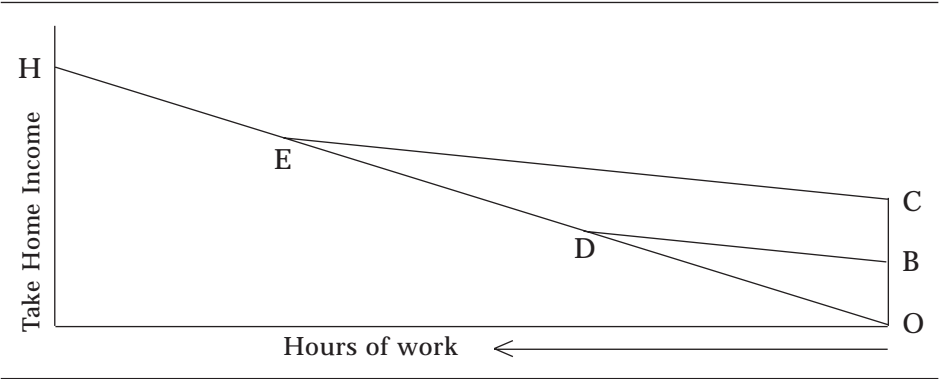
In this chapter I first analyse income support programmes, then workfare and, finally, training, job search and work experience programmes.

INCOME SUPPORT PROGRAMMES
Possible Economic Consequences of Income
Support Programmes

As noted by Ashenfelter (1983), a distinction can be drawn between the 'mechanical' and the 'behavioural' effects of changes to income support programmes. This distinction can best be understood by considering the standard labour supply diagram which is used in economics (see Figure 4.1).

In this diagram, the take home pay of a low-income individual who is eligible for an income support payment is plotted against the number

FIGURE 4.1: Effects of an Increase in Benefits

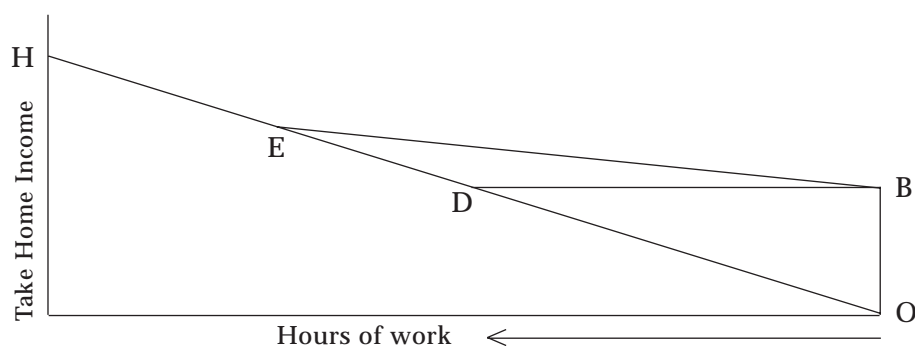


of hours he or she works.³ The wage rate that the individual can earn is represented by the slope of the line, OH. If no hours are worked, the individual receives an income guarantee, OB. (For simplicity, non-wage private income is ignored here.) Once the individual starts to work, benefits are reduced by a fixed proportion of earnings until exhausted (at point D). The slope of the line BD depends both on the wage and the benefit abatement rate. Now consider an increase in the income guarantee to C. This will change the point at which benefit is exhausted from D to E. Those between D and E will now become eligible for assistance even if their behaviour does not change. This is an example of a mechanical effect.

The effect of a reduction in the benefit abatement rate is illustrated in Figure 4.2. As before, OB shows the minimum income guarantee that is offered to a low income individual and the slope of the line OH shows the wage the person can earn should he or she choose to work. Initially, the guarantee OB is subject to a 100 percent abatement rate (ie benefit is reduced by one dollar for each dollar of earnings). The benefit is exhausted at point D. The line BE shows the effect of introducing a taper into the abatement regime. Persons between D and E would automatically become eligible for assistance as a result of the introduction of the taper.

Unless there are strong counteracting behavioural effects, one would, on the basis of the mechanical effects, expect that high benefit levels and

FIGURE 4.2: Effect of a Reduction in the Benefit Abatement Rate



³ Figures 4.1 to 4.3 have, for simplicity, been constructed to refer to hours of work. Hours of work may usefully be thought of as standing for the broader concept of work effort. This also includes intensity of work, willingness to learn new skills and so on.

low abatement rates would be associated with relatively high levels of receipt of benefit by people of working age. By contrast, low benefit levels and high abatement rates would result in relatively low levels of benefit receipt.

We now have to consider whether the behavioural consequences of these changes are likely to reinforce or counteract the mechanical effects. A number of possible behavioural consequences have been discussed in the literature.

1. Some persons who are eligible for benefits may choose not to receive them, perhaps because of 'stigma' or because the amount of benefit they would receive is not worth the time or trouble required in claiming it. An increase in the benefit level makes it more rewarding to receive the benefit. One would therefore expect that an increased benefit would increase the percentage of eligible people who actually receive the benefit. Moreover, Murray (1994) argues that stigma effects become less important once many people receive benefits. Thus, benefit numbers may be less responsive, at least in the short term, to a reduction in benefits than to an increase.
2. Whether or not a person receives benefits is, to some degree, a matter of choice. For example, domestic purposes benefit is payable to sole parents who would cease to qualify if they were to remarry or re-partner. A higher level of benefit will encourage some people to delay marriage, break-up their marriage, delay remarriage, and have children outside marital unions. Some people may be eligible to receive, for example, either unemployment or invalids benefits. If rates of payment and conditions of eligibility vary between the benefits, people can be expected to move towards the more generous one.
3. High rates of benefit can be expected to discourage some people from moving off benefit and will result in long-term benefit dependency for some recipients.
4. The labour supply effects of income support programmes have been frequently discussed. A glance at Figure 4.1 will show that the *introduction* of an income support programme will, other things being equal, reduce work effort. Many people will be able to enjoy the same or a slightly lower income with less work because the benefit guarantee has been introduced. Because work is assumed to be onerous in the economist's model of labour supply (because leisure is forgone), the model predicts that more leisure will be chosen because of the guarantee. Moreover, the benefit abatement rate reduces the amount by which take-home income increases if additional hours are worked; this, too, will tend to discourage work as compared with

the situation where there is no income support programme.⁴ By a similar argument, an *increase* in the benefit guarantee can also be expected to reduce hours of work.

5. The behavioural consequences of a *reduction in the benefit abatement rate* are more complex to analyse (see Figure 4.2). Persons originally between points B and D will, if their hours of work remain unchanged, experience both an increase in their income and a reduction in the abatement rate that they face. The first of these influences will encourage them to reduce their hours of work; the second will encourage them to increase hours of work. The overall result is ambiguous for this group. Persons originally between D and E will become newly eligible for benefits. These persons will experience an increase in their income, should hours of work be unchanged, and become subject to the abatement rate. They can be expected to reduce their hours of work. Finally, some persons originally between E and H might decide to reduce their work effort and rely on a combination of work and benefit because of the easier abatement rate. Although it is frequently assumed in policy debates that a reduction in benefit abatement rates will increase hours of work, this is by no means certain. (However, a reduction in abatement rates that is combined with a reduction in benefit sufficient to keep the cut-off point (D) unchanged *can* be expected to lead to an increase in hours of work.)
6. Persons who expect to rely on benefits may choose to migrate from low benefit to high benefit jurisdictions. (Others may choose to move from high tax to low tax jurisdictions.) This may be of particular significance in the New Zealand context because of the freedom of movement of labour – and reciprocal social security arrangements – across the Tasman.
7. The availability of income support for young people may discourage them from entering or continuing education and training.
8. It has been argued, in a more speculative vein, that there is a relationship between receipt of welfare by parents and subsequent receipt of welfare by their children. This might be because early familiarity with the welfare system tends to reduce any reluctance to use it later on, or because the receipt of welfare discourages investment in the human capital of the child by the parents or by the child himself or herself. This issue is of particular concern because of the much greater number of beneficiaries in recent times.

⁴ In technical terms, both the income and the substitution effects are unfavourable to work.

9. Higher benefits levels and lower abatement rates will result, other things being equal, in higher government expenditure and taxation than would otherwise be the case. High tax rates are likely to discourage work, savings and risk-bearing by the non-beneficiary population and result in (deadweight) losses of national income.

In summary, there appear to be good reasons to expect that more generous benefits will lead to behavioural changes which, in turn, will tend to increase the number of beneficiaries. By contrast, there is no certainty that a reduction in benefit abatement rates will have favourable behavioural effects on balance, let alone sufficient to outweigh the 'mechanical' extension of eligibility for benefits.

Evidence on the Importance of the Economic Consequences of Income Support Programmes

To go further than this, it is necessary to look to empirical evidence about the size of these effects. There is not, so far as I am aware, a great deal of relevant work that has yet been undertaken in New Zealand.

As noted in the introduction to this report, Tim Maloney has recently published a study in which he summarises previous work in New Zealand on the effects of welfare programmes on labour supply and presents a careful econometric analysis of his own (Maloney, 1997). Maloney investigates the effects of a number of policy changes including the benefit reductions in 1990 and 1991, the increase in the minimum ages of eligibility for unemployment benefit in 1990 and domestic purposes benefit in 1991, and the increases in the age of eligibility for superannuation from April 1992. Maloney estimates a number of models and finds that the "exact quantitative estimates of the effects of the benefit reforms on labour market behaviour depend on the specification of the regression equation, and the assumption about any effects that these reforms might have had on wages in the labour market. Our best guess is that the benefit reforms increased the aggregate labour force participation rate by between 1.5 and 2.4 percentage points, and increased the aggregate employment propensity by between 1.1 and 2.2 percentage points. Since these increases in participation and employment largely offset one another, the estimated effects of these reforms on the aggregate unemployment rate are quite small, ranging from a decline of 0.2 percentage points to an increase of 0.1 percentage points" (p 65). The increase in the minimum ages of eligibility for unemployment benefit and domestic purposes benefit seem to have had little effect on employment and to have reduced labour force participation. However,

these changes seem also to have increased educational enrolments for young people by more than any reduction in labour force participation.

Further evidence is available from overseas jurisdictions, especially the United States. Although the general nature of this evidence is instructive, it should not be thought that the results can immediately be applied to the New Zealand situation. For example, in his survey of the literature, Moffitt (1992) provides evidence (Table 3, p 9) that benefits to sole parents in the United States, including AFDC, food stamps and Medicaid, equalled 57 percent of real weekly full-time earnings of women in 1987. (This compares, incidentally, with 73 percent in 1975.) By contrast, New Zealand domestic purposes benefit rates in 1996, plus family support for beneficiaries with one and two children, were 62 percent and 75 percent respectively of total *female* earnings on a full-time equivalent basis (and more than this if accommodation supplement is also considered). The US welfare system achieves, so far as average benefits in relation to earnings are concerned, a standard of generosity below that of Australia, let alone New Zealand (Whiteford, 1997, Table 7). The higher level of benefits in New Zealand can be expected, other things being equal, to lead to greater work disincentive effects (see Moffitt, 1992, Table 5, p 12 for an illustration of this).

Unlike in either Australia or New Zealand, the US welfare system now reduces benefit by a dollar if an extra dollar of private income is received. Perhaps as a consequence of this and lower benefit rates, participation in welfare programmes by sole parents is lower in the United States than in Australia or New Zealand. According to Moffitt, 42 percent of American sole parents participated in AFDC in 1987. By contrast, 58 percent of Australian sole parents were receiving sole parent pension in 1991 and 74 percent of New Zealand sole parents were receiving domestic purposes benefit in that year.

One further caution about the interpretation of evidence on behavioural effects needs to be made. The proportion of beneficiaries who have earnings is often cited as evidence of the success of incentives such as reduced abatement rates. (This is done extensively in, for example, the most recent annual report of the Australian Department of Social Security: DSS, 1996.) However, it is important not to confuse behavioural with mechanical effects. As Figures 4.1 and 4.2 illustrate, increases in benefits and reductions in abatement rates *automatically* extend eligibility for benefits to persons with earnings who were not previously eligible. Even if nobody's behaviour changed, the proportion of beneficiaries with earnings would increase. To estimate the

consequences of changes such as reduced abatement rates for labour force behaviour, it is necessary to look at the hours of work of groups such as sole parents as a whole.

The Department of Social Security has recently indicated that the evaluation of recent income test changes will need to establish whether there has been an increase in earnings in excess of that arising from the automatic effect of increases in the benefit cut-off points (personal communication, 12 August 1997).

There have in the United States been two groups of studies about the behavioural consequences of welfare programmes. The first group was based on the negative income tax (NIT) experiments that were conducted in several parts of the country during the 1970s. These experiments studied the effects of introducing a new welfare programme that was much more generous than the existing ones. According to Nathan Glazer (1988, p 30):

The first major experiments were started with samples in Pennsylvania and New Jersey in the late 1960s. Early results were gratifying. Yes, there was a slight reduction in work effort, a somewhat greater reduction among secondary earners (wives and older children), but not sufficient to give support to the fear that a negative income tax would undermine the Protestant ethic or, more pragmatically, that the reduction in earnings in response to a NIT would balloon costs excessively. But a larger experiment, begun in 1970/71 in Seattle and 1971/72 in Denver, known as the SIME-DIME experiment (Seattle Income Maintenance Experiment, Denver Income Maintenance Experiment) showed more unsettling results. Designed, as was the New Jersey-Pennsylvania experiment, primarily to test for labor response, it showed a remarkable marital instability response. A program that, it was assumed, would keep families together was having the effect of increasing separations.

The more recent studies have been of the incentive effects of the existing welfare system. This provides benefits mainly to sole parents (AFDC). AFDC rates vary considerably between the separate states and this enables the consequences of different benefit levels to be studied. (Murray, 1994, argues that this variation is less important in reality than it appears initially because earnings vary across states in similar proportions.) These studies have been summarised in, for example, Moffitt (1992). I now discuss the main points that arise from Moffitt's account. For convenience, the points are listed in the same order as the behavioural effects that were discussed earlier in this chapter.

1. There is strong evidence from about 10 studies that the higher the benefit guarantee and the lower the abatement rate, the greater is the

extent of participation in welfare programmes. Most of these studies, however, confound mechanical and behavioural effects. One study that corrects for this (Moffitt, 1983) confirms that there is a behavioural effect.

2. The evidence that changes in real benefit levels have influenced the rates of marital dissolution, remarriage and unmarried motherhood is less clear. Although real benefits for sole parents in the United States have fallen since the mid-1970s, the rates of female sole parenthood and illegitimacy have tended to stabilise or increase. This contrasts with the situation in the 1960s and 1970s when benefit levels, sole parenthood and illegitimacy all increased. The cross-sectional studies show a relationship between real benefit levels and rates of sole parenthood and illegitimacy, but not a strong one.
3. Virtually all studies show that the higher the benefit level, the less likely people are to leave benefit. In the United States women with higher wage rates, higher educational levels, greater levels of private income (other than wages) and with few children are more likely than other AFDC recipients to leave benefit. Black women and women who have never married are less likely to leave benefit than others. Many spells on benefit are of short duration. However, about one quarter of new recipients in any one year spend 10 or more years on the AFDC rolls. The probability of leaving welfare declines as the period on welfare lengthens. But it is less clear whether the decline in the exit rates is due to the deleterious effects of being on welfare.
4. The percentage of sole parents in the United States who were working did not vary greatly over the period from 1968 to 1987 despite great changes in maximum benefits and abatement rates. This may suggest that hours of work (unlike dependency on welfare programmes) would not be greatly affected by likely changes in benefits and abatement rates. The relevant Australian data series, which is shown in Table 3.4 above, does not suggest that the employment rate for sole parents has been increasing rapidly in the most recent years despite attempts by governments to promote employment. (As noted, however, employment rates for Australian sole mothers grew during the 1980s.) The New Zealand data series indicates that fewer sole parents have worked since the domestic purposes benefit has become widely accepted.
5. Econometric studies in the United States show that the AFDC programme generates significant work disincentive effects. Estimates typically centre around a reduction of 30 percent in hours worked.

This might translate into a reduction in earnings of \$1,000 a year for an average recipient. Even in the absence of work disincentive effects, most AFDC recipients would still be on the welfare rolls.

6. The empirical evidence suggests that the positive and negative effects of a lower abatement rate on labour supply roughly cancel each other out and there appears to be no net effect on labour supply. Nor is there evidence that part-time work while on AFDC so encourages the acquisition of human capital that reliance on benefits is reduced in future. It seems unlikely, in view of these studies, that reductions in the benefit abatement rate can be used to lead to significant increases in hours of work by the US low income population. No trade-off exists, therefore, between the abatement rate that minimises programme costs (and dependency) and the one that maximises labour supply (see Moffitt, 1992, pp 40–42).
7. A number of econometric studies in the United States, using a variety of data sets, have shown positive and significant effects of welfare on residential location and geographical mobility.
8. About 10 studies show a consistent relationship between receipt of welfare by parents and later receipt of welfare by daughters. The relationship between parental receipt of welfare and sons' participation in welfare is less clear. However, these studies are uninformative about whether AFDC receipt 'causes' later AFDC receipt by offspring.⁵

This concludes our fairly extensive discussion about the economic consequences of income support programmes in the United States. The main points to be drawn from it are perhaps as follows:

- Unless behaviour changes, lower benefit levels and higher abatement rates are likely to lead to fewer people on welfare.
- There are many behavioural consequences that also suggest that lower benefits are likely to be associated with lower dependency.
- It seems unlikely, at least in the US context, that behavioural consequences would reverse the conclusion, other things being equal, that *higher* abatement rates lead to *lower* dependency both in the short and the long term.

