

Ending No. 8 Wire Welfare: Why New Zealand is Lagging Behind

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EXECUTIVE SUMMARY

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- In the lead up to the last election, the National Party released its new welfare policy. The work-first policy received unwarranted criticism from many quarters despite New Zealand still lagging behind international best practice in welfare policy. The National Party now leads the government.
- Policies proposed by the government include a renewed focus on reducing the growth in Invalids Benefits, Sickness Benefits, and the long-term unemployed. Single parents on the Domestic Purposes Benefit will be compelled to take up part-time work when their youngest child turns six. This includes having meaningful reciprocal obligations and imposing penalties on those bucking the rules.
- The policies are important because work is important. It helps give us a sense of self-respect, helps increase self-reliance, and helps develop healthy habits, relationships and skills. Paradoxically in the developed world, as affluence increases and modern well-being improves, more people rely on the government for all sorts of assistance.
- New Zealand has a relatively 'soft' approach to welfare that is work-first in essence but not necessarily in practice. Overseas experience suggests that work-first approaches to welfare, time-limiting of benefits, workfare systems, and meaningful sanctions for non-compliance help get people back into the workforce. Even the often-cited and supposedly social democratic Nordic and Scandinavian countries have far tougher laws and requirements than New Zealand.
- The overseas experience suggests that, combined with appropriate training and assistance, these schemes receive cross-party support. This is because high levels of welfare dependency have highly detrimental effects on society. A large welfare state costs money but, more importantly, can create new social problems.
- The last great recession and adjustment in the 1980s left many people out of work and languishing on welfare rolls for a decade or so. This was the case around the world. Many people no longer felt they had the confidence and skills to participate in a rapidly changing labour market.
- Introducing more rigorous work-first policies is important in a recession so that if unemployment does rise substantially, people do not lose touch with the world of work. Although by no means coherent and complete, the government's welfare policy is moving in the right direction.

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Introduction

In the lead up to the 2008 general election, the National Party (now government) released its welfare policy unashamedly declaring it to be a work-first approach. This means that all welfare measures would ultimately aim at moving people toward employment.

The rationale was simple: work produces the best results for individuals, for society, for families, and for children. It is the surest way out of poverty. It increases self-reliance, helps people to be the best they can, helps develop skills, and helps create a cohesive community. Few people, if any, would argue that being in work does not achieve these positive benefits, yet many would stop short of supporting the proposals that John Key¹ put forward in August 2008. Many of these critics are opposed to reciprocal obligations in principle, and some are even opposed to a 'work-first' approach. Last year, Green MP Sue Bradford called the work-first approach a 'cruel and deliberate' benefit system that 'forces desperate people to work.'² While it may be politically expedient to make work-first approaches to welfare sound like forced labour camps, it is far from the truth.

This paper examines why it is important for the government to encourage people to work. It will look at why work is good for people, and why the work-first approach is an important policy for a government to explicitly pursue. In doing so, it argues that far from being extreme, the proposed pre-election promises were actually rather mild and very flexible by international standards. It contends that the current recession is no excuse for dragging heels over reform because reform will bring medium- and long-term benefits to society.

National's welfare promises

During the election campaign last year, the National Party (referred to from now on as 'the government') promised to introduce new welfare policies based on the importance of work. In Prime Minister John Key's words, 'Paid work is the route to independence and well-being for most people, and is the best way to reduce child poverty. Long-term welfare dependency locks people into a life of limited income and limited choices.'³ Prior to the election, the government had made a commitment to making work pay and making welfare a pathway to work. Its policy backgrounder explicitly states that 'the state does harm to people, and writes off their potential, by allowing them to stay on a benefit for a long period of time.'⁴

Besides all of the positive benefits mentioned above, being in work is the surest way out of poverty. This is a fact recognised by international institutions and political parties of most persuasions in New Zealand. Although the previous government did not loudly proclaim their 'welfare to work' approach (especially when it did not suit them politically), they nonetheless actively pursued this approach. The OECD, in a recent report, confirms that those least likely to be in poverty are those who are employed. 'By helping people to move into jobs and to become autonomous members of societies, these policies help prevent a widening in the distribution of market income from occurring in the first place'⁵ On the face of it, the proposed policies of the government not only look eminently reasonable, they actually look rather insipid.

