

Submission

By



to the

Welfare Working Group

on

**Reducing Long-term Benefit Dependency:
the Options**

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WELFARE WORKING GROUP

Long term benefit dependency: the options

BusinessNZ welcomes the opportunity to respond to the questions posed by the Welfare Working Group. BusinessNZ provides its response as a representative of the business community whose members are concerned that the benefit system should act as a safety net. To the extent possible, the system's focus should be on 'real' paid employment; no-one of working age in receipt of a benefit, but otherwise able to work, should see benefit payments as a means of funding an alternative lifestyle.

1. What changes could New Zealand make to the structure of the benefit system to improve the focus on early intervention to reduce long-term dependency?

It is not so much the benefit system itself that encourages long-term benefit dependency but the way in which the system is administered. What is needed is a focus on finding jobs in which long term beneficiaries or disabled people in particular might be expected to engage. Individuals who, for whatever reason, have been out of the workforce for a considerable period may need assistance in finding employment over and beyond training in CV writing and interview techniques or even training in new job skills. Left to themselves, such persons may have difficulty convincing an employer that they should be taken on. To help them, more emphasis should be placed on having job search agents seek out willing employers with jobs suitable for the persons concerned. And if employment follows, the particular agent should, if necessary, be prepared to spend some subsequent time checking on progress. It may be that the possibility of having a 90-day trial period will encourage employers to provide employment for individuals they might not otherwise consider.

One change that should not be made is to move from the present system funded out of general taxation to a contributory system based on the ACC model. The ACC system that has its own funding difficulties and is not necessarily as effective at returning individuals to a work-ready state as might be hoped. It also raises the question of who should be levied. Employees pay a levy to fund non-work accidents but anyone not in paid employment is funded by the taxpayer. For a disabled person unable to find paid employment, and therefore in no position to pay a levy, continuing tax payer funding would seem to be inevitable.

2. What changes could New Zealand make to the structure of the benefit system to improve the focus on paid work?

See above. Again, it is not so much the structure of the benefit system that is the problem but the failure to make clear that it is intended as a safety net, not a lifestyle choice. While there may be some beneficiaries who choose to rip off the system, most will want to work but may be handicapped by a lack of job availability in their local area or by a lack of confidence that can make

them seem unemployable. Therefore after a period of unemployment - six months, for example - such persons should be required to work in any available job they are able to perform as a means of introducing, or reintroducing, them to paid employment. A temporary benefit may be needed to tide the individual concerned over the period before wages are received and, while it is recognised that determining reasonable abatement levels is a difficult task (where part-time employment is involved), these should be set at a level that encourages rather than discourages employment. This is particularly so as employment itself involves a cost in terms of such things as clothing, transport and so on.

People on a sickness or invalid's benefit may have special needs such as for some adaptation of work methods, specific equipment and/or more flexible working hours. That being the case, employer education may be necessary before any requirement to take up paid employment can be contemplated. Employers may well be reluctant to employ someone whose situation they do not properly understand. Also, although many if not most, disabled people are only too keen to find paid work, the fact that assistance may be required raises the question of what form that assistance should take and who should pay for it. For employers, advice on such matters should be readily accessible while for those not in a position to bear special equipment costs themselves, consideration should be given to meeting these through the benefit system if suitable work is otherwise available.

3. What changes do we need to the Unemployment Benefit to improve social and economic outcomes?

As emphasised, the need is to change the approach adopted to confirm what was intended when the 1938 Social Security Act was introduced. The purpose of the scheme, the 1972 Report of the Royal Commission of Inquiry into Social Security commented, was '... essentially *categorical* and *selective* about eligibility for social security benefits'. The stress was on cash-benefit help for those '... deprived of the means of fending for themselves'. In other words, there was an expectation that those who *could* help themselves would do so (at para 13, page 55).

It follows, therefore, that anyone who loses a job through redundancy should receive whatever immediate help is needed to find new employment – which may include aptitude testing and direction to retraining – while for the longer-term unemployed, a requirement to take up whatever suitable work is available should apply. This would preferably involve work in paid employment as make work schemes, including community work, are rarely satisfactory. For the long-term unemployed, gaining real work experience is an essential first step.

Young unemployed persons who cannot find jobs on their own account should be directed into further education or training, or, if necessary, into literacy and numeracy training. Provision of unemployment assistance could be made contingent on a requirement of this sort. And given the current high numbers of young unemployed, reinstating a youth minimum wage might also be

helpful. It is important for young people to gain work experience if they are to progress in the labour market. Young persons unemployed for a longer period of time and not in education or training should be directed to work in whatever suitable job (in terms of individual ability) becomes available. Most studies show that few who start in more menial, lower-paying jobs, stay permanently at that level. Gaining reasonable paid employment is an essential part of avoiding long term benefit dependency.