These conclusions relate mainly to sole parents, the main group that qualifies for AFDC. (Two parent families with low incomes may also qualify in some states.) The general analysis, but perhaps not the

⁵ The consequences of parents' receipt of welfare for their children's success in adolescence and young adulthood are discussed further in Chapter 5.

empirical results, would also apply to the other beneficiary groups. There is also a parallel literature on the level of unemployment benefits and unemployment (see Layard, Nickell and Jackman, 1991, and King, 1995, for further discussion). This tends to find a positive relationship between the level of unemployment and the generosity of unemployment benefit although many factors, including especially the degree of labour market flexibility, also influence the level of unemployment. Moreover, countries that permit unemployment support to be paid indefinitely tend to have more long-term unemployment than countries that apply a time limit.

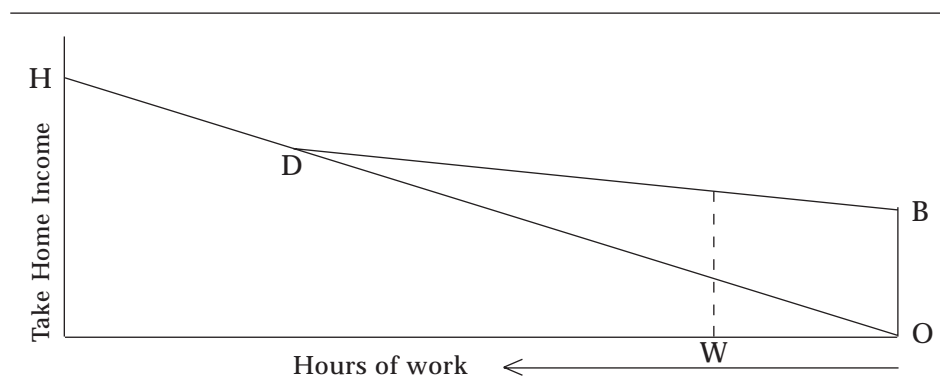
In the United States and some European countries, persons whose eligibility for unemployment benefit has expired may be able to move to a lower welfare or social assistance benefit. But, as is discussed in Chapter 5, welfare benefits in the United States are increasingly paid subject to time limits. Most other OECD countries have social assistance programmes which are effectively of unlimited duration.

WORKFARE

In its pure form, workfare amounts to a requirement that a beneficiary works for a minimum number of hours to qualify for benefit. As will be discussed in Chapter 5, interest in this pure form of workfare is increasing in the United States. The effects of introducing a workfare requirement are shown in Figure 4.3.

As before, the line OH represents the wage available to a low income earner, OB is the benefit rate and BD shows the effect of benefit abatement. Suppose now that the programme requires that a minimum of W hours must be worked. Some persons presently working between

FIGURE 4.3: Workfare



O and W hours may find the work requirement onerous and cease to participate in the welfare programme. Others will increase their hours of work to continue to qualify. Workfare can therefore be expected to result both in a reduction in dependency and an increase in hours of work.

The programmes actually introduced in the United States over the past 20 years have differed from the pure workfare model in three main respects:

- The obligation to work has often been redefined to also include activities such as education and training that may increase human capital. This means that participation in the programmes may be attractive rather than onerous for many people.
- Participation in the programmes has often been voluntary. This has made it difficult to enforce sanctions when the requirements of the programmes have not been met.
- Governments have often felt obliged to provide public employment for workfare participants, and sometimes to provide assistance for travel and child care to enable participants to take up job opportunities. This can be expensive, and these costs need to be set against any benefits (both to the public purse and to society generally) arising from workfare. The most successful workfare programmes are those which are linked to jobs in the private sector.

These modified versions of workfare are less likely to lead to a reduction in dependency and an increase in hours of work than the pure workfare model.

A great deal of attention has recently been given, particularly in the United States, to the idea that benefits should be paid subject to a limit on the maximum time for which they can be received. This is discussed further in Chapter 5. Like workfare, time limits remove eligibility for benefit in certain circumstances. The introduction of time-limited benefits can be expected therefore to increase hours of work and reduce dependency. Like workfare, however, time-limited benefits have often been introduced in a modified form (eg by granting exemptions).

The possible introduction of work requirements and time limits for some New Zealand benefits should be considered. The advantages and disadvantages of these approaches to reducing dependency are discussed further in Chapter 6 of this report.

EDUCATION AND TRAINING PROGRAMMES

New Zealand governments have recently emphasised the importance of both better skill development for the population as a whole and training as a route out of welfare dependency. Beneficiaries tend to have less education and fewer work skills than the general population.

From April 1997, domestic purposes beneficiaries or widow beneficiaries whose youngest child is aged over 14 years have been required to satisfy an activity test to continue to qualify for benefit. This activity test requirement can be met (among other things) by the beneficiary undertaking education or training or a combination of employment, education and training. COMPASS, a voluntary programme, has "been introduced to help people on the domestic purposes benefit develop a path towards education, training and eventually employment". Some other groups, including the spouses of unemployment beneficiaries without children or whose youngest child is aged 14 years or more, are also subject to an activity test (which in this case refers to full-time work or activities that are expected to lead to it). The New Zealand Employment Service provides "short training courses for disadvantaged job seekers, linked to a specific vacancy" (New Zealand, 1995a, p 19). In its brief to the incoming government the Treasury (1996, pp 83–84) argued that the benefit system should "require people to look for employment or participate in training where their circumstances allow, and reinforce this with fair, but explicit sanctions where they do not comply with the obligation to help themselves".

This emphasis on training raises the question of how effective training programmes are likely to be in reducing dependency. Most of the evidence on this comes from the United States where a large number of training programmes has been implemented over the past 20 years and great efforts have been made by very able researchers to evaluate the consequences of these programmes. Dorrence and Hughes (1996, pp 67–71) are sceptical about the value of recent Australian labour market programmes.

Interesting reviews of recent experience with training programmes in the United States are provided by Moffitt (1992), Heckman (1994) and LaLonde (1995). An earlier review from a New Zealand perspective was provided by Beatson (1990). The following account draws from these sources.

Training programmes in the United States usually combine elements of job search assistance, classroom training, on-the-job training and work experience (usually a short-term job in the public or non-profit sector). Adult women are likely to receive vocational education in the classroom and work experience. Adult men are most likely to undertake on-the-job training. Young people are likely to participate in remedial education and work experience. Job search assistance, which provides classes that teach job search skills, career counselling, job referrals and relocations, is inexpensive to provide. By contrast, classroom training and on-the-job training are expensive to provide. It is important therefore to investigate whether the more expensive services produce additional benefits that are worth the costs involved.

According to Moffitt (1992, p 49), "there is a clear indication of positive earnings effects ... across the studies from different programs and in different years. This constitutes a rather new finding, for the conventional wisdom in this area for many years was that "nothing works", that is, that no training program has significant effects on earnings". The evidence for positive earnings effects is strongest for economically disadvantaged women. According to LaLonde (1995, p 165): "These gains are found for a variety of programs, often last for more than a few years, and are frequently more than sufficient to justify the program's costs. By contrast, it remains unclear whether policymakers have developed employment and training services that consistently raise the earnings of disadvantaged males and youths, and dislocated workers. With the exception of job search assistance, which benefits dislocated workers, and Job Corps, studies show that less intensive employment and training services ... rarely have any positive effect on these groups' earnings". Less costly services such as job search assistance often lead to large gains in earnings; this may suggest that diminishing returns may apply with larger investments, such as on-the-job and classroom training. Above all, the earnings gains from participating in the programmes are small. Most recipients are still eligible for welfare after completing the programmes. According to Heckman, the newer, compulsory programmes have been no more successful than the earlier, voluntary programmes. Programmes in Arkansas and San Diego, he notes, produced modest short-term earnings gains. "Mandatory work-experience programs produce few long-term gains. No cheap training solution can be found that can end the welfare problem" (1994, p 113).

The gains from training programmes, commensurate with the expenditure on them, have been small. Consider the following argument.

Training is an investment. Assume that an investment which achieves a rate of return of 10 percent is a successful one. None of the training programmes that were analysed by Heckman achieved a 10 percent rate of return. To raise the income of (say) a domestic purposes beneficiary by \$100 a week (\$5,200 a year) would require a (one-off) investment of at least \$52,000. To replace the average amount of domestic purposes benefit (\$13,000 a year) by earnings would require an investment of up to \$130,000. It is unlikely that governments would be able, or willing, to invest such large sums in training successfully. The modest amounts that they are willing to spend are likely to produce correspondingly modest returns.

A review of labour market policies in several OECD countries (Fay, 1996, pp 30–34) reaches similar conclusions. Although there are programmes that work for most groups of individuals, the ability of labour market programmes to help large numbers of people is limited. Evaluation studies have consistently found that job search assistance appears to be effective for most groups of unemployed people but this is not the case for publicly-provided training. Earnings increases from participation in labour market programmes are modest. Careful choice of the right programme for particular individuals is required.

According to a review undertaken for the US Department of Labour (Katz and Krueger, 1995): "at least some services have been successful for disadvantaged adults and youths, single mothers and displaced workers". Results from the successful programmes have been "significant but moderate on average" (p.X). Training programmes for the disadvantaged typically do not lift the average recipient out of poverty even when they succeed in significantly increasing earnings.

A study (Harland *et al*, 1989) of New Zealand's training incentive allowance indicates that the allowance was greatly appreciated by those people (mainly domestic purposes beneficiaries) who took advantage of it. This was, however, a small and highly motivated group of beneficiaries. For example, 51 percent of respondents said that they had previously undertaken training while on benefit without assistance from the training incentive allowance (p 17). Fifty-four percent of former recipients had found employment since receiving the allowance and 39 percent of former recipients were no longer receiving benefit (p 88). The authors note that, because of the design of the study, they are unable to say to what extent these results are due to the programme and to what extent they are due to other factors such as motivation (p 1).

Even if training programmes were successful in raising the earnings of participants, it is by no means certain that there would be fewer

beneficiaries. First, as noted, the increase in earnings may well not be large enough to disqualify the person from receiving benefits. Mandatory training is particularly likely to be unsuccessful where beneficiaries comply with the requirements of the programme simply to avoid losing entitlement to benefits. Secondly, it is entirely possible that a successful training programme will attract people to the associated benefit, or encourage them to remain on it longer, so that they can enjoy the advantage of the training programme. If a training programme is voluntary, no one can be compelled to join it and no one will be made worse off because the programme is available. Such a programme may attract new beneficiaries but will not discourage any existing beneficiaries from continuing to receive the benefit. A mandatory programme could attract adherents if the resulting increase in earnings more than compensated recipients for the costs (in terms of time) of participating in the programme. Other recipients might not find the mandatory training programme rewarding and might no longer choose to receive the benefit.

Empirical research, unfortunately, has not greatly addressed these issues (see Moffitt, 1992, p 44). It would be unwise to assume that the beneficiary-attracting effects of training programmes are therefore unimportant. David Green (1996, p 32) warns that special advantages for sole parents, such as easier abatement rates, subsidies for child care and training, may encourage some parents, who would otherwise have married, to present themselves as separate in order to enjoy these advantages. The British Labour Party MP (and now minister) Frank Field warns that middle class families would arrange for their children to receive unemployment benefit if they thought that, by doing so, they could receive income support for the duration of their university courses (Field, 1995, p 188). He suggests that only those who have been receiving a benefit for two years or more should continue automatically to receive the benefit on entering higher education. This proposal, if introduced, might discourage some from leaving benefit.

None of the above is meant to imply that human capital is not important or that efforts should not be made to raise the education and skills of the New Zealand population where it is economic to do so. Rather I wish to warn against the idea that training programmes provide a quick and easy remedy to reverse the deficiencies of home life and compulsory education. In my view, New Zealanders and their governments need to increase their efforts to ensure that as many New Zealanders as possible have, at the end of their education, the skills and

personal attributes necessary for success in the labour market. This objective is most likely to be achieved by policies that promote greater choice in education and encourage the acquisition of life skills during childhood. In addition, labour market regulation, such as the minimum wage, that prevents people from offering to work at reduced wages in return for learning new skills should be removed.

S U M M A R Y

The main points in this chapter are as follows:

1. Unless behaviour changes, lower benefits and higher benefit abatement rates are likely to lead to fewer people on welfare.
2. There are many behavioural effects that also suggest that lower benefit levels are likely to be associated with lower dependency. It seems unlikely, moreover, that behavioural consequences would reverse the conclusion that higher benefit abatement rates are likely to lead to less dependency in both the short and long term.
3. Pure workfare programmes (a mandatory requirement to work for a minimum number of hours to qualify for a benefit) are likely both to increase hours of work by beneficiaries and reduce the number of beneficiaries. Time-limited welfare benefits are also likely to increase hours of work and reduce dependency. Although there is increasing interest in pure workfare in the United States, most workfare programmes as actually implemented have departed from the pure model.
4. Training programmes in practice result in, at best, modest increases in the earnings of beneficiaries. Few in practice leave the welfare rolls. By contrast, training programmes, particularly if they are voluntary, are likely to attract some new beneficiaries and discourage others from leaving benefit.

5 A NEW DIRECTION FOR WELFARE POLICY

First in the United States, and then increasingly in other countries, welfare policy has recently taken a new turn. This has involved greater emphasis on spelling out the obligations which beneficiaries are expected to meet in return for receiving their benefit, and enforcing sanctions if they fail to fulfil their obligations. This chapter first discusses the growing concern about the adverse effects of welfare that has prompted this new direction in welfare policy and then discusses the direction that welfare policy has in fact taken. Finally, the applicability of this new approach to the New Zealand policy environment is discussed.

THE ADVERSE CONSEQUENCES OF WELFARE

According to the American social commentator, Michael Novak, it is not economic arguments about work and incentives that have been influential in changing public opinions about welfare. Rather, there has been a growing acceptance by the public that welfare is bad for the people whose lives it touches. This has made possible the most recent American welfare reforms which, as President Clinton has stated, "will end welfare as we know it". States will now be required to get at least half their welfare recipients into work (compared with about 10 percent now) if they are to continue to receive federal assistance for welfare. Adults will be required to work after two years on welfare and will be limited to five years on the welfare rolls, with or without work.

The Effects on Welfare Recipients

There are a number of relevant arguments. It is argued, first, that welfare offers a superficially attractive life, but one that is fundamentally unrealistic, aimless and unsatisfying for those people who do not suffer a permanent disability through illness or injury. Ultimately, the welfare lifestyle is based on a pretence: that persons of working age deserve a guaranteed minimum income not far short of average earnings, which has been earned not through their own efforts but by those of others. As David Green has written (1996, p vii), the social security system panders to people's weaknesses rather than their strengths.

The most passionate writer about the corrosive moral effects of welfare in the New Zealand context is Alan Duff. Duff is a most quotable writer and I wish to draw attention here to two extracts from his work. The first (1993, p 23) describes the state of mind of a Maori who is receiving unemployment benefits and approaching middle age.

He is confronted, though, each and every day with the same old problems; of all roads leading back to the money issue. Of never having enough of the stuff. Of it always running out. Of the days leading up to top-up time by the government, on a Thursday, when the household does a starve. The kids go to school hungry. The public at large know about this: it's in the papers, on the television, that a lot of Maori kids are going to school hungry. The blame is given as "benefit cuts" or not enough benefit to start with. The man on the benefit sitting at home on a moneyless Wednesday thinks: Yeah, that's the reason why my kids are part of that hungry lot. It's the miserable benefit the government pays out.

As he lights another cigarette, he looks forward eagerly to tomorrow; benefit day, when he can go to the pub and have beer with his mates. Swap grumbles. Have the blame confirmed by others in his position: that it's the government's fault. So have another beer on that one. Pass the smokes.

The second extract from Duff's book describes the relationship between the Maori community and the government:

Welfare funds Maori for its culture now – not ourselves, but government. Welfarism has established a relationship between Maori and government which creates the unbelievable case of a gang convention held in Dunedin some years ago when, after an orgy of a long weekend boozing, some gang members approached Social Welfare to obtain a means to return home to the North Island. They received not only travel warrants but expense money as well. The Social Welfare defended its actions by saying that they were getting the money back from these people. It would be deducted out of (what else?) their government benefit.

We lose a relation to death and we immediately think of Social Welfare to assist us in getting to the funeral because it is out of town. Or we decide for whatever reasons that we want to shift to another town and go to Social Welfare to borrow the money for removal costs. We'll pay it back at 20 bucks a week or fortnight, no interest due. The excuse accepted is 'not being able to afford it this week.'

Welfarism keeps the child in us alive and quite well. Welfare does not allow the realistic, mature adult to develop. Welfare says to the collective brown child, You are blameless. Indeed, a victim. So here, take this, your lifelong promise of my hand, just whenever you decide you need it (1993, pp 78–79).