The government's main policy initiatives were:

- Focussing on work
- Focussing on the planning process on employment
- Requiring the most frequent applicants for benefit advances to attend a budget advisory system
- Focussing on the long-term unemployed, particularly by addressing growth in Invalids Benefit (IB) and Sickness Benefit (SB)
- Raising the amount of money that can be earned on benefit by \$80–\$100
- Introducing a graduated system on non-compliance, and compulsory medical second opinion for those who have been on the SB and for a year

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- Introducing part-time work obligations for Domestic Purposes Benefit (DPB) recipients when their youngest child turns six
- Introducing part-time work obligations for SB and IB recipients deemed able.⁶

From subsistence to employment

Having looked at these policies aimed at encouraging people to work, it is appropriate to ask a very important question. What is so fundamentally important about work?

Paid employment is the cornerstone of modern life, and most political and social arrangements recognise this fact. But even the earliest human being ‘worked’ in order to survive, if not for payment. The innate ability and need to work sets apart human beings from all other animals. Up until recently, much of history has reflected this idea in the story of subsistence—individuals trying to produce enough resources for their own survival and comfort and for their families and their communities. ‘Throughout history much of the meaning of life was linked to the challenge of staying alive.’⁷ This included raising crops, animals, favours in kind, and occasional trading.

More recently, the development of capitalism as an economic and social system has lifted much of the world and people in New Zealand above an often difficult existence. Market economies allow us, through the medium of money, to store payment for labour, help accrue excess resources to pay for particular goods and services, and to make provision for times of trouble or future investment. Our forebears were more prone to the vagaries of nature—a drought, flood, or crop failure could mean no food, and could result in disease and death. Charles Murray, a prominent American social scientist, points out that ‘staying alive required being a contributing part of a community. Staying alive required forming a family and having children to care for you in your old age.’⁸ It is also a story of productivity and the division of labour. We have become more productive by devoting our energies to a narrower range of skills and becoming far more efficient at those. The basic shape of society today, despite the substantial social changes in the past 50 years, has been created by this reality.

We have spent much of our history working to survive. Today, market capitalism allows us to create wealth and frees up more time to develop and enjoy other pursuits—leisure activities such as the arts, sports, music, and literature. Fundamentally, however, the need to be self-reliant and provide for oneself and one’s family remains; instead of raising chickens and tilling fields, we drive to the office, shop or site.

Herein lies the paradox of the modern welfare state—as a society, we are wealthier than ever. There is a greater division of labour that has made us more productive, and it is much easier to procure resources needed to live and to be self-reliant. Yet for some reason, in the midst of plenty, the welfare state keeps expanding. Instead of utilising plentiful resources to become more self-reliant, people increasingly find it easier for the state to provide.

As in the rest of the developed world, this story holds true in New Zealand. Historian Michael Bassett puts it well when he writes about the ‘hoax’ that has been perpetrated against some welfare recipients in New Zealand: ‘Separating people off from the need to provide for themselves, earn money for food, a roof over their heads, a decent upbringing for their children, is the cruellest hoax that any government can perpetrate on its citizens.’⁹ This reflects two ideas. First, if a person is not in paid employment but could be, then no natural ‘right’ exists to the same material well-being as those who are; and second, it is naive to believe that a person can live a happy, healthy and fulfilled life by living off unearned money without doing anything worthwhile.

Employment engenders self-respect

An important facet of work and doing something worthwhile in employment is the healthy self-regarding behaviour that develops from it. Self-esteem from work has several facets to it—positive self-perception, self-confidence, higher levels of trust in others, greater

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reliability, more positive personal habits. It is a slippery topic, and rather ambiguous, but we know that those who feel the greatest levels of self-esteem and self-respect are those who are engaged in paid work. There is research that ‘reinforces the view that unemployment primarily causes psychological damage, rather than vice versa.’¹⁰ On the other hand, we know ‘it is a commonplace observation in social anthropology that those who constantly accept help from other people but who can offer little in return end up unhappy and unfulfilled at the bottom of social hierarchies.’¹¹ High self-esteem tends to equate with ‘expressed satisfaction with life and avowed happiness.’¹²