4. What changes do we need to reduce long-term benefit dependency of sole parents and reduce child poverty?

For younger persons, it may be that a greater attempt should be made to educate in the hazards of sole parenthood with the hope of discouraging sole parenthood. Reducing sole parent numbers would address factors beyond benefit cost.

On the other hand, if sole parents are to work full-time, they will need to have access to suitable child care; even those who work part-time may have difficulty fitting their hours of work around the child care available. Therefore, if sole parents to participate in the labour market adequate child care must be available with, as well, efforts made to determine the most effective benefit abatement levels. Labour market participation is the only real way of escaping avoiding the poverty trap that long term benefit dependency inevitably creates.

5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?

As already noted, many people on these benefits very much want to work but have difficulty finding employment because of specific needs and/or employer (and sometimes other employee) unfamiliarity with their particular situation. The employment search model adopted by Workbridge (and probably by other such organisations) could be more widely adopted and expanded to cover higher as well as lower level jobs.

6. What changes do we need to reduce long-term benefit dependency among Māori?

Here some of the problem, at least, is related to lack of educational achievement which for many Māori, to date, has not been satisfactorily addressed. It would seem sensible to ask Māori themselves how education and training should best be provided although as in any situation, there is unlikely to be one perfect answer.

7. What changes do we need to reduce long-term benefit dependency of people who enter the benefit system at an early age?

See response under 3 above. It is also likely that many young people in this situation have fallen through the cracks of the education system. This is a

further example (as with Māori), of the need to step back from the benefit system and deal with cause rather than effect.

8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?

This is probably the wrong question. It is doubtful whether for most beneficiaries the benefit system provides any real financial incentives since even on the minimum wage someone is better off working than not working. While supplementary benefits can provide some extra income, they should be available only to those who can establish genuine need since it is important that individuals should not develop a benefit mind set. Again, it will be important to ensure that rates and consequent benefit reduction do not discourage individuals from taking up paid employment. The Working for Families scheme is an example of good intentions with unintended consequences, acting at times as a deterrent to moving into more responsible and higher paying jobs by providing essentially the same amount of income for less expenditure of effort.

If the Working for Families scheme produces unintended consequences, moving from a benefit system to the provision of a 'living' wage (as some have proposed) would have a similar effect. It is in order not to send the message that living on a benefit is a lifestyle choice that the unemployment benefit should not be set too close to the minimum wage. It is an unfortunate fact, as one commentator on the Swedish welfare system has noted that the '... step by step construction of the welfare state --- slowly but steadily reduced the willingness to work' (Johan Norberg, senior fellow at the Centre for the New Europe, a Brussels think tank).

9. What changes do we need to improve the approach to funding and delivery of employment and other services?

The answer to this question depends on the particular benefit. For example, it seems likely that if New Zealand superannuation is to continue to be affordable, the age from which it will apply will need to be increased. At the same time consideration should be given to associating eligibility for the benefit with retirement from the workforce. In other words, individuals would be able to access the superannuation benefit only when no longer in receipt of income from employment. Whether or not this would be the proper course to pursue would depend on the extent to which such an approach was seen as discouraging further paid work activity; possibly some form of abatement rate could be worked out for persons in this situation. But paying a higher rate on leaving the workforce to persons who forego their superannuation entitlement while they continue to work (perhaps on a graduated scale) is probably a better answer.

With other benefits, as emphasised, what is needed is a changed approach to the way in which these are administered. Greater direct help should be provided to the long term unemployed while those in need of short term

assistance should be encouraged to engage in immediate job search or to seek retraining, if new skills are needed. Retraining should, however, be appropriate to the individual and should involve acquiring a skill or skills for which job opportunities are available.

For many young people, and frequently, for Māori and Pacific People, access to literacy and numeracy education will be essential together with training in CV writing and in job interview techniques. As stressed, no benefit change is likely to be of much effect if ways are not found to deal with educational failure.

10. What changes do we need to involve and support employers to achieve better employment outcomes for beneficiaries?

The forthcoming change allowing all employers to provide for a 90-day trial period should act as an encouragement to take on people who might otherwise be less likely to find work. It is an unfortunate fact that legislation seen as overprotective of jobs can make employers reluctant to try out employees they consider might prove to be unsatisfactory. As a consequence, such persons will find it hard to leave their beneficiary status behind, however, much they might want to work. This is not to suggest that there should be no employment protections in place; it is simply a question of achieving the right balance.