Young people may be discouraged from further education and training, or from the acquisition of skills on the job, if generous unemployment benefits are readily available. Tim Maloney's work, which was discussed in Chapter 1, shows that it is reasonable to worry about this aspect of the disincentive effects of welfare. To reduce the seriousness of these problems, New Zealand does not pay unemployment benefits to most people aged 16 and 17, and pays reduced rates of sickness and unemployment benefits to persons aged over 18 but under 25 years.

The Effects on Absent Parents

The second argument concerning the adverse consequences of welfare is about absent fathers. By providing a steady, reliable source of income, the state enters into competition with fathers. It is competition that low-wage earning fathers are ill-equipped to meet. The American neo-conservative writer, Irving Kristol, argues as follows (1995, p 49; but originally published in 1971):

The family is, in our society, a vital economic institution. Welfare robs it of its economic function. Above all, welfare robs the head of the household of *his* economic function, and tends to make of him a "superfluous man". Welfare, it must be remembered, competes with his (usually low) earning ability; and the more generous the welfare program, the worse he makes out in this competition.

Is it surprising, then, that – unmanned and demoralised – he removes himself from family responsibilities that no longer rest on his shoulders? That he drifts out of his home – or is even pushed out of his home – into the male street corner society of the slum? One wonders how many white middle-class families would survive if mother and children were guaranteed the father's income (or more) without the father's presence? And how many white middle-class fathers would, under these circumstances, persist at their not-always-interesting jobs?

Unmarried motherhood is much more important in the 1990s than it was in the early 1970s when Kristol was writing. Unmarried motherhood implies a deferral, rather than a termination, of paternal responsibilities. Deprived of the responsibilities of adulthood, young men follow an aimless existence, often supported by welfare, which only too often leads to senseless destruction and crime. Critics such as Kristol, and Dennis and Erdos (1993) argue that modern popular culture, which in their view is hostile to work and savings, contributes to the problem.

New Zealand has, by comparison with Great Britain, the United States and Australia, a high level of births outside marriage (Whiteford, 1997,

p 21). The number of such births has been increasing as a proportion of total births in all these countries. Births outside marriage are sometimes followed by the marriage of the parents. I am not aware of the extent to which this happens in New Zealand.

The Effects on Children

The third argument about adverse consequences concerns the effect of welfare on children. Once children leave the traditional, legally-married family situation (or if they were never within it) their subsequent histories are likely to include membership of one or more two-parent families which in turn are likely to break down. The children of these families have many problems in later life, including a higher risk of unemployment than other young people, a higher rate of child abuse, poor school performance, early sexual activity, juvenile offences, drug and alcohol abuse and so on. Welfare makes the disorganised lifestyle easier; one might expect that people would take greater care to remain within the original marital union were the domestic purposes benefit absent or less generous. As against this it might be argued that conflict-ridden or violent marital unions ought to be broken and that this was one of the reasons for the introduction of the domestic purposes benefit.

New Zealand data (Fergusson, Horwood and Lynskey, 1992, p 1066) show that over 80 percent of families where there was a low level of parental discord (arguments, violence, sexual difficulties) over the past 12 months had experienced no family change over the past 10 years. By contrast, over 80 percent of families with a high level of parental discord had also experienced a high rate of family change. By avoiding discord, parents, it seems, can to a very large extent avoid family instability. And their children would benefit from the parents' restraint.

Two and a half centuries ago, David Hume wrote on this subject as follows:

How many frivolous quarrels and disputes are there, which people of common prudence endeavour to forget, when they lie under the necessity of passing their lives together; but which would soon be inflamed into the most serious hatred, were they pursued to the utmost, under the prospect of an easy separation ... The least possibility of a separate interest must be the source of endless quarrels and suspicion. The wife, not secure of her establishment, will still be driving at some separate end or prospect; and the husband's selfishness, being accompanied by more power, may be still more dangerous (Hume, 1741–42 p 194).

Although few today would agree with Hume that marriage should be a "union entire and total", we should recognise the truth in the connection he drew between easy separation and marital disharmony.

The longitudinal studies that have been undertaken in the United States provide a most important source of information about the longer-term consequences of poverty, sole parenthood and welfare dependency. These studies follow children and their families both during childhood, and after the children grow up, leave home and start their adult careers. The main surveys are: the Panel Study of Income Dynamics, begun in 1968; the National Longitudinal Surveys of Young Men and Women aged 14 to 24 years, begun in 1967; and the National Longitudinal Survey of Youth aged 14 to 20 years, begun in 1978. Particular care has been taken in these studies to obtain adequate samples of low income and disadvantaged families.

Mary Corcoran and Scott Boggess (1995) have recently summarised many of the studies that have been based on these longitudinal surveys. They investigate the extent to which parents' economic disadvantage is transmitted to children and how disadvantage is transmitted from parents to children. Although the same families are likely to be poor, headed by a single parent and dependent on welfare, the large data sets permit attempts to investigate the separate effects of each of these factors. Corcoran and Boggess find (pp 23–24) that "growing up poor moderately reduces children's schooling and substantially reduces adult economic status ... The effect of parental poverty remains large even with controls for family structure, family size, maternal schooling, parental work and neighbourhood disadvantages. Poverty is clearly not just a proxy for the parental and neighbourhood disadvantages measured in these studies".

Corcoran and Boggess rely on an earlier survey by McLanahan and Sandefur (1994) on the consequences for children of being raised in a single parent family. "According to McLanahan and Sandefur, being raised in a female-headed family doubles the risk that a child will drop out of high school, triples the risk that a child will have a teenage out-of-wedlock birth and raises children's risks of being idle in their young adult years by 40 percent" (p 25). Resource differences – not just money but also parental time and interest and community links – account for much but not all of the risks of being raised in a single parent home. Moreover, "children from step parent families possess high school drop out rates and teen birth rates comparable to those for single parent families" (p 26). Finally, "being raised in a non-intact family significantly and negatively affects high school graduation and teenage fertility even

after resources are controlled, suggesting support for a sociological or psychological view related to psychological distress, socialisation effects, role models etc" (p 27).

The effects of the parents' receipt of welfare on their children's subsequent success are also reviewed by Corcoran and Boggess. They conclude (p 43) that "children raised in families that received welfare acquire less schooling, are more likely to be teenage parents and are more likely to receive welfare themselves as adults than are children raised in families that never received welfare. The research is mixed on whether this represents "true welfare effects" – that is, on how much of these associations are due to the intergenerational transmission of poverty".

Corcoran and Boggess find that growing up in a "good" neighbourhood matters, but that neighbourhood effects are far smaller than direct family effects. There are important racial differences: a child that is born into a black family is more than three times as likely to be poor as a child, and 10 times more likely to be persistently poor as a child, than is a child born into a white family.

These results suggest that growing up in families that are poor, headed by a single parent or dependent on welfare is likely to have adverse consequences in adolescence and young adulthood. Because of differences between the New Zealand and the American environments, one should be cautious about applying these results to New Zealand. But it would be unwise to conclude that these studies are of no relevance to New Zealand.

There is, as it happens, important New Zealand research that assists us in understanding these points. The research has been undertaken by Professor David Fergusson and his colleagues at the Christchurch School of Medicine.

The study is of a cohort of children born live in Christchurch hospitals between April and August 1977 – the time when sole parenthood was starting to become increasingly common in New Zealand. Interviews were held with the mothers (and later the children themselves) at birth, four months, at annual intervals thereafter until age 16, and at 18 years. As time has gone on, the number of children remaining in the sample has diminished to some extent due to death, emigration or difficulties in maintaining contact.

Fergusson, Horwood and Shannon (1984) found that the rates of family breakdown were related to length of marriage, type of marriage (de jure or de facto), family size, whether the pregnancy had been planned, the age of the parents, family socioeconomic status, and

whether the parents attend church. Fergusson *et al* (1986) find that broadly the same factors also "explain" differences in the rate of assaults on wives. By contrast to what is otherwise a relentlessly sociological approach by these authors, the effect of church attendance in protecting against both family breakdown and assaults illustrates the importance of values. Among other things, religious convictions in the modern world amount to a commitment to live according to a particular set of values.

According to Fergusson, Horwood and Dimond (1985), "once children left the two-parent family, there was a strong possibility that they would be exposed to multiple situations involving both marriage formation and dissolution". Six year old children who had experienced a marital breakdown were more likely than those who had not to behave in an aggressive and anti-social manner. However, children whose parents reconciled or whose mother remarried appeared to suffer more behavioural difficulties than children who remained in a single parent family. This leads the authors to suggest that continuing sole parenthood may provide a better environment for children than a reconciliation or remarriage which is so likely to be unsuccessful. This point is of some significance for government policy and is taken up in Chapter 6.

Dysfunctional Families

In a number of studies, Fergusson and his colleagues build up a picture of the disorganised and conflict-ridden family environments which are only too likely to lead to difficulties for children later on. The most complete description is provided by Fergusson, Horwood and Lynskey (1994); this article is concerned with children who have several of the difficulties that are discussed below.

In particular, the multi-problem group tended to come from generally socially disadvantaged backgrounds characterised by low parental education, youth of parents, low socio-economic status and single parenthood. In addition, parents of multiple problem children tended to have higher rates of criminality, alcohol and drug problems. Multiple problem children were more frequently unplanned, more likely to be born ex nuptially, received less ante-natal care and were at higher risk of adverse perinatal history. Multiple problem children were more often raised in materially deprived home environments, were exposed to greater parental change during the pre-school years and generally received what appear to be compromised levels of care and parenting ... [In later years] multiple problem children more frequently experienced higher levels of material disadvantage, family conflict and instability, changes of residence, changes of school and had lower levels of exposure to childhood experiences and interests (pp 1130–1131).

The problems disproportionately experienced by the children of these families include the following:

- Increased risk of hospital admissions, both for accidents and infections, between birth and five years (Fergusson, Horwood and Shannon, 1986).
- Increased risk of childhood problems, including poor child health, educational and behavioural outcomes (Fergusson, Horwood and Lawton, 1990).
- Increased risk of poor performance in cognitive tests (Fergusson, Lynskey and Horwood, 1994).
- Increased risk of early offending against the law (Fergusson, Horwood and Lynskey, 1992).
- Increased risk of adolescent problems such as early sexual activity, substance abuse, conduct disorders, mood disorders and anxiety disorders (Fergusson, Horwood and Lynskey, 1994).
- Increased risk of attempts at suicide by adolescents (Fergusson and Lynskey, 1995).
- Increased risk of alcohol abuse (Fergusson, Horwood and Lynskey, 1995).
- Increased risk of child sexual abuse (Fergusson, Lynskey and Horwood, 1996). It is worth noting, incidentally, that abuse by natural parents among this group is rare (see their Table 1).

Moreover, adoption "is a process that advantages adoptees by reducing the risks of disorder that this group might have expected to have experienced had they remained within their original biological family" (Fergusson, Lynskey and Horwood, 1995, p 613). Thus, the adverse consequences of a conflict-ridden and disorganised childhood are, at least to some extent, preventable.

The Department of Social Welfare indicates in its post-election briefing papers (DSW, 1996b) that it agrees with much of the analysis presented in this section. For example:

- "Sole parenthood is often associated with negative outcomes for children, in particular when linked with benefit dependence and a pattern of changing family structures" (pp 38–39).
- "Families at high risk of entering a cycle of disadvantage are those which are:
 - sole parented;
 - highly mobile;
 - in poor neighbourhoods;
 - have low parental educational qualifications; and/or

- have parents who are long term unemployed and/or benefit dependent" (p 35).
- "The children of beneficiaries are twice as likely as others to require care and protection services and more than twice as likely to require youth justice services" (p 6).
- "Benefit dependence may erode self-confidence or skills, stigmatise recipients in a way that limits opportunities, or weaken family or community responsibility. It may unnecessarily lock people into long-term reliance on benefit (and consequent low income)" (p 17).
- "Negative outcomes have a cost; in economic terms: the level of economic activity and employment may be lower than otherwise; in fiscal terms: higher benefit expenditures and tax revenues forgone; and in social terms: loss of long-term self reliance, possible social division, and a weaker consensus about the role of income support in New Zealand" (p 17).
- "Compared with similar countries, New Zealand has relatively high rates of teenage ex-nuptial births – in 1994, 30.4 per 1000 teenage females" (p 6).

Not all beneficiary families but, in the Department's view, a significant proportion have these problems.

There is no easy answer to the problems of conflict-ridden and dysfunctional families. The difficulty is that often a change in values by the family, rather than additional financial assistance, is required for success. Changing a family's values requires patience and a degree of personal commitment by helpers which, understandably, may not frequently be present in government programmes. On the other hand, there are some approaches that might help. If the number of beneficiaries were reduced, greater attention could be paid to those who have the most difficult problems. A single person could be appointed to coordinate the efforts of a range of organisations (CYPS, Income Support, police, medical services, schools) to assist a family towards self-sufficiency. This coordinator might be given a budget which can be used to purchase services from the relevant providers. This approach can encourage competition in service delivery. The best coordinators may frequently be private rather than government organisations.

In discussing the significance of their findings for policy, Fergusson, Horwood and Lynskey (1994, p 1137) reach the following conclusion. "In general, the findings of this study tend to support the conclusion that, if solutions to the problems of increasing anti-social behaviours among young people exist, these solutions are likely to be with macrosociological

changes and processes of social reconstruction which attempt to minimise the number of seriously disadvantaged, dysfunctional families within the community."

Although Fergusson and his colleagues do not emphasise the point, single parent families and disorganised and conflict-ridden families both rely heavily on welfare. The most obvious "macrosociological changes" that would, at least to some extent, reduce the number of disorganised families would seem to include:

- a change in values that would make forming such families less acceptable; and
- a change in the benefits system that would make episodic reliance on benefits a less seemingly easy and attractive prospect than at present.

So far as public policy is concerned, there are two main possibilities for governments.¹ The first is to move towards a more stringent benefit system, which could involve lower benefit levels, more restrictive eligibility conditions or specifying more carefully what is required of beneficiaries in return for benefit. A more stringent benefits system would make episodic reliance on benefits a less attractive option than it now must seem to many New Zealanders and might encourage them to develop the habits of a more settled life. The second is to accept that many families on benefits do not function very well and to provide these families with the support and assistance they require to work better. (Mixed strategies are clearly possible but the question arises about the degree of emphasis to be placed on each of the previously mentioned strategies.) The problem with the first approach is that some families may be disadvantaged; for example if a sanction is applied. There should not be many such families if sanctions work as they are intended to, but the problem can certainly arise. The problem with the second approach is that not much is known about the likely success of the various possible ways in which the government could intervene in family life. Moreover, families may do less for themselves and for others if governments do more. There is not a great deal of evidence available to assess how serious these possibilities are, but they should not be dismissed as being unimportant.

¹ A third possibility is to provide two-parent families on low to moderate incomes with assistance equivalent to that now provided to one-parent families. New Zealand already provides considerable assistance to such two-parent families. There are severe limits to what more can be done for them arising from concern about the disincentive effects of taxation and abatement of benefits. This issue is discussed further in Chapter 6.

It is of some significance that the United States has, over the past 20 years, moved progressively towards a more stringent benefit system. Although some New Zealanders regard US models as being of little relevance, it is not clear that it is wise for New Zealanders to dismiss the US experience. The United States has been dealing since the 1960s with problems that have only recently become of concern to New Zealanders. Although the United States and New Zealand have similar proportions of sole parents (see Table 3.5) the United States has a lower proportion of beneficiary sole parents and a higher proportion of working sole parents. It is arguable, therefore, that the position in the United States is in this respect to be preferred to that in New Zealand. Unlike in New Zealand and Australia, the number of welfare recipients has fallen in the United States since 1994.² The next section of the paper therefore reviews experience in the United States.

RECENT DEVELOPMENTS IN SOCIAL POLICY IN THE UNITED STATES

The increase in poverty and dependency in the United States since the mid-1960s – and especially the rise in sole parenthood and illegitimacy – has prompted a number of attempts to reform welfare. The early reform efforts involved providing beneficiaries with incentives to work. The emphasis then shifted to removing impediments to work. In more recent times, beneficiaries have increasingly been required to undertake education, training, job search or work if they are to continue to qualify for benefit.

Useful accounts of welfare reform in the United States are provided by Glazer (1988) and Mead (1992). The recent history is complex to summarise because welfare is decentralised in the United States and individual states are important actors in their own right. Periods of sustained reform at the national level are followed by periods of experiment at the state level. The lessons learned at the state level then provide the impetus for the next phase of reform at the national level.

The Johnson administration reduced the benefit abatement rate for AFDC from 100 percent to 67 percent in 1967. The lower abatement rate

² This is not to suggest that all aspects of family welfare in the United States are desirable. For example, the United States has a high level of births to teenage girls. But the percentage of all births outside marriage is higher in New Zealand than the United States (Whiteford, 1997, p 21).

did not lead to a noticeable increase in work effort and was subsequently reversed under the Reagan administration in 1981.

In 1969, the Nixon administration proposed a more ambitious Family Assistance Plan. This plan proposed the extension of welfare to cover intact families (to eliminate the incentive for family break-up) and retention of some portion of the FAP grant (usually 50 percent) with rising earned income to maintain work incentives. Glazer writes: "Just as Keynesian economics fine-tuned the economy, social policy tested by econometric models would fine-tune the family and control the distressing increase in female headed families and illegitimate children". Despite support from the President, no version of the plan had sufficient support in Congress and nothing was enacted.

