

Welfare reform: Alternative views on the options

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Introduction

The report *Reducing long-term benefit dependency: the Options* from the Welfare Working Group (WWG) is over 120 pages long and only just been released. While I cannot profess to have read it all, the part that I have read, I read with increasing frustration and despair.

I was in Australia a few months during their election, and read a comment in the newspaper that the policies of the leader of the Opposition, Tony Abbott, would shift Australia so far to the right that it was in danger of banging into New Zealand. I suspect in their policy circles this report will be viewed as confirmation of that view.

I searched digitally for the word 'inclusion' in this massive report– it does not appear once. 'Paid work' however appears at least 400 times and on many pages 6 or 7 times. So my first question concerns the framing of the welfare debate that has led to the options outlined in this report.



What is so different about the discourse in Australia? On the 10th September, The University of Auckland's Retirement Policy and Research Centre and Child Poverty Action Group asked 3 leading Australian academics, including Professor Peter Saunders (note this was 'the good' Peter Saunders!) to a daylong welfare forum. The

Proceedings are on the [RPRC website](#).

In Australia, with a couple of exceptions, one sees an attempt to put the concept of **social inclusion** at the centre of policy and to reduce the emphasis on paid work. Paid work is important but it is only one aspect of social inclusion.

As part of this agenda, the [Australian Social Inclusion Board](#) was set up in 2008 to advise the government and report to the Minister for Social Inclusion. It is the main advisory body to the government "on ways to achieve better outcomes for the most disadvantaged in our community and to improve the social inclusion in society as a whole."

[One of the board members](#) describes social inclusion as requiring an ‘us’ rather than a ‘them’ approach: the discourse is about all Australians and the society they aspire to, not a focus on the ‘other’, the ‘deviant’, the ‘outsiders’ who need punitive reform.

One of the speakers at our Auckland forum, Paul Smyth who is a Professor of Social Policy at Melbourne University and the director of the Brotherhood of St Laurence said in the [November Brotherhood comment paper](#):

“Working for social policy change can often seem like watching the grass grow. While the day-to-day growth may be imperceptible, with time the change is unmistakable. The case of the social inclusion agenda in Australia is an excellent example. Adopted by the Rudd government three years ago, it has often been dismissed as ambiguous and ephemeral.”

Drawing on his recent experience at our Auckland forum, he goes on to say:

“...as 2010 draws to a close the reframing of Australian social policy around concepts like ‘social investment’ and ‘the inclusive society’ sets Australia starkly apart from a country like New Zealand which is currently immersed in the kind of ‘welfare war’ which we experienced back at the turn of the century.”

So much for us catching up with Australia!

Work is the way out of poverty: this decade’s mantra

In New Zealand, paid work has become the overarching ‘principle’ of reform, with those out of paid work, regardless of the reason, shamed and blamed as a welfare dependency problem. The Social Security Act was rewritten in 2006 to put paid work firmly at the centre as the source of well-being and to reinforce the welfare system as a minimal safety net only. Any ideals of aiming to ensure ‘belonging and participation’ have been obliterated. This has paved the way for National to intensify the work focus. It makes me wonder if retired people over 65 can enjoy ‘well-being’, or whether being home looking after (one’s own) children can ever be rewarding!

“work in paid employment offers the best opportunity for people to achieve social and economic well being”

“...the priority for people of working age should be to find and retain work”

Social Security (Amendment) Act 2006.

The Minister of Social Development’s ‘relentless focus on paid-work’ has been the Government’s primary policy response to poverty. The role of adequacy and redistribution of resources can be ignored if you believe the mantra ‘work is the way out of poverty’. This exclusive ‘paid work’ focus was the driving influence in the Working for Families policy; the Future Focus Act 2010, and everything the Welfare Working Group 2010 has proposed so far.

There is no systematic attempt in the WWG report to discuss the values appropriate to the complex and evolving world of the 21st century.

There has not been a real debate about the role of social insurance. Such a debate would show that the success of a scheme such as ACC lies in its clear distinction from the private insurance model and that private insurance principles are not an appropriate underpinning for social insurance.

Better policies in Australia

The Social Inclusion agenda in Australia is of course also concerned about material well-being from employment but the discourse does not see just 'any job' as desirable and the emphasis is on the need for social investment of all kinds. It is a discourse that also recognises the value of care. Interestingly, some recent commentators on social policy in Australia (see, for example, the [Sambell Oration by Ruth Lister](#) on the 26th October 2010) rather than suggesting paid work is the main contributor to wellbeing, have drawn attention to the need for 'carefare'. For too long people have been told only of their 'work' obligations with welfare being replaced by 'workfare' as a concept while unpaid care has been invisible and largely supplied at huge opportunity cost by women. Under carefare, everyone would have care obligations and policy would reflect this correspondingly. Obviously men would do a bigger share. It is time the fair sharing of care and the fair sharing of work was part of our debate.