Work provides us with many positive things, but possibly the most important is self-respect. Some writers call it a sense of dignity.¹³ When people do something that they feel has value, they tend to experience higher feelings of self-worth than those who do not. ‘A satisfaction in life comes from the sense of doing something one values and doing it well.’¹⁴ Of course, something that is worthwhile and fulfilling need not be something that collects a pay cheque. Raising children, keeping house, caring for sick or infirm relatives, or undertaking a personal project or endeavour is all worthwhile work. However, in New Zealand, the truth is that for most of us work does involve collecting a cheque—we are in fact compelled to work in order to have many of our material needs and some of our wants fulfilled. Charles Murray puts forward the following thesis on the idea:

My thesis ... is that *the threshold condition for self respect is accepting responsibility for one's own life, for which the inescapable behavioural manifestation is earning one's own way in the world.* [His emphasis] I am stating this not as an ethical precept but as a fact about human beings that ought to influence policy choices in important ways. No matter how ready some of us may be to absolve others of this responsibility it is not in our power to do so. It is impossible to run public policy in a way that frees people from the necessity to earn their own way and is also the best of all possible worlds in terms of enabling self-respect.¹⁵

The way that work balances life and encourages good habits such as timeliness, communication skills, teamwork, and so on is beneficial to the workplace as well as the work and leisure we enjoy outside employment. Further, using Murray's thesis, we can say that taking a job is the way that most of us accept responsibility for our lives and our role in making what we can of it.¹⁶ In modern life, it is the easiest and most common way of being included in society.

Government intervention undermines civil society

Making an allowance for the importance of these skills and habits is important when considering welfare policy. This is because welfare delivery around much of the world has seen a fundamental shift in the past decade. The policy assumption has changed from one of entitlement to one of obligation and employment.¹⁷ Yet in New Zealand, the former still seems to apply. This seems to reflect two underlying assumptions—first, the assumption that all people are *owed a living* by society, through the government, simply by virtue of being alive and living in New Zealand. If one is owed a living *a priori*, there is no moral compulsion or even obligation to work towards contributing to your family, community and society. It is your right to have a life with a certain level of resources provided.

Successful and vibrant societies cannot and do not operate under this philosophy. Ironically, claims like this are made possible by the success of capitalist democracy in taking people out of subsistence and the greater levels of affluence and prosperity that the market mechanism allows. We can now afford to provide for more people who do not work. This said, there is some merit in saying that New Zealand is a wealthy, modern country, and it is both undesirable and unnecessary to have anyone living in abject poverty, which raises the second assumption that most governments in New Zealand have operated under.

It is the idea that social problems can be remedied by substantial government interference (behaviour modification and advertising campaigns) and transfer payments.

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It appears that governments, academics and poverty lobbyists in New Zealand believe that lack of material wealth and inequality of outcome or access to the economic goodies create and sustain poverty. This being the case, governments can fix the problems by throwing money at them.

However, if the history of the welfare state in New Zealand, and in other countries, has taught us anything it is that more begets more.¹⁸ The more government provides and attempts to provide, the more is expected and the less positive impact it has. Diminishing returns can never match escalating expectations. The more that is provided, the more levels of dependency grow and social problems begin to rear their head. Recent cases of the Kahui murders and Nia Glassie illustrate in horrific detail that it is not material deprivation, or a harsh judgmental attitude towards the unemployed that is at the heart of social issues such as single parenthood, alcoholism, drug use, domestic violence, and child abuse—it is dependence. There are some deep social problems in pockets of New Zealand, and while these are very difficult and complex problems, they are certainly caused by a mixture of factors far wider and more problematic than lack of income.

Incentives matter

Because behaviour can be encouraged or enabled by certain government policies, it seems prudent to examine the importance of incentive structures in welfare.

Incentives are created by all government policy—sometimes implicitly, sometimes explicitly. An example of an implicit incentive is a benefit that is higher than after-tax earnings—the implication is that work pays less than receiving welfare. An explicit incentive is designed to deliberately change consumer behaviour. Taxes on cigarettes and the Working For Families benefits structure are examples of this. Incentives are also a mixture of deliberate government policy and unintended consequences. For example, the DBP payment was introduced in 1973 to help protect women from situations of domestic violence, or if they fell pregnant without a reliable husband or partner. A liveable income could be claimed from the state in these cases. It has undoubtedly helped many women in these situations; however, there has also been a dramatic rise in single mothers and illegitimacy, something probably unforeseen at the time. ‘Thirty years ago the illegitimacy rate was negligible (six per cent for Maori to be precise). This year the figure will be around 70%.¹⁹ Numbers of children being born to several different fathers in single parent homes have also risen.