The next reform attempt was made by the Carter administration in 1978. This plan emphasised "work and incentives to work" (Mead, 1992, p 189) and involved incentives (as for FAP) but also job creation in the public sector. Once again, the proposal failed to obtain sufficient Congressional support. One reason for this was that negative income tax experiments seemed to suggest that a programme that was supposed to reduce family break-up might actually lead to increased rates of family break-up.

The Reagan administration succeeded in reforming welfare in 1981. Its programme included benefit cuts, withdrawal of incentives and devolution of authority to the states. One change ensured that a woman with no other children would not have access to benefits until the sixth month of pregnancy. In Glazer's view the Reagan administration's changes ended an era in social policy: "the traditional incentives to work and support the family were now assumed rather than paid for" (p 48).

The initiative then passed to the states. By 1986, some forty states had introduced new obligations for beneficiaries of one kind or another. Liberal states concentrated on encouraging clients to improve their skills, often at the expense of immediate employment. Midwestern and southern states tended to direct as many of the employable as possible towards private sector jobs or, if necessary, public ones.

By 1986, welfare reform was once again being considered nationally. A number of reports from across the political spectrum suggested that the time during which a woman could receive AFDC unconditionally should be limited, perhaps to two or three years. After that she would be required to take a job or enter a work or training programme to retain assistance.

In 1988, the Reagan administration secured the passage of a Family Support Act. This included a mandatory "work requirement" of the more

liberal kind – emphasised were education for long-term welfare recipients and support services, such as health insurance and child care, for those entering employment. States were required to achieve minimum rates of participation by beneficiaries in workfare programmes. Although the work requirements were modest, Besharov and Fowler (1993, p 108) consider that the Family Support Act paved the way for more ambitious reforms because "it legitimised discussions of behavioural poverty and of the government's right (and obligation) to do something about it".

Within a few years it was clear that the welfare rolls were still increasing despite the Family Support Act (Besharov and Fowler, 1993). For example, there was evidence that the educational benefits in California's welfare-to-work programme were attracting more people to welfare and keeping them on it for longer. By 1991, state administrations were proposing a new round of benefit reductions and work incentives. For example, a plan, enacted in New Jersey, eliminated the increase in a mother's AFDC grant that would otherwise have been payable following the birth of an additional child. During the 1992 election campaign Bill Clinton promised "to provide people with the education, training, job placement assistance, and child care they need for two years ... After two years, those who can work will be required to go to work, either in the private sector or in meaningful community service jobs". There were, however, doubts about the effectiveness of the Clinton proposals, particularly the emphasis on education and training, and nothing was done at the time.

Reform efforts by state governments have continued. According to Besharov and Gardiner (1996, p 82): "Between 1992 and 1995, 21 states adopted Learnfare-type programmes which tie welfare payments to school attendance for AFDC children or teen parents (with federal waivers pending in three more); eight states adopted 'family caps' that deny additional benefits to women who have more children while on welfare (with waivers pending in six more); 15 states adopted immunisation requirements (with waivers pending in three more)". ('Waiver' refers to a process whereby the federal government agrees to vary federal law in order to test alternative approaches.)

Wisconsin has been the most successful state in reducing the number of families on AFDC. Although the total number of families on welfare in the United States increased by 14 percent between 1987 and 1996, the number in Wisconsin fell by 49 percent. Wisconsin increased its expenditure on welfare administration, job training and day care over

this period but overall expenditure fell. Wisconsin's success is reported (eg by Rector, 1997) to be due to a number of factors:

- a reduction in the welfare caseload has been established as the goal of policy;
- a work requirement is used to discourage new entrants to welfare;
- work requirements were imposed on the most employable recipients first;
- continuous work, rather than education or training, is emphasised;
- community service jobs are made available for the few recipients who are unable to find private sector employment;
- welfare offices are rewarded or penalised depending on whether they meet performance criteria, and have to compete for extra funding.

Many of these state government programmes have yet to be fully tested and much will depend on how they are administered. To what extent, for example, will exemptions from work requirements and time limits be granted? And to what extent will society be prepared to enforce work and other requirements when the effect may be to disadvantage the children of some welfare recipients as much as the recipients themselves? Recent US welfare legislation imposes requirements on states to move people from welfare to work, but allows individual states greater freedom than in the past as to how they achieve this objective. The hope is that experimentation at the state level will enable successful approaches to be developed which can then be applied elsewhere.

As exemplified by this brief account, recent discussion about welfare policy in the United States combines an increasing sense of urgency about the need to do something about the welfare family with increasing frustration that few successful approaches have yet been developed that seem capable of making much of a difference. Some reformers, however, such as Lawrence Mead (1997, p 21) would be content to have beneficiaries remain on benefit provided that they were undertaking useful activities while doing so. This more limited objective would, in their view, at least reduce public dissatisfaction with the welfare system.

Recent developments may suggest that this view is too pessimistic. The number of welfare recipients in the United States has fallen by 24 percent over the past four years (and by 10 percent over the past year). A study by the Council of Economic Advisers estimated that "about 40 percent of the decline in welfare rolls is linked to the economy; about 31 percent to policy changes by the states and 29 percent to other factors" (*Australian Financial Review*, 15 August 1997, p 29). Although it will be some years before we can be sure, there are reasons to hope that welfare reform, in combination with sound macroeconomic conditions and

labour market flexibility, can result in a substantial reduction in the number of beneficiaries.

THE OBLIGATIONS OF BENEFICIARIES

There is, as we have seen, increasing interest in the idea that beneficiaries should be required to meet certain obligations in return for receiving benefits. To apply this approach, governments need to specify exactly what the obligations of beneficiaries are, and enforce penalties if they are not met. The obligations typically involve one or more of the following:

- an obligation to be working;
- an obligation to be looking for work;
- an obligation to be engaged in some activity (such as education, training or voluntary work) that will increase the person's chances of finding paid employment;
- an obligation to take reasonable steps to obtain maintenance from the non-custodial parent; and
- an obligation to be a satisfactory parent (eg to ensure that children are immunised and attend school regularly).

To be meaningful, penalties need to be clearly specified, significant in size and consistently enforced. But to avoid hardship, there are probably limits to the penalties that New Zealanders would be prepared to accept.

Although many episodes of sole parenthood end with reconciliation or re-partnering, governments have found it neither desirable nor possible to establish obligations relating to these events. In view of the uncertain record of reconciliation and re-partnering, it is certainly arguable that the best course of action from the social point of view is to discourage the formation of sole parent families in the first place. To the extent that this policy is unsuccessful, sole parents should be encouraged to be independent of welfare through a combination of earnings and contributions from non-custodial parents.

The idea of obligation is to impose some order on disorderly lives by requiring beneficiaries to work or improve their prospects of finding work. As Lawrence Mead has written (1992, p 190): "Workfare exemplifies a broader trend to more directive social policies. Driven by passive poverty, a paternalistic system is emerging that guides the lives of the dependent in many respects as well as helping them". Moreover, people are more likely to be guided by their consciences if the community clearly states shared values. This is what a community means; and, as Tocqueville noted, a strong community provides a defence against granting excessive powers to government.

There are three important general points that need to be made here about work and other obligations for beneficiaries. First, the increasing emphasis on obligation reverses some previous trends in social policy. The idea of the negative income tax, which was originally proposed by Milton Friedman, was that benefits should be paid on the basis of low income alone without requiring other conditions to be met. Although eligibility for benefit has been greatly extended in recent decades, no government has paid benefits entirely unconditionally. It seems that income as declared to the taxation or social security authorities is insufficiently informative, and too easily subject to manipulation by claimants, to be the sole basis for the distribution of welfare support. Although the negative income tax continues to have supporters (Dorrence and Hughes, 1996), most benefit reformers oppose it (eg Preston, 1997).

There is, it seems to me, no reason on grounds of liberal principle to object to requiring beneficiaries to meet certain obligations. Such conditions may be considered to be no more than an additional means of ensuring that benefits are directed only to people who need them and are received only while they are needed. Hayek (1960, pp 303–304) has written on this general subject as follows: "Though the traditional liberal aversion to any discretionary powers of authority may have played some part in making this development possible, it should be noted that the objection against discretionary coercion can really provide no justification for allowing any responsible person an unconditional claim to assistance and the right to be the ultimate judge of his own needs. There can be no principle of justice in a free society that confers a right to "non-deterrent" or "non-discriminatory" support irrespective of proved need. If such claims have been introduced under the disguise of "social insurance" and through an admitted deception of the public – a deception which is a source of pride to its authors – they have certainly nothing to do with the principle of equal justice under the law".

The recent increased emphasis on paying benefits subject to conditions has not gone unnoticed. In their recent book, *The Bell Curve*, Herrnstein and Murray (1994) conjure up the nightmare of the custodial state. "Politicians and intellectuals alike will become more open about the role of dysfunctional behaviour in the underclass, accepting that addiction, violence, unavailability for work, child abuse, and family disorganisation will keep most members of the underclass from fending for themselves. It will be agreed that the underclass cannot be trusted to use cash wisely. Therefore, policy will consist of greater benefits, but these will be primarily in the form of services rather than cash. Furthermore, there

will be new restrictions" (p 523). These authors add (p 525): "Unable to bring itself to do away with the welfare edifice – for by that time it will be assumed that social chaos will follow any radical cutback – the government will continue to try to engineer behaviour through new programs and regulations. As time goes on and hostility towards the welfare-dependent increases, these policies are likely to become authoritarian and rely increasingly on custodial care".

Lawrence Mead (1997, p 16) has written that, if his proposals for a compulsory work requirement were implemented, "going on welfare would be like going into the army. Those who qualify would receive undoubted financial support and other benefits, but in return they would have to function in clear-cut ways ... Public authority is the unexploited resource in anti-poverty policy".

There is, perhaps especially for liberals, a considerable distance between Hayek's comment that there is no right to unconditional assistance and Mead's conclusion that going on welfare should be like joining the army. Mead's conclusion is based on his belief that the "competence assumption" frequently does not hold. He considers that many welfare beneficiaries do not have the capacity to advance their own self interest "by getting an education and working hard in the best job they can get" (1997, p 19). In my own judgment the evidence suggests that most New Zealand beneficiaries are well able to advance their own interests in the right circumstances (see, for example, the discussion in Chapter 1 of this study). They respond to the incentives which the welfare system provides. Nevertheless, there probably is a small group of beneficiaries for whom the competence assumption does not hold, and a place for the policies Mead advocates.

The majority of beneficiaries, who are competent, would benefit from the development of clear and consistently enforced obligations that they are expected to meet in return for receiving benefits. For example, they might, as relevant, be expected to look for work, improve their job skills and look after their children properly. Benefits would cease to be an entitlement; beneficiaries would, instead, enter into increasingly explicit contracts with the Department of Social Welfare which include reciprocal obligations.

It would, however, be unwise, in my view, to rely on enhanced public administration as the only answer to dependency. New obligations for beneficiaries should probably be part of a wider strategy that might also include revised benefit levels and, perhaps, increased use of the voluntary sector to supplement government assistance. This is discussed further in Chapter 6.

The second important point about new obligations is that they need to be capable of being put into practice. In particular:

- The obligations must be accepted by the New Zealand public as being fair and reasonable. This may become easier as concern grows (as it is likely to) about the adverse effects of dependency.
- Penalties for failing to comply with the conditions for receiving benefit must be defined, and actually enforced by district offices of the Department of Social Welfare. I understand that one reason why stand-down periods for unemployment beneficiaries were eased recently was that the previous, harsher stand-down periods were not consistently enforced.
- The New Zealand public is unlikely to tolerate widespread hardship, if only because of concern about the possible consequences for the wider society. Some care needs to be taken to think through the possible side effects of the greater use of conditions and to develop corrective measures to prevent hardship.

There are difficulties in the implementation of work requirements in particular that need to be considered. If work requirements are to be effective, they must be applied consistently to a particular group of beneficiaries. Exemptions within the relevant group should be granted as sparingly as possible. Once a person has become subject to a work requirement he or she should remain subject to it while on benefit. The government should, moreover, as far as possible avoid providing jobs for beneficiaries in the public sector. Maximum use should be made of unsubsidised jobs in the private sector. Jobs in the community sector should be considered for those who are unable to find open employment.

Because of these difficulties, it is probably sensible to phase in work requirements. Wisconsin, for example, first established a work requirement for new applicants and then extended it to existing beneficiaries. Work requirements were established first for the more employable recipients thus enabling greater attention to be paid to beneficiaries who had difficulty in finding employment.

The third general point about conditions is that they are to some extent an exercise in social planning. As David Green (1996) has remarked, such exercises are likely to come unstuck because of limited knowledge by the government about the circumstances and abilities of those individuals who request assistance from it. Moreover, many of the newer American programmes that impose obligations on beneficiaries are experimental at this stage and the results of these experiments are not yet known. Given these uncertainties, it would be desirable to develop

the role of the voluntary sector so that it is able, based on its own assessment of the needs of applicants, to supplement the assistance that governments are able to provide.

S U M M A R Y

The main points made in this chapter are as follows:

1. Informed opinion and research in New Zealand demonstrate that dependency on welfare tends to have adverse consequences for beneficiaries, their partners and former partners, and their children.
2. Research in the United States using longitudinal data suggests that children who grow up in families that are poor, single parent or dependent on welfare tend to suffer adverse consequences during adolescence and young adulthood.
3. There is a group of conflict-ridden and disorganised families in New Zealand whose children are particularly likely to experience difficulties and adverse outcomes both in childhood and adolescence. Not all beneficiary families are like this but benefit reform could limit the number of such families.
4. Social policy in the United States has moved from providing incentives to work to requiring beneficiaries to work (or increase their skills). More recently, American states have introduced time limits for benefits and penalties for welfare recipients who have additional children while on welfare, or who fail to immunise their children or send them to school.
5. Recent developments in the United States indicate that, in combination with macroeconomic stability and a flexible labour market, welfare reform can significantly reduce the number of beneficiaries.
6. In the New Zealand context, there seems to be no reason in principle why some beneficiaries should not be required to meet further obligations to work or be engaged in activities that are likely to lead to work.
7. In practice, new conditions for benefits could be part of a wider strategy that also includes reductions to benefit levels and a greater role for the voluntary sector. Any new arrangements would need to be accepted by New Zealanders as being fair, be capable of being enforced and should have, as far as can be anticipated, few side effects.

6 POLICIES TO REDUCE DEPENDENCY IN NEW ZEALAND

In this section of the paper I discuss the advantages and disadvantages of the policy approach to dependency that is currently taken in New Zealand and of the alternative strategies that arise from the discussion in previous sections of the paper. Although firm policy recommendations are not made, the likely effectiveness of each of the approaches in reducing dependency is assessed.

Income support policies need to be viewed within the overall context of New Zealand's economic policies. It is very much easier to reduce dependency when employment opportunities are plentiful. As discussed in other New Zealand Business Roundtable publications, the main prerequisites for economic and employment growth over the medium term are low inflation, prudent fiscal policy, careful control over government spending, openness to foreign trade, labour market deregulation, low taxes and the minimisation of other regulatory burdens. Indeed, there seems to be an emerging consensus among economists that these factors are the key to successful economic performance (see, for example, Rodnik (1996), who also discusses the problems in implementing economic policy reform). New Zealand has made good progress in these areas in recent years and, in writing this paper, I make the optimistic assumption that this will continue. It will be much harder to implement the policies discussed in this chapter if this is not the case.

The recommendations made below are for significant changes to the present income support arrangements rather than for fundamental changes to the income support system itself. I consider that the changes suggested would, if implemented in the right circumstances, significantly reduce the number of beneficiaries. Because the present welfare system would be retained, though modified, implementation of the recommendations of this study is a low-risk strategy. More fundamental changes could be implemented at a later date. The more far-reaching changes recommended in David Green's book (Green, 1996) and *Moving into the Fast Lane* (NZBR, 1996, pp 68–69) would have correspondingly greater effects on welfare dependency and warrant careful consideration as options for the longer term.

POLICY IN GENERAL

There are, as has been discussed in previous chapters, three main views about how the dependency problem has arisen and about the best policies to address it. The first view, which is frequently held by welfare organisations, emphasises the disadvantages experienced by individual beneficiaries and the perceived lack of opportunities for them. People who hold these views tend to advocate increased benefits, easier income tests and measures to help beneficiaries into employment.

The second view, which is held by writers such as Lawrence Mead, emphasises the lack of competence of many beneficiaries. In Mead's view these people should be required to work (or undertake activities that will improve their prospects of finding work) in return for benefits. Beneficiaries would, he believes, welcome this degree of organisation of their lives.

According to the third view, the growth in dependency has largely been a response to the incentives resulting from the benefits themselves. Re-examination of benefit levels and the conditions under which benefits are paid is necessary if progress is to be made in reducing the number of beneficiaries.

These views are by no means mutually exclusive. For example, a package of measures could include revised benefit levels, the extension of work requirements to further groups of beneficiaries, and child care and health subsidies that are similar to those for people who move from benefits to employment. Nevertheless, the question arises of how much emphasis should be placed on each of the views outlined.

The evidence presented in this paper leads me to doubt whether increased benefits and easier income tests are the answer to dependency. Economic analysis, and New Zealand and overseas evidence, strongly suggest that higher benefit levels and easier income tests are likely to lead to more rather than fewer beneficiaries.