I would argue that because of their broader view, Australia has ended up with social policies that are on the whole superior to those of New Zealand. I cite two examples; the first is paid parental leave the second is family assistance.

Paid Parental Leave

In the Australian Paid Parental Policy to be introduced in January 2011, there is a far less rigorous emphasis on attachment to the full time workforce. Just over 1 day a week for 10 out of the 13 months before the baby is born is required. The payment is generous at 18 weeks at the minimum wage of \$570, and those who do not qualify may still receive the baby bonus, currently \$5,294. In New Zealand many women miss out because of the more rigid work requirements for 'paid parental leave', and rather than a baby bonus the work requirements of the Working for Families income-tested 'parental tax credit' also rules out many low income parents.

Family Assistance

The second example is the Working for Families package. In Australia family tax credits are not made conditional on work effort. Unlike our highly discriminatory system, all low income children in Australia are treated the same. As a result, there are far less serious issues around child poverty in Australia, especially if one looks at the non-indigenous population.

Here is one example of the generosity of Family Assistance in Australia: a sole parent with a new baby in both countries gets a comparable sole parent benefit: a net NZ\$278 a week in New Zealand and a net A\$237.25 in Australia or NZ \$296 (assuming 1NZ\$ = 0.8A\$). However, the family assistance for a one child family is only NZ\$88 a week in New Zealand while in Australia it is A\$166 week (NZ\$207). The Australian sole parent is also entitled to the baby bonus so that for the first year the weekly payment is a whopping A\$265.70 or NZ\$332. Of course there is no 'hours worked per week' or off benefit' requirements for their more generous Family Assistance.

Questions asked in the WWG options paper

I will comment on just a few of the issues raised in the *Options* report. The WWG asks...

“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?” p 13

Because they have not examined or understood the existing system, they propose simplistic options such as:

Option 1 Transfer people from benefit system to tax system where they have part-time work: *Migrate people in part-time work from the benefit system to the tax system by moving abated benefit to an in-work tax credit.* p13

My question is: why is there no analysis of the way the existing work-focussed tax credits work? If the abated benefit is to be replaced by an equivalent abated tax credit, why is that such a good thing?

Increasingly the IRD have been asked to administer social provisions, many requiring complex assessments of individuals living arrangements and personal circumstances. They already administer Child Support and Working for Families (WFF).

My observation is that WFF and its abatement is being administrated in an almost Kafka-esque way. We know already that a very high percentage of families have got no idea of their entitlements under WFF let alone how the component parts work. This has been confirmed in the report from the University of Auckland released this week: *Growing up in New Zealand: before we are born 2010*. Neither WINZ nor IRD clarify the different components of Working for Families: for those on benefits WINZ pays a benefit plus the tax credits as one lump sum. Most families on benefits would thus be getting WFF without knowing it (let alone understanding the large part of it they are not getting that is supposed to encourage them to get a job). It is undoubtedly true that some low income families who are not on benefits may not be getting the WFF payments they are entitled to, or at best not getting them in full, as these are made through the IRD.

Of great concern are the computer generated demands from the IRD can arrive in the mail for sole parents that make retrospective assessments for previous financial years with no explanation or even a covering letter. Does she have to repay large sums plus interest to the IRD because her ex partner earned more than was anticipated in one year and now she is liable for repayment? Was it because she got the IWTC after the IRD decided she had lost entitlement? Has some bureaucrat judged her family status to be in the nature of shared care and therefore decree her meagre portion of WFF is to be cut? Has the IRD made an error? The fact that the IRD might or might not make the decision to write off overpayments does not make this less threatening and oppressive. Many sole parents have very interesting stories to tell and can feel very bruised by the experience.

When people get WFF through IRD- how many understand the nature of the 3 main components (the Family Tax Credit, the In Work Tax Credit, the Minimum Family Tax Credit) and how entitlements may be lost or how they are abated for extra income, or what behaviour they are

supposed to induce? Currently in order for a sole parent who manages to work 20 hours a week to survive off a part benefit, the Minimum Family Tax Credit may be needed. This is nastier than any welfare benefit with 100% abatement for extra income and is extremely difficult for people to understand.

Here is another WGG option that I am afraid I do not understand at all:

Option 2: Increase the financial incentives for people working part-time to work more hours: *Increase the financial incentives for people working part-time to work more hours by enabling them to keep more of their additional pay, offset by higher abatement at lower levels of earning. p 8*

The increase will be offset? And that is supposed to increase the incentive to work more hours?