As well, some beneficiaries who obtain paid work will need initial job support (which organisations such as Workbridge can already provide) and the extension of this approach should be considered. There is a danger in viewing employers as quasi social agencies since to stay in business (and continue to employ) their first concern must be with business profitability. But many employers would be willing to offer employment to someone who might not immediately seem to be the best person for the job if the concern that they might be penalised for doing so were removed. It needs to be remembered that it is not in an employer's interests to employ someone for a relatively brief period and then ask them to leave, unless the individual's work shows no sign of reaching the required standard. It seems to be little understood that employing people is a cost. Here the 90-day trial period can help but it would be more effective still to allow employers who take on long term beneficiaries (whatever benefit they are on) to have a guaranteed reasonable period during which there will be no ability to claim unjustifiable dismissal or unjustifiable disadvantage. Employers should not be penalised for offering a helping hand if the employee concerned proves to be less than satisfactory.

11. What changes do we need to address fraud and abuse?

As recent cases indicate, it is already possible to detect fraud and abuse through the use of technology and better tracking of beneficiary provision and it is understood that new methods of detection are currently in train.

12. How should a new benefit system be introduced?

With most benefits – other than New Zealand superannuation – it is not, to reiterate, that a new benefit system is necessary; the need is to administer the present system more effectively and to consider what new approaches would help to prevent individuals from becoming benefit dependent. (Some, such as educational developments, have previously been referred but another example might be greater availability of counselling for young people and their families, lessening the incentive to leave home too soon and rely on a benefit from an early age.)

Changes to New Zealand superannuation would need to be introduced gradually, although, as a start, an increase in the age of eligibility to 67 would perhaps not be unexpected and could happen within three or four years.

13. What are the key components of a successful package of reform to reduce long term benefit dependence?

An education system that produces school leavers who are both literate and numerate and a well functioning economy that ensures 'proper', not make work, jobs can be created and made available.

14. Are there other questions and areas for change not discussed that are critical to reducing long-term benefit dependence within the scope of the Welfare Working Group's Terms of Reference?

Yes. Labour market plans that specifically address youth unemployment (see Appendix 2 re the role that information technology can play).

Are you making this submission on behalf of an organisation or a business?

Organisation.

If you answered yes, what organisation/business do you represent?

Employment relations and business advocacy.

Are you in paid work?

Yes

If you answered yes, what is the main sector you work in?

Employment law.

If you answered no, what do you do?

NA

If you are receiving a benefit, what sort of benefit do you receive now?

NA

Have you received a benefit in the last 12 months? If so, what type of benefit?

NA

The Welfare Working Group may publish your response. To do this we would appreciate if you would leave us your name address. You need to let us know if you would like your details kept private.

APPENDIX 1

Background Information on BusinessNZ

Encompassing four regional business organisations (Employers' & Manufacturers' Association, Employers' Chamber of Commerce Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), its 58 member Major Companies Group comprising New Zealand's largest businesses, and its 76-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.

APPENDIX 2

Below is an IT industry indication of how information technology can help to alleviate some social welfare problems.

1. What changes could New Zealand make to the structure of the benefit system to improve the focus on early intervention to reduce long-term dependency?

Access to a computer is an important resource for seeking employment and reducing social dislocation. This can enable search agents to more easily liaise with beneficiaries, and also enable them to gain skills via on-line training while still seeking employment. A computer in the home means there is no physical barrier to upskilling or training, which is sometimes constrained today by transport challenges or issues arising from the need to manage family commitments. For families unable to afford a home telephone, it provides an important communications device and the ability to remain in contact via VOIP services like Skype, email or instant messaging.

2. What changes could New Zealand make to the structure of the benefit system to improve the focus on paid work?

Before the expiry of the six-month period after which an unemployed person would be required to work in an available job, all efforts should be made to ensure the person gains IT skills and where possible can access a computer directly at home. This could be done via a programme such as Computers in Homes that utilizes recycled computers to provide entry level digital literacy. It is also possible to provide training away from home via programmes like Computer Clubhouse.

These existing programmes would require some additional funding in order to provide services to beneficiaries. This could be achieved by a reallocation of existing programmes capable of funding their expansion to deal with the unemployed. Both these programmes referred to have a significant footprint in disadvantaged communities, along with a number of other programmes that are capable of delivering digital literacy.

3. What changes do we need to the Unemployment Benefit to improve social and economic outcomes?

Computers in homes is a proven programme for improving employment outcomes for disadvantaged communities.