As noted by Mead, work requirements for beneficiaries provide an intermediate approach because they can be expected, without lower benefit rates, to lead to reduced numbers of beneficiaries. However, work requirements are easier to implement when the number of applicants for benefits is not too large. Attention needs therefore to be paid to whether benefit levels strike the right balance between preventing hardship and avoiding adverse incentives.

This means, regrettably, that New Zealanders and their governments face some difficult decisions. They may ultimately feel unable to take the actions that are most likely to lead to a reduction in dependency. Any

such choice should, however, be made in full knowledge of the likely consequences.

It has been frequently observed that, in countries such as the United States, New Zealand and Australia, few adults who work full-year and full-time are poor (see eg Mead, 1997, pp 1–6). By contrast, most New Zealanders on low incomes are beneficiaries. This has led many commentators to suggest that benefits should be increased. There are, however, real limits, arising from fiscal constraints and concern about the disincentive effects of benefits and the taxes that finance them, to the extent to which benefits can be increased for persons of working age. Indeed, some New Zealand benefits may already be too high.

By contrast, employment provides a more secure route out of poverty. Studies in the United States on the basis of longitudinal data suggest that former beneficiaries who find work typically earn in excess of the US poverty standard (Mead, 1997, p 7). Moreover, a former beneficiary who takes and can hold a low-paying job will frequently learn skills and habits that will lead to better-paying employment. This illustrates the importance of a flexible labour market in which employers and employees are free to reach mutually satisfactory agreements.

The recommendations in this study are designed to encourage beneficiaries to move towards work where this is practicable rather than remain on benefits.

CURRENT POLICIES

According to the Treasury (1996, pp 83–84):

... the most beneficial approach is one that will provide adequate support for people in times of need, but keep them oriented to employment and training so as to maintain and enhance their long-term prospects through labour market participation. To achieve this, the benefit system needs to:

- Maintain a margin between benefit levels and the incomes beneficiaries can potentially earn from paid employment, so as to ensure there is sufficient reward for remaining in or taking up employment ...
- Require people to look for employment or participate in training, where their circumstances allow, and reinforce this with fair, but explicit, sanctions where they do not comply with the obligation to help themselves ...
- Assist people to move into employment, when they are unlikely to be able to do so of their own accord, by providing advice or help to deal with specific problems, such as child care responsibilities, that otherwise provide a barrier to employment.

- Inform people about the options available to them other than benefit receipt and educate them about the potential long-term implications of prolonged benefit receipt.

The following policies have been adopted in recent years in New Zealand:

- Core benefits have been maintained in real terms (following the reduction in 1991) but supplements to benefits (such as for accommodation) have been increased.
- The benefits income test has been revised to make part-time work more attractive for beneficiaries.
- Certain widow pensioners and domestic purposes beneficiaries are now required to look for part-time work or undertake training which leads to employment. Certain spouses of unemployment beneficiaries are now required to look for full-time work.
- Long-term unemployed people and young unemployed people are assisted into employment through supervised job search, training and wage subsidies (job action and youth action).
- The government subsidises training and child care for beneficiaries who want to return to work.
- A case management approach is being progressively introduced. This involves close supervision of particular beneficiaries by an individual staff member of the Department of Social Welfare. For example, sole parents are being assisted towards education, training and employment through the COMPASS programme.
- Invalids are assisted into work by subsidies to rehabilitation, vocational training, employment placement and subsidised employment (including in sheltered employment).
- Additional benefits have been introduced for low income people in employment (eg the Independent Family Tax Credit).
- The ACC has begun to place greater emphasis on testing the ability of longer-term recipients to find work.

Apart from the requirements for unemployment beneficiaries, some spouses and some widows and sole parents, these policies amount to a very limited approach to dependency.¹ Beneficiaries are first provided

¹ However, the objective of policy may have been to encourage some groups (eg sole parents) to combine benefits and part-time work rather than work full-time and not be eligible for benefits. Full-time work is a more reliable route out of poverty than part-time work. Many countries have a higher proportion than New Zealand of sole parents who work full-time. The aim of policy should therefore be to encourage sole parents to work full-time wherever it is reasonable for them to do so.

with generous benefits and then with incentives to offset the generous benefits. They are to be rewarded rather than required to work. Because benefits are quite high in relation to earnings in New Zealand, the scope for following this strategy successfully is limited. In particular, the analysis in this report suggests that some elements of the present policy stance are likely to be unsuccessful or unnecessarily expensive. For example:

- Higher benefit rates and easier income tests are likely to lead to more rather than fewer beneficiaries.
- The voluntary nature of the activity requirements, and the emphasis on education and training, are likely to attract rather than deter beneficiaries.
- Writers such as Mead (1992, pp 170–171) argue that government assistance with child care and travel costs is simply unnecessary because beneficiaries can usually make satisfactory arrangements for themselves if they are required to work. However, the costs of child care may be a barrier to finding work where satisfactory alternative arrangements cannot be made.

There are signs that the policy approach may be starting to change. The Department of Social Welfare notes in its post-election briefing papers (1996b, p 23) that the "improvement in the employment situation in the last few years has failed to substantially reduce the dependency problem, and policy refinements are likely to have only a marginal effect on benefit dependency. The seriousness of this invites the thoughtful examination of more fundamental changes". Moreover, the government's projections indicate that the number of beneficiaries is expected to increase over the next few years (Treasurer 1997c, p 113).

In his 1997 Budget Speech, the Treasurer argued (1997a, p 7) that "every New Zealander has an obligation to support their family, to make sure their children go to school, and to make the most of opportunities to improve their skills. In the future we hope to provide beneficiaries with a plan that details what the Government expects of them in exchange for the help they receive from taxpayers. What we are talking about is a code of social responsibility – a form of contract between the welfare recipient and the state. We will also introduce reasonable processes to ensure that we New Zealanders meet these obligations".

Although there seems to be a good deal of agreement that benefits should not be an entitlement but should be paid subject to a contract that introduces obligations both for government and beneficiaries, there is less agreement about what these obligations should be and how they should be enforced. As noted in Chapter 5, there is no unconditional right to a benefit. Although all parents have an obligation to send their children

to school, it is reasonable to take additional steps to enforce that obligation for parents who are receiving benefits. To be successful, obligations will need to be consistently enforced.

New Zealand may have to consider more far-reaching policy options if it is to reduce dependency successfully. I now briefly review the various possibilities.

LOWER RATES OF BENEFIT

The analysis presented in this report suggests that lower benefit rates would be an effective way to reduce dependency. They would automatically reduce the number of beneficiaries. In addition, lower benefit rates would discourage the use of benefits and encourage work. However, the adequacy of benefits also needs to be taken into account when making decisions about benefit rates.

There would appear to be scope to reduce some benefit rates in New Zealand. Although unemployment benefit rates are similar in relation to earnings in both Australia and New Zealand, invalids benefit rates, domestic purposes benefit rates and some sickness benefit rates are, if accommodation supplement is also taken into account, frequently about 10 to 15 percent higher (or more) in New Zealand than in Australia. Benefits for sole parents in Australia and New Zealand are higher than in Great Britain or the United States (Whiteford, 1997, p 51). It is questionable, in my view, whether the New Zealand benefits system strikes the right balance between avoiding hardship, on the one hand, and avoiding the adverse consequences of benefits on the other. The extremely generous benefits paid to persons receiving accident compensation from ACC raise similar questions. A reduction in benefit levels could have the valuable further effect of aligning invalids and sickness benefit rates, as is the Australian practice, with the unemployment benefit rate.² This, in turn, would reduce the incentive for some unemployment beneficiaries to present themselves as invalid or sick, and hence move out of the labour force, to qualify for a more generous, more prestigious and less onerous benefit. A policy of encouraging a reduction in the supply of labour can only be damaging to New Zealand's long-term economic interests. I am not suggesting that unemployment benefit rates need to be further reduced in New Zealand.

² However, single unemployment benefits in Australia are lower than the single invalids pension.

However, even the Treasury worries (1996, p 85) that benefit levels may be inadequate, for example when rents are high. As it points out, situations where housing costs are high in relation to income usually do not last very long. For example, cheaper accommodation is often found. The more general point is that individual circumstances vary greatly and, whatever feasible benefit level is chosen, it is likely to be inadequate for some people. Moreover, most of us (and particularly beneficiaries) would have transitional difficulties in adjusting to a lower income. The benefits system should therefore be supplemented by discretionary assistance to cater for situations of unusual need. In the past, this discretionary, supplementary assistance was provided by governments. I discuss below whether this type of assistance could, in future, be provided more effectively by the voluntary sector.

The generosity of the New Zealand accommodation supplement has been emphasised in earlier chapters of this report. The accommodation supplement was introduced to enable the government to direct assistance to the most needy and it has been increased on several occasions to assist those with high housing costs in relation to their incomes. At present the accommodation supplement pays, subject to a maximum, 70 percent of the difference between a family's actual housing expenses and 25 percent of the relevant basic benefit rate.

The issue of the right balance between basic benefits and supplementary assistance for special needs (such as accommodation supplement) is a complex one. Supplementary assistance directs assistance to the neediest. By permitting basic benefits to be lower than would otherwise be necessary, supplementary assistance reduces the extent to which basic benefits limit geographical mobility by being unnecessarily generous in low cost areas. As against this, supplementary assistance may encourage some recipients to manipulate their budgets to qualify for higher amounts of assistance. Because wages usually do not include an addition for housing costs, supplementary assistance may tend to worsen situations where benefits are high in relation to earnings.

It is not easy to strike the right balance between these opposing considerations. The New Zealand accommodation supplement is, however, a generous programme. If the alternative methods of meeting the situation of those with special needs, involving greater use of the private sector, that are suggested later in this chapter are taken up, the opportunity might be taken to remodel the accommodation supplement more along the lines of the counterpart programme that exists in Australia.

TIGHTER INCOME TESTS

The National government's decision to ease abatement rates is likely to encourage more part-time work by beneficiaries. But the analysis in this paper shows that easier income tests are unlikely to lead either to fewer beneficiaries or increased hours of work in total. (For example, some people who previously worked full time may choose to rely on a combination of part-time work and benefit because of the easing of income tests.) This policy direction may require further consideration – particularly if New Zealand decides to require, rather than to merely encourage, greater work effort by beneficiaries.

New Zealand may also wish to consider whether to follow the Australian practice of paying benefits subject to an assets test and, for young beneficiaries, subject to parental income and assets tests. Although these measures would not address the core dependency problem, they would do something to ensure that benefits go only to persons who really need them. Many parents would place greater pressure on their children to find work.

ELIGIBILITY CONDITIONS

Some people of working age are likely, because of physical, mental or psychiatric disability, to require continuing support by the community. The number of such persons requiring income support is probably greater now than in the past because of improvements in medical treatment and perhaps because increased exposure to competition in most parts of the economy has made it harder to carry such persons in employment. It is unlikely, therefore, that the number of invalids will return to the very low levels experienced before 1975. The rapid growth in the number of invalids in recent years, nevertheless, has led to concern that people are progressing to this benefit whose difficulty, although they suffer from a disability, is essentially one of unemployment.³ Such concern can be addressed, to some extent, by aligning the invalids and sickness benefit rates with the unemployment benefit rate.

In its post-election briefing papers the Department of Social Welfare notes (1996b, p 92) that invalids benefit and sickness benefit have remained essentially unchanged in their basic structure since the 1930s. Because of the many changes since then in medical science, the labour

³ On the other hand some people who should have been classified as invalids may have been happy enough to receive unemployment benefit in the past when the benefit rates were similar and the work test was not too vigorously enforced.

market and in the broader society, there is a lack of correspondence between the benefits and the needs they are supposed to meet.

Great care should be taken in defining the eligibility conditions for invalids benefit. A defined medical component should be included: Australia uses 20 percent but New Zealand may wish to consider a higher figure.⁴ Consistent application of the medical criteria for eligibility should be obtained through the development of impairment tables. According to the Australian Department of Social Security, adoption of these procedures has moderated growth in the number of disability support pensioners. By contrast the New Zealand guidelines emphasise the need to consider the circumstances of individual applicants. A guideline of 75 percent incapacity is used. This means that "functioning across a range of work areas is severely restricted. Incapacity is such that even with appropriate adaptation of the work environment and support it is improbable that the patient will participate in open employment" (DSW, 1996c; main benefits manual, para 14. 1331 and Appendix V).

However, "the terms are used in a broad and general sense, to be interpreted for each customer's individual circumstances". Moreover, technological change has opened up work possibilities for some people who were considered to be unemployable in the past. One result of firming up the criteria, as suggested here, would be an increase in the number of marginally employable people who receive unemployment benefit.

Changed eligibility conditions could also be considered for sickness benefit. In Australia, sickness benefit is now only available, for up to 12 months, to those who have a job to return to, or intend to return to study. This change ensures that sickness benefit is paid only to those who have a firm attachment to the workforce. It ensures that sickness benefit is available only to the temporarily sick and breaks the progression from unemployment benefit to sickness benefit to invalids benefit. New Zealand should consider making similar changes to its sickness benefit.

At the moment, pregnancy is the condition which most frequently gives rise to eligibility for sickness benefits in New Zealand. The availability of sickness benefit from the 28th week of pregnancy now

⁴ To avoid misunderstanding I should emphasise that an assessment of employability should be part of the decision to grant invalids benefit. Organisations representing the disabled are increasingly arguing that, because of technical change, their members are now able to work and should no longer be regarded as being disabled. But invalids benefit should not be granted in the absence of a defined medical component to invalidity.

seems increasingly anachronistic, especially if there are no complications to the pregnancy. The onset of dependency on benefits could be delayed if sickness benefits were less commonly available during pregnancy. This issue deserves further consideration by the government.

TIME LIMITS FOR BENEFITS

As noted, a limit on the maximum period for which benefits can be received is an increasingly important aspect of welfare policy in overseas countries. This section of the study considers whether time limits can assist in reducing dependency in New Zealand.⁵ It is necessary to consider each of the benefits individually, but three general points about time limits should first be made.

First, there is a danger that maximum periods for receipt of benefits may in practice become minimum periods as well. Frequent reviews of the continuing need for an individual to receive benefit would therefore be needed during the eligibility period were a time limit for benefits to be introduced.

Secondly, it makes a great deal of difference whether a benefit is, so to speak, the benefit of last resort within the income support system. If a time limit is imposed on a benefit other than the benefit of last resort, then beneficiaries have the option of moving to the latter benefit if they are unable to support themselves when their existing benefit runs out. The benefit of last resort may be less generous, have lower prestige and be paid subject to more onerous conditions than the beneficiary's previous benefit, but no great hardship is likely to result. The risk of causing hardship is far greater if a time limit is applied to the benefit of last resort, but so is the incentive to become self-supporting. Unemployment Benefit (and especially Emergency Unemployment Benefit) is the benefit of last resort in the New Zealand system.

Thirdly, time limits need to be *credible* to be effective – people must believe that assistance really will end once the time limit has been reached. The credibility of time limits can easily be weakened if, for example, exemptions are frequently granted. On the other hand,

⁵ The emphasis in this study on time limits, and not possible alternatives (eg benefits that reduce as the period spent on benefits increases), may require some justification. There is no great difference in terms of principle. Time limits are easy to understand and provide a natural focus for efforts to increase skills and employability. But they need to be credible and may be undermined if exemptions are granted too readily.

destitution among those who no longer qualify for benefits is unlikely to be acceptable to the public. Time limits for benefits of last resort are likely to be credible, therefore, only where there are effective programmes to ensure that few beneficiaries reach the time limit. Time limits and work requirements are often closely linked. It would be prudent, moreover, to introduce time limits for benefits of last resort at the same time as effective work programmes are developed.

Invalids Benefit

This benefit is designed to cater for those who are permanently and severely restricted in their capacity to work due to a disability. This is a long-term contingency. As discussed, it should not be too easy to receive invalids benefit and strict medical criteria for eligibility should apply. Except where there is no likelihood of the person engaging in employment in future, frequent reviews should take place to determine whether a person continues to be eligible to receive invalids benefit. But a time limit to determine automatically the maximum period for which invalids benefit can be received appears to be inconsistent with the purpose of the benefit.

Sickness Benefit

As discussed, sickness benefit should be limited to those with firm attachment to a job and should be payable for a maximum period of 12 months. Sickness beneficiaries who are unable to qualify for invalids benefit should then transfer to unemployment benefit.

Income Maintenance from ACC

The former minister responsible for the Accident Rehabilitation and Compensation Insurance Corporation, the Hon Bruce Cliffe, commenced a review of New Zealand's Accident Compensation Scheme in 1994 and issued an options paper in 1995 (New Zealand, 1995b). According to the options paper:

- "During 1993–94, 53 percent of total ACC benefits, or \$705 million, was paid out in weekly compensation ... Approximately 66 percent of this amount went to claimants in the 'tail', ie those who had been receiving weekly compensation for more than one year" (p 8).
- Some 50 percent of people who had been on weekly compensation for longer than 12 months had injuries which were classified as "sprains and strains" (p 18).

The purpose of income maintenance under ACC arrangements is to provide compensation for loss of earnings during the period of recovery and rehabilitation. However, as the review team commented, "it is clear that, for many claimants, an open-ended entitlement to 80 percent of their previous earnings provides little incentive to use their skills to find a job" (p 18).

The situation has been made more difficult by the removal in New Zealand both of common law rights and, in 1991, lump sum compensation payments. Apart from the payment of medical and rehabilitation costs, periodic income maintenance payments are the only form of compensation for accidents that is available to New Zealanders.