Sole parents and Child poverty

I will focus my remaining remarks specifically on the WGG treatment of sole parents and children. None of the report appears attuned to the circumstances of sole parents that make them fundamentally not comparable to people without children. The approach of the WGG is harsh and



unsubtle: **it does not recognise the needs of children**, their age and health; the number of children, or any special needs which may exist, not to mention the health of the mother herself.

The front page of this week's Listener proclaims that the "Benefit system 'disables people' and creates child poverty." The logic is tautological. If benefits are below the poverty line then by definition someone on a benefit is in poverty. If children of parents on benefits are denied a major part of the weekly payments that others get, of course child poverty will be high.

In contrast to Australia, New Zealand has tried to use its child-related family assistance tax credits to create a gap between those in work and those not in work: families on benefits and not meeting rigid hours of work requirements are denied at least \$60 week of their rightful family assistance. As we are always trying to catch-up with Australia, how about addressing this anomaly in New Zealand? New Zealand's undercurrent of the 'deserving' and the 'undeserving' poor that lies behind the discrimination in child payments would not be tolerated in Australia.

The same Listener contained a glossy brochure from KidsCan exhorting us to donate \$15 a month to allow a poor child to 'have the basics' of play lunch, shoes and a raincoat. This is deeply shocking in the context of denying those families \$60 a week on the grounds those children are 'undeserving' because their parents are on a benefit.



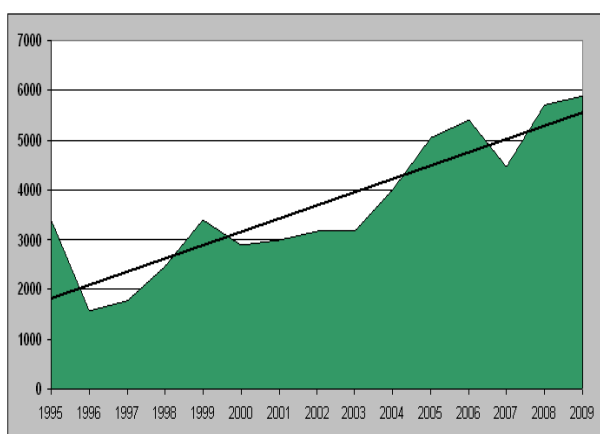
How many times does the question have to be asked: have these excluded children got lower needs than other low income children? What is the price we will pay as a society for the poverty of these 'left behind' children of whom there are now about 230,000.

Prior to the recession, but after implementation of WWF, the Ministry of Social Development found that 19% of children still lived in serious or significant hardship:

“They are without a doubt ... experiencing serious hardship and unacceptably severe restrictions on their living conditions for citizens in a developed nation like New Zealand.”
MSD 2009.

The numbers are now undoubtedly higher in the recession, but response has been that the answer will be found in “a relentless focus on work”. But is the intensification of poverty due to the increasing laziness of beneficiaries? There is an underlying assumption, clearly absorbed as true by the WGG, that life on a benefit is easy and even enjoyable for people, especially sole parents. Perhaps they should ask the parents who queue for food parcels, in highly distressing circumstances.

Foodbank usage in Auckland: the Auckland City Mission



The data from the Auckland City Mission, the biggest foodbank in Auckland shows demand or food parcels dipped a little with WWF in 2007 but again has increased sharply with the recession.

The WGG were not supposed to talk about the tax-welfare interface, nor benefit adequacy. If child poverty is of concern it must be asked why not? Instead we see options for intensifying the work focus for sole parents including some that are quite frankly absurd, for example:

Option 3: Transition assistance for sole parents. *Cover the cost of transport, childcare and other direct costs for first year of employment up to a cap. p 13*

No attention is given to the implications of having mothers work with very young children. We need to get honest about the costs involved in pushing mothers, who are looking after their young children and thus already ‘working’, into low paid work. As well as the potential intellectual, social, emotional and economic costs to the parent and the child, these costs include huge state subsidies for child care especially for children under 3. And, even with so called ‘20 hours free for 3-5 year olds’, the direct costs for the parents using day care can be very high. For example a sole parent at one centre pays \$157.50 a week for 3 days of care for her 3 year-old. The problem is that daycare must be paid for the full working day not just the 6 hours of the policy. The state and private costs of child care for young children make clear the nature of her unpaid and invisible work and the opportunity costs she faces in the caregiving role.

While the state appears to save the cost of the DPB when she works, a good part of it may have been paid for by Child Support anyway. When she is in work, the state will also pay extra for work-related tax credits and may have to meet extra health costs. Now it is suggested that costs of transport will be met: running a car in Auckland to deliver to day care and get to work might cost

the state another \$100 a week. Are there really such enormous gains, or any gains at all for the economy or for the individual?