4. What changes do we need to reduce long-term benefit dependency of sole parents and reduce child poverty?

In the absence of adequate child care, broadband access can facilitate employment for sole parents without having to leave the family home. There are numerous examples of administrative and support roles that can be

undertaken from home, in some cases not requiring traditional working hours, thereby enabling flexibility with managing children.

IT skills are virtually mandatory for employment in the 21st century and enable employment in a range of occupations including administrative support, account payable and receivable, customer support, translation services, data entry and web development. They also assist with social cohesion and enable sole parents to effectively communicate with employment agencies, news sites, government agencies, and also engage in commercial activities via TradeMe and other e-commerce sites. It can also enable home businesses utilising web-sites for customer interaction,

Therefore making IT skills available to sole parents is going to be one of the most game changing initiatives for this group. There are a range of programmes that could be expanded to cater for this group including Computers in Homes and Computer Clubhouse. The benefit of a computer in the house will also flow through to the children and their education performance, and future employability.

5. What changes do we need to reduce long-term benefit dependency of people on the Sickness Benefit and the Invalid's Benefit?

Ensuring long-term beneficiaries have IT skills and access to a computer and reduce social dislocation, enable them to work from home, and also more actively seek work through job boards and other sites.

6. What changes do we need to reduce long-term benefit dependency among Māori?

Getting computers into Maori beneficiary households is proven to have the ability to step change educational outcomes. Utilisation of these computers by young Maori (and Pacific Island children) not only improves their own educational performance, but it also improves digital literacy for other whanau members.

7. What changes do we need to reduce long-term benefit dependency of people who enter the benefit system at an early age?

Young people typically already have an aptitude for engaging with technology through their use of mobile phones, game consoles, and in some cases, computers. Capitalising on this interest by engaging them in more structured literacy training creates immediate employment opportunities.

8. What changes do we need to financial incentives in the benefit system (including supplementary programmes) in order to reduce long-term benefit dependency and increase the uptake of paid work?

The Government has clearly signaled its goal of developing the ICT and H-Tech sector, To achieve this New Zealand needs a single minded focus that no-one capable of working, whether they are able bodied or disabled, should

be without IT skills which are essential not only for 21st century employment, but essential for social cohesion.

Given the government's commitment to investing in the Ultra Fast Broadband and Rural Broadband initiatives, and digital literacy programmes like Computers in Homes and Computer Clubhouse, it makes sense to tie these together with a comprehensive digital literacy programme for beneficiaries. New Zealand has had an annual shortage of skilled workers for the IT and Hi-Tech sector of between 2000 and 3000 workers annually, which has been only partially addressed by immigration.

Business NZ and its affiliate NZICT Group support the view that it is possible to exponentially grow the ICT and Hi-Tech sectors, in line with the Government's Research, Science and Technology investment, broadband investment and introduction of new technology skills and education programmes. This could create up to 10,000 vacancies for skilled workers per annum. Not all of these roles require advanced technical skills, and there is a commitment from companies in the sector to engage in internship and work experience programmes.

Therefore Business NZ and NZICT Group are proposing the formation of a Hi-Tech Jobs Partnership, bringing together business, central government, local government and NGO stakeholders to create a clearinghouse for potential workers, either those with existing skills or those that could gain entry level positions through basic training or internship activity. This will integrate with programmes like the Youth Guarantee, Gateway and Star for school leavers, and a focused programme for long term unemployed should also be developed with existing NGOs like Computers in Homes and Computer Clubhouse.

There are already existing examples of young people from disadvantaged communities who with basic animation skills gained in Computer Clubhouses are able to gain employment in entry level digital content or animation roles with companies. A clearing house will ensure all vacancies are clearly documented and advertised, and that available entry level qualification training is identified for the unemployed to consider undertaking.

Separately NZICT Group are forming a Hi-Tech Skills Working Group with the University of Canterbury to model the long-term skills requirements of the industry, and make recommendations around programmes and funding options to support education and training initiatives.

9. What changes do we need to improve the approach to funding and delivery of employment and other services?

The opportunity exists for broadband to enable people to work for much longer, by enabling them to work flexibly from home, either full-time or part-time.

13. What are the key components of a successful package of reform to reduce long term benefit dependence?

As well as producing school leavers who are literate and numerate, the school system should also produce leavers who are digitally literate, taking advantage of the new technology subject area being implemented for years 11-13. Ensure that programmes like the Youth Guarantee, Trade Academies, Gateway and Star schemes. The specific focus of the Hi-Tech Skills Working Group on addressing youth unemployment should be replicated across labour market plans for all sectors.