The desirability of reforms of New Zealand's expensive and unusual accident compensation arrangements has been discussed elsewhere – including in other NZBR publications (eg NZBR, 1987). In these publications it was argued that greater reliance should be placed on individual choice of insurance cover and the private provision of accident insurance. In deciding on the amount of insurance to be provided, individuals and their insurers would no doubt take account of welfare benefits that might be payable in the event of an accident. The case for fundamental reform of New Zealand's accident compensation arrangements is beyond the scope of the present paper.

The main options for reducing dependency on, and the cost of, ACC income maintenance arrangements in the short term include the following:

- Reduce income maintenance payments below 80 percent of previous earnings. Most income protection insurance policies provide no more than 75 percent of previous earnings.
- Limit the maximum period for which compensation can be paid to two years, except for serious, permanent disabilities that make it impossible for people to rejoin the workforce. Two years is surely a generous period to be paying income maintenance to a person who has a minor sprain or strain.
- Undertake periodic reviews of whether persons who have been classified as being permanently disabled continue to need income maintenance.

The Australian state of Victoria pays workers' compensation benefits at 95 percent of previous ordinary time earnings during the first six months of incapacity. During the next 18 months, payments are linked to 70 percent (if totally incapacitated) or 60 percent (if partially incapacitated)

of previous earnings. Benefits cease after two years for those who do not have a total permanent impairment.

Domestic Purposes Benefit

There are two possible types of time limit for this benefit:

- A maximum period of time during which a person can receive the benefit unless he or she undertakes work or work-related activities.
- An absolute limit to the length of the period during which a person can receive the benefit. This limit might apply either to a particular period on benefit or over the lifetime.

There is a case for introducing both types of time limit. The idea behind the introduction of domestic purposes benefit was that sole parents needed income support to enable them to stay at home to look after their children. This presumption has become increasingly anachronistic in view of increasing labour force participation by mothers in two-parent families. Census data for 1991 (Statistics New Zealand, 1993b, pp 32–33) show that 33 percent of mothers in two-parent families were employed full time in 1991 and 25 percent were employed part time. (The corresponding figures for sole parents were 24 percent and 9 percent, respectively.) Mothers in two-parent families have to make compromises and difficult decisions (eg regarding child care) to be able to go out to work. Might it not be reasonable to expect sole parents to do the same?⁶

⁶ Unpublished data from the 1996 census show that sole parents increased from 24 percent of all families with dependent children in 1991 to 27 percent in 1996. The number of sole mothers who were employed full time increased from 17 percent of the total in 1991 to 20 percent in 1996. The number of sole fathers who were employed full time increased from 44 percent in 1991 to 47 percent in 1996. Sole parents who are employed full time are unlikely to be beneficiaries. The number of sole mothers who were employed part time increased from 11 percent to 16 percent of the total, and the number of sole fathers who were employed part time increased from 4 percent to 8 percent (DSW, personal communication, 21 August, 1997).

The reasons for these changes will require further investigation. But it is noteworthy that the period from 1991 to 1996 encompassed the introduction of a more flexible labour market in New Zealand and the benefit cuts of the early 1990s (even though these have subsequently been reversed to some extent). This interpretation is consistent with the results of Maloney's study (Maloney, 1997) – see Chapter 1 of this report for further discussion. The experience between 1991 and 1996 is therefore moderately encouraging for the policy approach advocated in this paper. The number of domestic purpose beneficiaries still grew, however.

Government policy in New Zealand already recognises these realities to some extent. As noted, sole parents whose youngest child is aged 14 years or more are now required to be looking for part-time work, or to be engaged in an activity that is expected to lead to employment. An alternative view might be that the degree of support and supervision required by a 14 year old is not inconsistent with the mother going out to work full time, particularly if relatives and neighbours are able to assist. If this alternative view is accepted, then domestic purposes benefit should be paid only to persons who have a child aged under 14 years. (Persons who were no longer eligible for domestic purposes benefit would, if they met the relevant conditions, be eligible to receive unemployment benefit.)

The long gap, under existing policies, between the birth of the child and the parent being required to look for work when the youngest child is aged 14 years is surely undesirable. Parents are only too likely to allow employment skills to decay or fail to learn new work skills during this period. By contrast, the Reagan administration's Family Support Act in 1988 reduced the age of children below which parents would not be expected to work (or engage in related activities) from six to three years (Mead 1992, p 177). More recently, several American states have introduced time limits for receipt of AFDC. Given their parental responsibilities, it may be unreasonable to expect sole parents to work (or engage in related activities) for more than half the working week; however, longer periods of activity than this are being required in some American states. Relatively few sole parents receive benefits continuously for 14 years because many sole parents re-partner.

These considerations suggest that the domestic purposes benefit should only be paid unconditionally to sole parents for up to three years. Domestic purposes benefit would then only be payable if the beneficiary engaged in work or a related activity if so required by the Department of Social Welfare. These obligations should be scaled to increase as the age of the youngest child increases. Domestic purposes benefit would cease to be payable once the youngest child reached 14 years. These suggestions, although far less restrictive than the measures currently being introduced in the United States, would end the present situation where few obligations are placed on most sole parent beneficiaries in New Zealand. A similar approach may be relevant for widows' pensions and the spouses of unemployment beneficiaries. (It might be noted that the American state of Wisconsin requires parents whose youngest child is 12 weeks of age or more to work, and limits benefits to a cumulative lifetime limit of 24 months, although there is provision for extension.)

The case for adjustment to these time limits should be further considered once some experience has been gained with their operation in New Zealand.

Unemployment Beneficiaries

Some countries place a limit on the length of time for which unemployment benefits can be received, but others do not. Countries (such as Canada, Japan and the United States) that limit the length of time for which unemployment benefits can be received tend to have lower rates of long-term unemployment than countries (such as Australia and New Zealand) with benefits of unlimited duration (Layard, Nickell and Jackman, 1991, p 41).

Unemployment benefits are of two types: unemployment insurance and unemployment assistance. Eligibility for unemployment insurance is based on past contributions and is frequently time-limited. Unemployment assistance is usually less generous than unemployment insurance, paid at a flat rate and of unlimited duration. Most countries have both unemployment insurance and unemployment assistance. The United States has unemployment insurance only (although families with children may qualify for welfare). A childless man who exhausts his unemployment insurance after six months gets nothing in many states. By contrast, New Zealand and Australia have only unemployment assistance.

A time limit for receipt of unemployment benefits would reduce the number of long-term unemployment beneficiaries and the level of unemployment. But there are some counter-arguments:

- To the extent that the duration of unemployment is not under the individual's control, it may be unfair to eliminate benefits for the long-term unemployed. Involuntary unemployment may still exist in New Zealand because of the remaining regulation of the labour market (eg unjustifiable dismissal rulings and the minimum wage) or because persons with a degree of market power in the labour market use it to minimise variation in wages.
- Persons who cease to be eligible for unemployment benefits may qualify for other benefits (eg sickness benefits, as has been happening recently). Domestic purposes benefit may be available if the family breaks up (with the adverse consequences that entails). Since the person would no longer be subject to the obligations placed on unemployment beneficiaries were they to transfer to another benefit, their contact with employment would become even more tenuous.

- The government might feel that it is under an obligation to provide work for those who no longer qualify for unemployment benefit. That could be expensive.

In a recent research paper, King (1995) discusses these arguments. He concludes that "to a certain degree the work disincentive effects of an open ended benefit may be curbed through a gradual reduction in benefit entitlement over time ... Such a policy would work best when augmented by intensive case management and other labour market measures" (p iii). If, however, lower benefits are acceptable for the longer-term unemployed, benefits surely could also be reduced for the short-term unemployed. This would lead to favourable effects on incentives that were even more pervasive.

In fact, New Zealand appears to have been successful over the past few years in reducing the level of long-term unemployment. For example, between 1993 and 1996: the number of people who had been unemployed for between 1 and 2 years fell from 29,800 to 11,600; the number who had been unemployed for between 2 to 3 years fell from 11,600 to 4,000; and the number who had been unemployed over three years fell from 10,000 to 7,600 (Statistics New Zealand, 1995a; personal communication). Apart from a general economic policy approach, including a more flexible labour market, that is likely to promote a high level of employment, the main ingredients in this success seem to have included: emphasis on the long-term unemployed and those who are in danger of long-term unemployment; individual attention; and emphasis on short training courses and assisted job search.⁷

Should further measures to reduce the number of unemployment beneficiaries be required, the most promising option to consider is, in my view, a time limit for receipt of unemployment benefit for persons aged under 25 years, especially those without dependents. For example, spells of receipt of unemployment benefit could be limited to a total of no more than one year between the ages of 18 and 25 years. This builds on existing policy; the job search allowance which is paid to persons aged 16 to 18 years who have lost employment is paid for a maximum duration of 13 weeks. There are, moreover, a number of reasons why preventing long spells of unemployment is desirable for the young:

⁷ Some people may have moved from unemployment to training and back to unemployment. To the extent that this has occurred, the policy approach of recent years may have been less successful than appearances suggest. The recent upsurge in unemployment may also indicate that progress in reducing the number of long-term unemployed has been halted.

- Young people are particularly able to respond to the opportunities now being provided by the reformed New Zealand economy.
- It is important to prevent young people from being habituated into dependency.
- Many parents would help support young people who no longer qualify for benefits.

No assistance would be provided under this proposal to young people who had reached the time limit. For such a policy to be credible, young people would need to be provided with sufficient job search assistance and work experience during their period on benefit to ensure that few reach the time limit.

WORK AND OTHER OBLIGATIONS OF BENEFICIARIES

Extensive obligations are, as we have seen, already placed on unemployment beneficiaries. New obligations have been suggested in this report for sole parents and the spouses of unemployment beneficiaries. Rogers (1997) suggests that those who do not pay child support obligations should also be subject to work obligations. What form should these new obligations take? And should the existing obligations be revised?

As discussed in Chapters 4 and 5 of this paper, work or training programmes in the United States and other countries (such as New Zealand) usually include one or more of the following: assistance for job search, education, training and work experience. Brief comments follow on each of these.

Job Search

A job search requirement can be expected to reduce the number of beneficiaries. Moreover, as recent experience in New Zealand has demonstrated, supported job search is relatively inexpensive and is often effective in encouraging people to move from dependency into employment. A job search obligation is therefore likely to be cost-effective.

Education

By contrast, a requirement for those who have already completed their compulsory education to engage where relevant in remedial education is far less cost-effective. General education is often of little interest to many beneficiaries. Attention should, instead, be focused on trying to get better results from the compulsory years of education.

Training

Vocational training courses can be effective especially for middle-aged women who are strongly motivated to complete them. However, the resulting increase in earnings is usually modest. Short, obviously job-related, courses can also be cost-effective. A danger of training courses is that, particularly if generous benefits are paid during the course, they can attract people to dependency. Another danger is that people may be cycled from unemployment to training and back again. Although the emphasis should probably be placed on work obligations, short training courses have a place for those who can benefit from them.

Work

A requirement for work to be undertaken in return for benefit would be effective in reducing dependency and increasing hours of work by beneficiaries. This is so for a number of reasons. A compulsory work requirement will divert some people who might otherwise have become beneficiaries. Beneficiaries who find the work requirement irksome will be encouraged to find other jobs earlier than would otherwise have occurred. And, as emphasised by Mead (1997), a work requirement will provide a necessary degree of organisation in the lives of some beneficiaries and will encourage them to develop useful skills.

The successful introduction of a compulsory work requirement will require investment in high quality public administration. A high level of participation and consistent application of rules and sanctions are required. But, given that few unemployment or domestic purposes beneficiaries report significant amounts of earnings to the Department of Social Welfare, it would be best to increase gradually the proportion of beneficiaries who are required to undertake work (while ensuring high levels of participation among those beneficiaries who are required to work).

As suggested by Rogers (1997), a work requirement could be introduced first for new beneficiaries. In addition, the proportion of beneficiaries with significant amounts of earnings could be increased to (say) 20 percent within three years. More ambitious targets could be set thereafter.

It is, however, most undesirable for the government to place itself under an obligation to find jobs for beneficiaries: to do so would only repeat the inefficiency and political favouritism of past employment programmes in the public sector. These programmes usually involve a large administration cost. Rather, some unemployment and domestic purposes beneficiaries might be required to find a full- or part-time job

in the private sector or (if that is not possible) the voluntary sector. This would not be a requirement for all beneficiaries, but an 'activity agreement' between the beneficiary and the Department of Social Welfare would require work in appropriate cases.

Governments should be cautious about subsidising child care, transport or other support services – satisfactory arrangements can often be made in the absence of subsidies. Even when a service is subsidised, a contribution by the beneficiary should be required.

The Australian government has recently introduced a 'work for the dole' scheme. The first projects started in October 1997. There will be in the order of 70 pilot projects providing placements for up to 10,000 unemployed young people. Participants will continue to receive their unemployment allowances but, in return, they will be required to work a set number of hours each week. The government anticipates that most work for the dole participants will be volunteers, but some jobseekers will be required to join projects. The initiative is different from the previous Labor government's programmes in that participants will still be recognised by the government as unemployed and will be required to look for work.

In summary, the new obligations of unemployment beneficiaries, their spouses and domestic purposes beneficiaries should centre on job search and work. Some of the more recent ideas developed in the United States to encourage good parenting (eg immunisation and school attendance requirements) are also worth considering. All these requirements need to be consistently enforced and supported by realistic penalties.

RESPONSIBILITIES OF NON-CUSTODIAL PARENTS

The idea that additional obligations should be placed on beneficiaries has been discussed in several sections of this report. The absent parents of children in low income, one-parent families is another group for whom additional obligations might be considered. In particular, if benefit levels are reduced and eligibility conditions changed, increased payments from this group could replace some income from benefits.

New Zealand already has a child support programme which involves collection of maintenance through the tax system. Custodial parents are required to apply for child support, which involves identification of the liable parent, when they apply for benefit. The contribution to be paid by liable parents equals a fixed percentage (depending on the number of children) of income in excess of benefit rates. The taxable income of

the liable parent from two years ago is used in this assessment. Liable parents usually pay child support through deductions from wages or salaries: these amounts are collected by the Child Support Agency. The Child Support Agency then pays either the children's caregiver, or the Crown when the caregiver is receiving a benefit.

The report of the child support review (Trapski Committee, 1994) noted that the amounts actually paid under the Child Support Act 1991 were small and that arrears in payments were growing. During 1993/94, the Child Support Agency collected \$89m to offset payments of domestic purposes benefit of \$1,005m. Sixteen percent of liable parents paid no child support in 1993/94 and 58 percent paid the minimum amount of \$10 a week. Almost three quarters of liable parents were in arrears with their payments; total arrears amounted to \$70m (p 21). The Trapski Committee made a number of recommendations to address this situation, including an increase in the minimum payment as part of the introduction of a new basis for assessment of child support obligations (p 24).

The Inland Revenue Department noted in its post-election briefing (IRD, 1996, p 28) that the amount of child support debt continues to grow in spite of an increase in collections.

The main problems with the child support programme, therefore, appear to be the low level of minimum payments and the difficulty in enforcing child support obligations, especially for liable parents with low incomes. Possible approaches to addressing these problems include the following:

- requiring liable parents who are unable to pay their full contribution to meet their obligations through unpaid work for non-government welfare organisations;
- making government assistance for job search available to liable parents;
- revising the formula for assessment of child support to result in an increase in the minimum contribution.

INCREASED ASSISTANCE TO NON-BENEFICIARY FAMILIES

Many writers, such as Corcoran and Boggess (1995), conclude that increased resources should be provided to low-income families and that it is the job of the government to provide them. However, it is equally important, according to these authors, to avoid policies that increase long-term welfare use by parents and to avoid providing incentives for

parents to split or not marry in the first place. This leads them to suggest that assistance approximately equal to that now provided to beneficiary families should also be provided to non-beneficiary families with low to moderate incomes.

New Zealand already provides a good deal of assistance to low-income working families through the Guaranteed Minimum Family Income, family support and supplementary assistance programmes. An independent family tax credit has recently been introduced.

There are, however, real limits to the assistance which governments are able to provide to low income working families. Such assistance has to be financed through taxation; this has adverse consequences for economic efficiency and equity. Moreover, to prevent costs increasing excessively, assistance has to be tapered away as non-benefit income increases. Many New Zealand families face high effective tax rates arising from the interaction of taxation and the withdrawal of income-tested benefits. Increased assistance to low-income working families would only make this problem worse. From July 1997, a low-income working couple has been granted total tax credits of \$109 a week. By contrast, benefit plus family support for a domestic purposes beneficiary with two children is \$307 a week.

A more successful approach may be to encourage the replacement of benefits for sole parents by other sources of income.

A reduction in the *income from benefits* of families with children will not lead to a reduction in their *total incomes* if other sources of income increase. Other possible sources of income include: earnings; other non-benefit income; contributions by absent parents; gifts by other family members; and gifts from other individuals and organisations. There is good reason to think that this income replacement strategy can be successful in the longer term. For example, although New Zealand has higher sole parent benefits than Australia or Canada, sole parents in these countries have higher labour force participation rates and higher average incomes than in New Zealand (Baker, 1997, pp 42–44). This tends to suggest that government benefits 'crowd out' other forms of income for sole parents. In particular, there seems to be considerable scope for the earnings of sole parents and contributions from non-custodial parents to increase in New Zealand.