The more Draconian options in the report reflect the WGG's angst about the DPB; anything is better than being on a benefit:

Option 3: Alignment with parental leave protection: *part-time work obligations from when the youngest child is three years old: unemployment benefit from when the child is six years old.* p 8

The suggestion that a sole parent should be on an unemployment benefit and expected to find full-time work with a young child **must** be questioned. She is not just an unemployed person, albeit with a child. We must learn from the experience of this policy for sole parents with child over 8 in Australia. The contribution from researcher Dr Eve Bodsworth at the Auckland Welfare forum showed that this policy is proving to be very damaging:

“Paradoxically, the change of payments actually acts as disincentive to work because of increased Effective Marginal Tax Rates created by the higher withdrawal rate and the lower earnings threshold. It has been argued that the Australian reforms therefore ‘economically penalize those women whom the [Welfare to Work] reforms are purportedly trying to assist into the workforce. While the employment participation requirements of [Newstart Allowance] may provide the necessary stick, the carrot of improved financial circumstances has been removed... in combination [the reforms] reflect a punitive approach to welfare provision” (Summerfield et al. 2010 as quoted in [Bodsworth, 2010](#).)

In Work Benefits (IWBs)

The *Options* report talks about the use of In Work Benefits but fails to analyse the existing one that is a substantial part of Working for Families. The kindest thing that can be said for this omission is that WFF was excluded from their terms of reference.

Under WFF Family assistance per child, per week is paid to the caregiver based on joint family income abated at 20% above around NZ \$37,000. For a 1-child NZ, the maximum is NZ\$148 per week.



Delivered by Inland Revenue and Work and Income

BUT part of this weekly payment (\$60) is to “make work pay” and called the In Work Tax Credit (IWTC). Using selective data the WGG report asserts that it was successful, but it has had, in fact, a modest to zero sustainable employment impact on the target group of sole parent (St John & Dale, 2010). In any case, success is not just a numbers game. Whose well-being is improved here: the stressed sole parent or the abandoned child?

The philosophy of the IWTC is that social inclusion is through paid work. The family must be “off benefit” and work the required number of hours of paid work per week: 20 for a sole parent and 30 couple. The objectives were to Increase participation in a tight labour market, especially of sole parents, and to reduce child poverty.

While its work incentive effects are illusory, it is clear that with the IWTC, the child poverty rate has fallen, but who is left behind? Given the impact of the recession, more than one in five New Zealand children, ie the poorest children, have been left out because their parents can't fulfill the expected hours of work.

There have been numerous other unintended consequences: the IWTC operates badly in cases of family breakdown; it is difficult to administer; it punishes families in a recession; and has required the use of a complex 'ReStart' package that has only helped those made redundant, and only for 16 weeks. The IWTC has also been judged in the Human Rights Tribunal to constitute discrimination with significant disadvantage for the children concerned:

“(192) We are satisfied that the WFF package as a whole, and the eligibility rules for the IWTC in particular, treats families in receipt of an income-tested benefit less favourably than it does families in work, and that as a result **families that were and are dependent on the receipt of an income-tested benefit were and are disadvantaged in a real and substantive way.**”(emphasis added, Human Rights Tribunal, 2008)

There are just too many causes of despair in this report: here is another on page 52:

“For many sole parents working 15 hours per week, two factors may not make it worthwhile financially to leave the benefit altogether: relatively low wage rates, and gentle abatement of benefit payments. Most sole parents who work 20 hours per week are better off financially leaving the benefit and taking up Working for Family tax credits. Full-time work could be defined as 30 hours per week (as defined by Statistics New Zealand), although Working for Families in-work credits are available to sole parents at 20 hours.”

Gentle abatement? The threshold of earnings has not kept pace with inflation and should be more like \$160 than the current \$100. Abatement above \$100 a week is 30% and 70% above \$200. The Minimum Family Tax Credit has a 100% abatement and can be over long income ranges. Where is the analysis of whether the hours of work required and the 20 hours rule for the work-related tax credits for sole parents, are suitable for a casualised labour market?

The inside cover of the WGG report says

“Anei tātou nā ko te po: ana tātou nā he rā ki tua”

Here we are in the night, and the day is yet to come.

I am afraid there is almost nothing I have seen so far that suggests the dawn is coming. Is this what Minister Paula Bennett meant when she said the 'dream is over'?

References

Human Rights Tribunal. (2008). *Child Poverty Action Group Inc v Attorney General. The Decision*. Wellington: Human Rights Review Tribunal

St John, S., & Dale, M. C. (2010). New Zealand family assistance for poor children. The experience of child-based work incentives. *European Journal of Social Security*, 3 (September).