THE VOLUNTARY SECTOR

The supporters of the voluntary sector argue that it is different in nature from government welfare. According to Marvin Olasky (1992, p 232): "We

like the way a welfare system, corrupt and inefficient though it is, removes the burden of basic material care from our consciences, and protects us from the mean streets we traverse only by day". By contrast, private charity at its best requires a much higher level of personal involvement. Through careful assessment of the circumstances of each applicant, private charity draws attention to the fundamental questions: what does this person need; who is morally obliged to provide help; and how can the person being helped be linked better with his or her family and the general community? David Green (1996, p xii) argues that the government should encourage the development of a genuinely independent voluntary sector because "a face-to-face association with a voluntary association worker will not have the same corrupting effect as state benefits because all assistance will be discretionary and subject to mutual agreement. In such a personal relationship, mutual respect, honour and good faith have a chance, whereas an arms-length relationship with a public official encourages dishonesty, bad faith and 'working the system'".

An expanded role for the voluntary sector has to start somewhere and, in my view, emergency assistance is a good place to start. The Department of Social Welfare spent \$74m in 1996/97 on special benefit for "beneficiaries and non-beneficiaries who do not have enough income to meet ongoing essential expenses and whose individual circumstances warrant a payment being made", \$41m on one-off special needs grants, and \$99m on advances of benefits to meet "immediate, essential, specific circumstances" (DSW, 1997d, p 71–79).

Writers such as Alan Duff (1993) have suggested that these arrangements do not always work satisfactorily. It is indeed hard to make payments to cover special and individual circumstances according to standardised, bureaucratic rules. This is surely a function that could be done better by the voluntary sector as is the case, to a far greater extent, in Australia. This would free the Department of Social Welfare to undertake its main function of making accurate and timely payments to those who qualify for benefits.

Such, however, does not appear to be the view that is commonly held in New Zealand. The increased use of foodbanks during the early 1990s was seen as an indicator not of the emergence of a more rational division of labour between government and the voluntary sector, but that benefits were inadequate (Kelsey, 1995, p 292). There were also suggestions that the Department of Social Welfare was not informing people correctly about their entitlements. The New Zealand government's response to rent

increases in some areas in 1994 was not to provide additional assistance (perhaps on a temporary basis) through the voluntary sector but to ease eligibility for special benefit and special needs grants, increase accommodation supplement, and to suggest that the advice on budgeting now being provided by voluntary agencies should be made available in the offices of the Department of Social Welfare (Minister of Social Welfare, press release, 15 December 1994). Nevertheless, making greater use of the voluntary sector is an option that should be given more serious consideration in future.

My suggestion is that the Department of Social Welfare should phase down its special benefit, special needs grants and benefit advances programmes over a number of years. (Perhaps the programmes could be limited to the more obviously medically-related items, or, as suggested by Rogers (1997), to provide an *alternative* to going on benefit for those who are experiencing a sudden crisis or short-term difficulty.) The equivalent amount of funding would be transferred to the voluntary sector. The amount of government funding would then be reduced progressively to reflect greater care and efficiency in the delivery of emergency assistance by the voluntary sector and the development of alternative sources of funding for the voluntary sector.

This is not the only area in which the private sector could play an expanded role. Voluntary agencies might act as the agents of particular individuals by holding a budget on their behalf and purchasing services from government and non-government organisations. Some functions of a government agency, such as benefit assessment and payment, may be capable of being undertaken by a private organisation under contract.

PRIVATE WELFARE IN GENERAL

It is necessary, nevertheless, to distinguish between the private sector when it acts as the agent of government and when it makes its own, independent assessment of individuals' needs. Although there are undoubtedly functions that could be carried out more efficiently than at present by private sector organisations, it is equally important to have the independent, personal assessment of need that voluntary agencies, at their best, can provide. Voluntary agencies that are the agents of government in providing services are unlikely to be able to achieve the required degree of independence.

In the New Zealand context, there is – I believe – a need for individuals and voluntary organisations to do more for themselves and

for others, and for the government to do less. If the government were to vacate an area of activity, it is likely that private alternatives would develop. The government might wish to consider whether, at least for a time, it wished to take specific measures to encourage the development of private welfare.

A number of possibilities could be considered. The first is the revised and expanded arrangements for tax deductibility of gifts to charity that was suggested by David Green (1996, p 119). Tax deductions reduce the income tax base. This is contrary to the general direction of tax policy in New Zealand and may set an undesirable precedent. To the extent that tax deductions reduce the income tax base, tax rates will need to be higher than otherwise to generate a given level of revenue. Higher tax rates have adverse consequences for economic efficiency and economic growth, and hence on a country's ability to support, among other things, charitable activity in the longer term.

Another approach is to allow taxpayers to nominate a proportion of their income tax bill to be used to support a relevant charity as an alternative to funding the Department of Social Welfare. This approach would avoid the erosion of the income tax base and would assist in creating a genuinely competitive environment for the provision of services to prevent and alleviate hardship. However, the effect of this approach could be to increase the total tax bill (including donations), unless the government were prepared to reduce spending on its own services as support for the private alternatives developed.

The third way for governments to support privately-provided welfare services is, as noted above, through direct subsidies. Decisions about which organisations to support and by how much would be taken by ministers, rather than by private individuals. Such decisions would, however, be very transparent. Given the difficulties with tax deductions, the subsidy approach may be preferable particularly if subsidies are phased out as suggested above.

If the voluntary sector is to take on a greater role, it will need leaders who want this. According to Richard Cornuelle in his famous book on the voluntary sector, two conditions must exist if the independent sector is to take on a greater role. "Our elected representatives, particularly the elected executives, must be receptive to independent solutions. And, on the other side, independent institutions must want to take responsibility. If either condition is absent, the effort must fail. When they occur together, success is certain" (1965, p 161).

If this seems to be too pessimistic an assessment, one might note the appearance of a recent book by Marvin Olasky (1997). Olasky celebrates the efforts of small groups, often with a religious basis, to provide assistance to the disadvantaged independently of government subsidy. He challenges his readers to make the following pledge (p 164): "My specific goal is to help one person or one family over the next year; that means taking personal, hands-on responsibility (perhaps shared with friends, relatives or colleagues) for one person, one problem, one littered edge of America's community square". An important consequence of welfare reform in the United States is to increase the scope for such activity. Despite the wider scope of government activity, it is likely that substantial private effort is already being made independently of government to address New Zealand's social problems. An important task for the friends of civil society is to find out more about, and encourage, private welfare.

OTHER ISSUES

In two papers (St John, 1994; St John and Heynes, 1994) Susan St John and her colleague suggest that the increased emphasis on targeting in recent years, and the complex overlapping income tests that have resulted from this, make it difficult for the lowest income groups, including many in full-time work, to improve their position. She suggests that there should be a universal component to family assistance to reduce the extent of this problem.

It is, on the basis of the analysis in this paper, most unlikely that the availability of a universal component of family assistance would result in many low-income families actually improving their position by any substantial amount. Nor, to be fair, do the authors claim this. However, some middle-income families would feel happier because they were no longer excluded from assistance.

These middle-income families would be required to pay taxes that were higher than otherwise to assist in financing the additional assistance. High tax rates, moreover, are likely to have adverse economic consequences (see eg Diewert and Lawrence, 1995).

St John and Heynes perform a service by pointing to the arbitrary effects of the many overlapping income tests that exist in New Zealand. Unfortunately, the more integrated approach to social assistance that was proposed in the 1991 Budget proved incapable of implementation. Australia – where rent and family assistance are integrated with the basic

pensions and benefits and a common agency to make all payments is being introduced – has proceeded further with integration than New Zealand has to date. But a more rational system of benefit abatement would not change the main conclusions of this report.

A further important issue that needs to be considered in this paper is whether administrators should be given explicit incentives to reduce the number of beneficiaries. Rogers (1997) suggests that the funding of welfare offices should depend in part on their success in reducing the caseload. Local welfare agencies will be subject to performance contracts and will be "selected through a competitive or non-competitive Request for Proposal process" (p 75). Agencies may also contract out some of their functions.

The possible problems with this idea are that:

- Administrators may be encouraged to deny payment to a beneficiary when continued payment might have been appropriate.
- Offices may be penalised for a growth in their caseload which is out of their control (eg because of general economic developments) at a time when the demands on their services are greatest.
- Incentives need to be carefully considered to avoid perverse effects (eg the transfer of beneficiaries from unemployment benefits to other benefits).

If these problems can be identified in advance and guarded against in the design, then the idea of "paying agencies for performance" is an attractive one. It would make the incentives facing public servants consistent with reducing dependency.

CONCLUDING COMMENTS

Income support for persons of working age has, it seems to me, two different functions: the provision of insurance against loss of income as a result of unemployment, sole parenthood, sickness and so on; and provision of income of last resort when all other sources have been exhausted. Much expenditure on income support appears to arise as a result of the short-term contingencies. The private sector already provides a good deal of insurance against loss of income (and would do more if the government did less).

There is no particular reason to expect the government to be better than the private sector in providing insurance against short-term loss of income. In particular, the problems arising from the limited information about the insured that is available to insurers are faced both by private and public sector insurers. Private sector insurers can be expected usually

to be more efficient than government suppliers.⁸ Since the government has no comparative advantage in providing insurance, an aim of policy should be to reduce reliance on income support during periods when the loss of income is caused by an insurable event. Benefit rates, eligibility conditions and income tests should be set with this in mind.

The provision of income of last resort is another matter. If the government did less in this area, there is no doubt that individuals would do more for themselves and for others. Moreover, lower taxes would provide income earners with additional income to be able to assist other people. However, there can be no guarantee that self-help and altruism would be sufficient to prevent destitution. Some role for the government in providing income of last resort may therefore be unavoidable. It is remarkable, however, that New Zealand provides such a comprehensive and generous safety net and requires so little from beneficiaries in return. This is in marked contrast, for example, with New Zealand's own practice prior to the 1930s when the availability of a far wider range of sources of income was tested before the government agreed to provide income support. There may now be scope for a partial retreat by the state in this area. Any reduction in benefits could be replaced by work or other forms of self-help, increased contributions from relatives (eg absent parents) and greater assistance from private individuals and voluntary organisations. Although the state has to arrange for the availability of income of last resort, it may not need to provide it to the extent that currently occurs in New Zealand.

S U M M A R Y

The main points in this chapter are as follows:

1. As recent New Zealand history has demonstrated, general economic policies that encourage high levels of employment are needed if progress in reducing dependency is to be made.
2. Full-time work is the most secure route out of poverty and the objective of policy should be to encourage it.

⁸ It is true that private insurance might, because of the problems of adverse selection and moral hazard, be unavailable or extremely expensive to some who may wish to purchase it. By contrast, governments can compel participation in insurance programmes. Government insurance programmes frequently suffer from the problems of rising costs (or reductions in benefits to prevent this from happening). It is far from clear that the total benefits of government insurance programmes exceed the costs to society.

3. Recent changes in social policy are likely to have limited success in reducing dependency and may even be counterproductive. The decision by the Coalition Government to emphasise the reciprocal obligations of beneficiaries is, however, an encouraging development.
4. New Zealand already provides considerable assistance to non-beneficiary families and there are limits, arising from fiscal pressures and concern about incentives, to the additional assistance that can be provided to this group.
5. More effective approaches to address dependency include: lower rates of benefit; higher abatement rates; revised eligibility conditions for some benefits; time limits for some benefits; and new work and other obligations for some beneficiaries. New obligations for beneficiaries should be phased in to be consistent with the growing capacity of the Department of Social Welfare to administer them successfully.
6. The child support programme should be revised to result in higher minimum payments and more effective enforcement of obligations.
7. The voluntary sector should be given an expanded role in providing emergency assistance. Government support of the voluntary sector should be through explicit subsidies.
8. The incentives facing the staff of government welfare agencies should be made consistent with reducing dependency.
9. Although the government must ensure the availability of a safety net for those who have no other income, it may not need to provide this income to the extent that has occurred in New Zealand in recent decades.
10. The recommendations in this report are for significant changes to the existing income support arrangements. More fundamental reforms that have been proposed, for example by David Green, would have more far-reaching consequences and warrant careful consideration.

APPENDIX

A COMPARISON BETWEEN THE NEW ZEALAND AND AUSTRALIAN INCOME SUPPORT SYSTEMS

The following tables compare some of the main New Zealand benefits with their Australian equivalents. The tables have been drawn from the more readily available sources, which include:

New Zealand

- Annual Report, Department of Social Welfare (DSW, 1997a)
- Manuals, New Zealand Income Support Service (DSW, 1996c)
- Consolidated Social Welfare Legislation (unofficial) (DSW, 1997c)
- Statistics Report, Department of Social Welfare (DSW, 1997d)

Australia

- Annual Report, Department of Social Security (DSS, 1996)
- A Guide to Social Security Payments (DSS, 1997)

Except where noted, the tables summarise relevant details of the programmes during the first quarter of 1997. A comparison of benefit levels for the two countries is presented in Table 3.7.

A number of subsequent developments in Australia (which are too recent to be included in the tables) should be noted here. These include:

- the termination of the earnings credit scheme;
- revised liquid asset limits, permitting deferral of the payment of unemployment benefit, of \$2,500 (single) or \$5,000 (couple, or single with dependents), from 20 September 1997;
- the introduction of parental income and assets tests from 1 July 1998 for all unemployed people under 21 years of age.

TABLE 1: Payments to Invalids

	<i>Australia: Disability Support Pension (\$AUS)</i>	<i>New Zealand: Invalids Benefit (\$NZ)</i>
1. Eligibility	<ul style="list-style-type: none"> • Aged over 16 years and under pension age. • Must have a physical, intellectual or psychiatric impairment of 20 percent or more. • Must be unable to work or train for work over the next two years or be permanently blind. 	<ul style="list-style-type: none"> • Aged 16 years or older. • Must be permanently or severely restricted in their capacity to work as a result of accident, sickness or congenital defect, or be totally blind. • 75 percent incapacity: the person's functioning across a range of work areas is severely restricted.
2. Payments to Spouses/ Partners	<ul style="list-style-type: none"> • Spouses providing full-time care. • Spouses with dependent children. • Persons born before July 1955 without recent work force experience. • All have to qualify under income and assets limits. 	<ul style="list-style-type: none"> • All spouses, subject to joint income test. • Benefits may be apportioned between partners.
3. Residential Qualifications	<ul style="list-style-type: none"> • Australian resident. • Must have been a resident for at least 10 years, at least five of which are in one period. • Residence in some overseas countries counts as Australian residence. 	<ul style="list-style-type: none"> • New Zealand citizen or permanent resident. • Must be ordinarily resident in New Zealand prior to application. • Person with interrupted residence totalling more than 10 years may also qualify. • Residence in some overseas countries counts as New Zealand residence. • Emergency benefits may be available to those not qualified for invalids benefit.

continued

	<i>Australia: Disability Support Pension (\$AUS)</i>	<i>New Zealand: Invalids Benefit (\$NZ)</i>
4. Housing Assistance	<ul style="list-style-type: none"> • Rent assistance payable to those in privately rented accommodation (homes, boarding houses, retirement villages, hostels, nursing homes). • Income test merged with pension/allowance income test. • Persons in public housing may pay subsidised rentals. 	<ul style="list-style-type: none"> • Accommodation supplement payable to tenants, boarders, home owners, those living in retirement villages and residential care. • Separate income and cash assets test (beneficiaries have AS reduced by 25 cents in the \$ for the first \$80 a week of income; nil thereafter).
5. Income Test	<ul style="list-style-type: none"> • Full pension payable to (pw): \$49 – single \$86 – couple combined plus \$12 per child. • Pension reduced by 50 cents in \$ above these limits. • Part-pension payable up to (pw): \$400.80 (single) \$699.20 (couple) plus \$12 per child. • Special treatment of compensation. • No income test for permanently blind. 	<ul style="list-style-type: none"> • Full benefit payable to \$80pw – includes spouse's income. • Benefit reduced by 30 cents in \$ to \$180; 70 cents thereafter. • Part-benefit payable to (pw): – \$392 single; \$471 single plus one child, \$496 single plus two children; – \$561 couple with or without children. • Exemption for earnings of severely disabled. • Direct deduction of ACC payments. • Disregard earned income of totally blind.

continued

	<i>Australia: Disability Support Pension (\$AUS)</i>	<i>New Zealand: Invalids Benefit (\$NZ)</i>
6. Assets Test	<ul style="list-style-type: none"> • Full pension payable to: <ul style="list-style-type: none"> – \$124,000 (single, homeowners) – \$176,000 (couple, homeowners) – \$212,500 (single, non-homeowners) – \$264,500 (couples, non-homeowners) • Part pension payable to: <ul style="list-style-type: none"> – \$241,500 (single, homeowners) – \$370,500 (couple, homeowners) – \$330,000 (single, non-homeowners) – \$459,000 (couple, non-homeowners) 	<ul style="list-style-type: none"> • Assets test for additional payments (see Section 8).
7. Incentives for Self-Help	<ul style="list-style-type: none"> • Disability panels to consider rehabilitation, entry to work (voluntary participation). • Employment and education entry payments. • Earnings credit scheme. • May work up to 30 hours a week. • Continuing eligibility for pensioner concession card for 12 months in employment. • May return to pension within two years without re-establishing medical eligibility. • Alignment of pension rates for persons under 21 with newstart rates. 	<ul style="list-style-type: none"> • Additional free area of \$20 (pw) for income from personal earnings. • Training incentive allowance for courses which enhance work skills and confidence building. • Child care subsidy. • Vocational and employment placement programme for invalids. • Suitability for rehabilitation or work to be considered at each review. (Benefits may be suspended for those who refuse.) • Case management to encourage planning for independence.

continued

	<i>Australia: Disability Support Pension (\$AUS)</i>	<i>New Zealand: Invalids Benefit (\$NZ)</i>
8. Additional Payments	<ul style="list-style-type: none"> • Family payment. • Mobility allowance. • Remote area allowance. • Youth disability supplement. • Pharmaceutical allowance. • Telephone allowance. • Pensioner concession card. 	<ul style="list-style-type: none"> • Family support. • Disability allowance. • Special benefit. • Special needs grants. • Benefit advances. • Community service cards. • Home help subsidies.
9. Control of Incorrect Payment and Fraud	<ul style="list-style-type: none"> • Medical reviews at two and five yearly intervals or at other times when appropriate. • Selective 12 monthly reviews of non-medical aspects of entitlement. • Field reviews of pensioners living overseas. • Mobile review teams. • Data matching with data held by other departments. • Other reviews (eg on basis of reports by members of the public). 	<ul style="list-style-type: none"> • Medical reviews at 12, 18, 24 months or never, as specified by the examining doctor. • Non-medical re-assessments at any time. • Contact through case management. • Selective reviews, minimum annually. • Data matching with data held by other departments. • Other reviews (eg on the basis of reports by members of the public).

TABLE 2: Payments to Sole Parents

	<i>Australia: Sole Parents Pension (\$AUS)</i>	<i>New Zealand: Domestic Purposes Benefit (\$NZ)</i>
1. Eligibility	<ul style="list-style-type: none"> • Must have a qualifying child <ul style="list-style-type: none"> – age under 16 or eligible to receive child disability allowance. • Must be sole parent. • Must take reasonable action to obtain maintenance where appropriate. 	<ul style="list-style-type: none"> • Must have qualifying child <ul style="list-style-type: none"> – usually under 18 and have been born in (or parent ordinarily resident in) New Zealand. • Must be sole parent. • Must be 18 years or over or 16 years or over and have been legally married. • Must take reasonable action to obtain child support. • Emergency maintenance allowance may be available to sole parents who do not qualify for DPB.
2. Residential Qualifications	<ul style="list-style-type: none"> • Australian resident at time when sole parenthood took place. • Five years continuous residence prior to claim. • 10 years continuous residence at any time. 	<ul style="list-style-type: none"> • New Zealand citizen or granted permanent residence in New Zealand.
3. Housing Assistance	<ul style="list-style-type: none"> • Rent assistance to persons privately renting principal home <ul style="list-style-type: none"> – payable with pension – subject to thresholds – available to migrants only after two years. • Persons in public housing may pay subsidised rentals. 	<ul style="list-style-type: none"> • Accommodation supplement payable to renters, boarders and homeowners <ul style="list-style-type: none"> – subject to thresholds. • Separate income and cash assets test (beneficiaries have AS reduced by 25 cents in the \$ for the first \$80 a week of income; nil thereafter).

continued

	<i>Australia: Sole Parents Pension (\$AUS)</i>	<i>New Zealand: Domestic Purposes Benefit (\$NZ)</i>
4. Income Test	<ul style="list-style-type: none"> • Full pension payable to: \$61 (pw), one child Plus \$12 (pw) for additional children. • Pension reduced by 50 cents in \$ above these limits. • Part-pension payable to \$416.20 (one child) plus \$12 pw for additional children. • Maintenance payments reduce additional payments, not SPP. 	<ul style="list-style-type: none"> • Full benefit payable to \$80 pw. • Benefit reduces by 30 cents in \$ to \$180; 70 cents thereafter. • Benefit exhausted at \$429 (single plus one child) or \$455 (single plus two children). • Child support payments made to Crown for beneficiaries.
5. Assets Test	<ul style="list-style-type: none"> • Full pension payable to: <ul style="list-style-type: none"> – \$124,000 (homeowners) – \$212,500 (non-homeowners). • Pension reduced by \$1.50 pw for every \$1,000 above these limits. • Part pension payable to: <ul style="list-style-type: none"> – \$241,500 (homeowners) – \$330,000 (non-homeowners). 	<ul style="list-style-type: none"> • Assets test for additional payments (see Section 7).

continued

	<i>Australia: Sole Parents Pension (\$AUS)</i>	<i>New Zealand: Domestic Purposes Benefit (\$NZ)</i>
6. Incentives for Self-Help	<ul style="list-style-type: none"> • JET program, including assistance for child care. • Health care card for first six months in employment. • Ausstudy pensioner education supplement. • Formal training assistance. • Education and employment entry payments. • Earnings credit scheme. 	<ul style="list-style-type: none"> • Case management. • Training incentive allowance. • Child care subsidy. • Extra \$20 pw in free area if paying for child care. • COMPASS programme. • Required to look for part-time work (or engage in related activity) if youngest child is 14 years and over. • Mandatory reviews when youngest child is aged 7 to 13 years. • Penalties apply for work test failure and voluntary unemployment where benefits are work tested. • Transitional training support allowance (16 and 17 year olds). • Independent family tax credit. • Non-beneficiary assistance.
7. Additional Payments	<ul style="list-style-type: none"> • Family payment. • Telephone allowance. • Pharmaceutical allowance. • Pensioner concession card. • Social worker assistance. • Financial information services. 	<ul style="list-style-type: none"> • Family support. • Disability allowance. • Special benefit. • Special needs grants. • Benefit advances. • Community service card.
8. Control of Incorrect Payment and Fraud	<ul style="list-style-type: none"> • Seventy percent of pensioners are interviewed 8 or 12 weeks after grant of pension. • Reviews at 4, 8 and 12 weeks after grant of pension and every 12 weeks thereafter. • Data matching with other agencies, including Tax Office. • Other reviews. 	<ul style="list-style-type: none"> • Benefit may be reviewed at any time. • Renewal of benefit (including interviews of beneficiary) after 12 months. • Case management. • Data matching with other agencies. • Other reviews.

TABLE 3: Payments to People Who are Sick or Injured

	<i>Australia: Sickness Allowance (\$AUS)</i>	<i>New Zealand: Sickness Benefit (\$NZ)</i>
1. Eligibility	<ul style="list-style-type: none"> • Aged over 16 years (or minimum school leaving age) but below age pension age. • Temporarily incapacitated for work. • Suffered loss of income because of sickness/injury and have job/studies to return to. • Medical certificate from qualified medical practitioner. • Payments stops after 12 months, but may be extended to up to two years in limited circumstances. • May be paid up to four years, if undertaking CRS programs. 	<ul style="list-style-type: none"> • Aged 16 years or over. • Unable to work. • Suffered loss of income because of sickness, injury or pregnancy. • Medical assessment from doctor, dentist or midwife. • Emergency benefit may be available to those who do not qualify for sickness benefit.
2. Payments to Spouses/ Partners	<ul style="list-style-type: none"> • Both members of a couple are required to qualify for payments in their own right. • Separate assessment of income – a person's allowance is not reduced until his or her partner's income exceeds \$246 a week. 	<ul style="list-style-type: none"> • Payments made to spouses where couples qualify under the joint income test.
3. Residential Qualifications	<ul style="list-style-type: none"> • Must be Australian resident. • Not available to newly arrived migrants until after 104 weeks. 	<ul style="list-style-type: none"> • Must be a New Zealand citizen or have been granted permanent residence. • Must have lived in New Zealand for at least one full year at any one time.

continued

	<i>Australia: Sickness Allowance (\$AUS)</i>	<i>New Zealand: Sickness Benefit (\$NZ)</i>
4. Housing Assistance	<ul style="list-style-type: none"> • Rent assistance payable to persons in privately rented accommodation <ul style="list-style-type: none"> – payable with allowance – not available to single people under 25 years without dependants who live with parents or guardians. • Persons in public housing may receive subsidised rents. 	<ul style="list-style-type: none"> • Accommodation supplement payable (subject to thresholds) to renters, boarders and persons with a mortgage. • Separate income and cash assets test (beneficiaries have AS reduced by 25 cents in the \$ for the first \$80 a week of income; nil thereafter).
5. Income Test	<ul style="list-style-type: none"> • Full allowance payable to \$30 pw (\$30 per week each, couple). • Allowance reduced by 50 cents in \$ to \$70 pw; 70 cents in dollar thereafter. • Part allowance payable to: \$271.10pw (single, 21 and over) \$247.79 pw (couple, each). • Parental income test if under 18 years and not independent. 	<ul style="list-style-type: none"> • Full benefit payable to \$80 pw (including spouse's income) • Benefit reduced by 70 cents in \$ thereafter. • Part benefit payable to: \$292.04 pw (single, 25 or more) \$465.57 pw (couple, combined). • Direct deduction of sickness benefit from ACC payments.
6. Assets Test	<ul style="list-style-type: none"> • Benefit not payable if assets exceed: \$124,000 (single, homeowner) \$176,000 (couple combined, homeowner) \$212,500 (single, non-homeowner) \$264,500 (couple combined, non-homeowner). • Payment may be deferred if liquid assets exceed \$5,000 (single) or \$10,000 (couple, or single with dependants). • Parental assets test if under 18 years and not independent. 	<ul style="list-style-type: none"> • Assets test for extra assistance (see Section 8).

continued

	<i>Australia: Sickness Allowance (\$AUS)</i>	<i>New Zealand: Sickness Benefit (\$NZ)</i>
7. Incentives for Self-Support	<ul style="list-style-type: none"> • Tapered income test. • Separate treatment of partners' income. • Earnings credit scheme. • Employment and education entry payments. • Health care card may be retained for up to six months from date of employment. 	<ul style="list-style-type: none"> • Enlarged free area and tapered income test. • Case management. • Reviews at four and 13 weeks, and at any time thereafter, according to medical condition.
8. Additional Payments	<ul style="list-style-type: none"> • Family payment. • Pharmaceutical allowance. • Health care card. • Benefit advances. 	<ul style="list-style-type: none"> • Family support. • Community services card. • Special benefit. • Special needs grants. • Benefits advances. • Disability allowance.
9. Control of Incorrect Payments or Fraud	<ul style="list-style-type: none"> • Mail review of medical aspects of eligibility after 12, 40 and 92 weeks of payment. • Field review after 26, 64 and 78 weeks. • Data matching with information held by other agencies, including the Australian Tax Office. 	<ul style="list-style-type: none"> • Reassessment after four weeks and then at intervals of up to 13 weeks. Selective reviews thereafter. • Benefit renewal after 52 weeks. • Data matching with other departments. • Medical reviews. • Other reviews.

TABLE 4: Payments to the Unemployed

	<i>Australia: Newstart Allowance (\$AUS)</i>	<i>New Zealand: Unemployment Benefit (\$NZ)</i>
1. Eligibility	<ul style="list-style-type: none"> • Unemployed, actively seeking work or temporarily incapacitated. • Over 18, under 65 years, and registered as unemployed (youth training allowance available under 18 years). • May do training and voluntary work with CSDA approval. • Willing to enter into an activity agreement, allowing participation in a wide range of activities. • May volunteer for, or be required to, 'work for the dole'. • Waiting periods for those with substantial resources, have left education, whose unemployment is voluntary or the result of misconduct, who fail the activity test or who move to an area with lower employment prospects. • Penalties for work test failure: <ul style="list-style-type: none"> – for first failure: 18 percent reduction in benefits for 26 weeks. – for second failure: 24 percent reduction in benefits for 26 weeks. – for third failure: cancellation of benefit for eight weeks. • Not available for full-time students or people engaged in industrial action. 	<ul style="list-style-type: none"> • Unemployed, looking for work and ready to start a job or training course. • Over 18 (or over 16 and living with a partner and dependent children). • Job search allowance is available to single, independent 16 and 17 year olds. • Payments may stop for up to 26 weeks for those who do not comply with the requirements of NZES. • Waiting periods for those with substantial resources, or who left a job because of misconduct or without good reason. • Penalties for work test failure: <ul style="list-style-type: none"> – for first failure: 20 percent reduction in benefits (40 percent after 28 days) – for second failure: 40 percent (100 percent after 28 days) – for third failure: cancellation of benefits for 13 weeks. • Not available to students or strikers. • Emergency unemployment benefit may be available for those who do not qualify for unemployment benefit.

continued

	<i>Australia: Newstart Allowance (\$AUS)</i>	<i>New Zealand: Unemployment Benefit (\$NZ)</i>
2. Payments to Spouses/ Partners	<ul style="list-style-type: none"> • Both members of a couple are required to qualify for a benefit in their own right. • Separate assessment of income: a person's allowance is not reduced until his or her partner's income exceeds \$246 a week. 	<ul style="list-style-type: none"> • Payments made to both partners. • Joint assessment of income. • Partners are required to look for work (or undertake education or training) if there are no children or the youngest child is aged 14 years or more. • Mandatory interviews for spouses whose youngest child is aged seven to 13 years.
3. Residential Qualifications	<ul style="list-style-type: none"> • Must be an Australian resident and present in Australia. • Available to newly arrived migrants only after two years (except for New Zealanders who may qualify after six months). 	<ul style="list-style-type: none"> • New Zealand citizen or permanent resident. • Must have lived in New Zealand.
4. Housing Assistance	<ul style="list-style-type: none"> • Rent assistance payable (subject to thresholds) to persons in privately rented accommodation <ul style="list-style-type: none"> – payable with allowance – not available to single people under 25 years without dependants who live with parents or guardians. • Persons in public housing may receive subsidised rents. • Available at a reduced rate for single customers without dependants who share accommodation. 	<ul style="list-style-type: none"> • Payable (subject to thresholds) to renters, boarders and persons with a mortgage. • Separate income and cash assets test (beneficiaries have AS reduced by 25 cents in \$ for the first \$80 a week of income; nil thereafter).

continued

	<i>Australia: Newstart Allowance (\$AUS)</i>	<i>New Zealand: Unemployment Benefit (\$NZ)</i>
5. Income Test	<ul style="list-style-type: none"> • Full allowance payable to \$30 pw (\$30 pw each, couple). • Allowance reduced by 50 cents in \$ to \$70 pw; 70 cents in \$ thereafter. • Part allowance payable to: \$270.10pw (single, 21 years and over) \$247.79pw (couple, each) Parental income test if aged under 18 years and not independent. 	<ul style="list-style-type: none"> • Full benefit payable to \$80 pw (including spouse's income). • Benefit reduced by 70 cents in \$ thereafter. • Part benefit payable to: \$283.57 pw (single, 25 years or more) \$440.51 pw (couple, combined with children).
6. Assets Test	<ul style="list-style-type: none"> • Not payable if assets exceed \$124,000 (single, homeowner) \$176,000 (couple combined, homeowner) \$212,500 (single, non-homeowner) \$264,500 (couple combined, non-homeowner). • Payment may be deferred if liquid assets exceed \$5,000 (single) or \$10,000 (couple or single with dependants). • Parental assets test if aged under 18 years and not independent. 	<ul style="list-style-type: none"> • Assets test for extra assistance (see Section 8).

continued

	<i>Australia: Newstart Allowance (\$AUS)</i>	<i>New Zealand: Unemployment Benefit (\$NZ)</i>
7. Incentives for Self-Help	<ul style="list-style-type: none"> • Tapered income test. • Separate treatment of spouse's income in income test. • Earnings credit scheme (to encourage part-time or casual work while receiving benefit). • Persons who are temporarily incapacitated remain on NSA (and do not transfer to SA). • Employment or education entry payments. • NSA may continue to be paid during approved education or training. • Persons may remain on benefit for up to 12 weeks with nil rate of payment. • Health care card may be retained in employment for up to six months. 	<ul style="list-style-type: none"> • Enlarged free area and tapered income test. • Joblink by NZES (work skills). • Job plus/job plus training. • Youth action/job action. • Case management – reviews by case manager at frequent intervals. • Independent family tax credit. • Non-beneficiary assistance.
8. Additional Payments	<ul style="list-style-type: none"> • Family payment. • Remote area allowance. • Pharmaceutical allowance (for allowees aged 60 or more after 9 months on benefit). • Advances of allowance of up to \$500 may be available. • Health care card. 	<ul style="list-style-type: none"> • Family support. • Community services card. • Special needs grants. • Benefit advances. • Special benefit.

continued

	<i>Australia: Newstart Allowance (\$AUS)</i>	<i>New Zealand: Unemployment Benefit (\$NZ)</i>
9. Control of Incorrect Payments or Fraud	<ul style="list-style-type: none">• Personal lodgement of continuation forms.• Intensive interviews for 10 percent of recipients.• Mail review after 12 weeks, followed by interviews of 40 percent of customers.• Mail reviews after nine months, followed by interviews with 40 percent.• Selective computer generated reviews.• Mobile review teams.• Data matching with records of other agencies.	<ul style="list-style-type: none">• Interviews at either two-weekly or four-weekly intervals.• Case management.• Data matching with other agencies.• Other reviews (eg on basis of information from the public).

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