When the government makes a law, it creates a series of incentives that can sometimes be perverse. To continue with the DBP example, there is a financial disincentive for women on the single parent benefit to have a committed partner, as their income may decrease. There is a disincentive to move into paid work as the abatement rate pushes the effective marginal tax rate upward of 91 per cent.²⁰ While *some* government initiatives do help *some* people, many do very little to change people’s lives for the better in a dramatic or meaningful way. The last 10 years of increased Quangos in New Zealand has certainly been an example of this.²¹ Research suggests that despite a massive rise in spending, outcomes across all social indicators have barely improved, excepting core benefit numbers.²²

Box 1: International lessons of conditional welfare

In 2008, UK think tank *Policy Exchange* commissioned a study by welfare experts in different countries to examine the different policies and the results yielded. The following is a brief summary of some of their findings:

In Australia, Professor Peter Saunders, former social research director at the CIS, has been a strong contributor to the welfare debate. In his contribution to the report, Saunders explains that the welfare state is small and extensively means tested, and benefits are highly targeted but relatively generous. Under the Labor government in the 1980s and '90s, and then more aggressively under the Howard government, elements of conditionality were introduced. Job training produced a high yield of job-getters, and around one-third of claimants who moved into employment claimed it was linked to activities undertaken in exchange for benefit payments. Seventeen per cent of people claimed that training or activities had helped in some way.

In Sweden, the longer a person is unemployed, the lower his or her social insurance payment becomes until it's supposed to be cut out entirely. Over the past two decades, Sweden has gradually introduced work requirements to its welfare system. Since 2000, the main plank of this policy requires claimants to search and consider any job offer provided it does not mean being away from home for more than 12 hours. Financial help can be removed if a position or training is unreasonably refused. The Swedish experience showed that as people come near the end of their entitlement period, they are likely to move into employment (as the risk of losing payments increases) and that even small changes in payment levels produce behavioural change.

In Norway, the 1990s also saw the introduction of conditional welfare. These were active labour market policies (work first) that placed time limits on benefits²³ and was found to shorten the length of time spent unemployed. The labour market programmes, if completed, were found to increase probability of getting a job. Over time, however, the caseload has increased, and while there were several reasons for this, an ageing population has contributed substantially.

International lessons

It is sometimes useful to look to see what is happening overseas and what lessons we can learn from other policy settings. In New Zealand, one thing is clear—the numbers on the Unemployment Benefit (UB) have improved from a proactive approach from the Ministry of Social Development. However, this improvement is difficult to quantify: exactly *how much* did this approach contribute to the falling numbers in the sustained era of economic growth New Zealand has experienced? Economies across the Organisation for Economic Co-operation and Development (OECD) have experienced a decade of growth and wealth creation (until very recently), regardless of the governing political party. Australia's Liberals, British New Labour, and Canadian governments of both persuasions have all presided over growth, prosperity, and substantial rises in expenditure for very small improvements in government services and social outcomes.²⁴

New Zealand is currently one of the few countries in the world to hold, or continue to hold, largely unconditional welfare policies²⁵—Ireland and the United Kingdom being the other two. New Zealand has a universal welfare state, which means that all welfare spending is paid out of general taxation. Some countries (predominantly in the anglicised world) share the same system, while others, predominantly in continental Europe and the Nordic states, have 'social insurance' arrangements. Citizens in the latter countries pay a separate levy above their general taxation that funds a generous, and often wage-related, insurance scheme. The advantage of this is that payment levels are high, and it offers a high level of short-term unemployment security. The disadvantage of this approach is that these countries tax very highly, so it becomes expensive to employ new workers—and some workers, especially at the lower end of the skills spectrum, can be priced out of the labour market. Such social insurance systems use a very different mix of 'carrot' and 'stick' measures than the New Zealand system. They have rigid time limits on receipt of benefits and also meaningful reciprocal obligation²⁶ with sanctions that are followed up.

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Norway, in fact, has such widespread consensus regarding the active 'back to work' approach that the centre-right political parties want reductions in these programmes on the grounds they are too expensive to operate!²⁷

In Australia, a Workfare type system has been operating since 2006. Recipients of the Parenting Payment Single (Australia's DBP) are compelled to re-enter the workforce part-time once their youngest child turns six. The equivalent of the IB has been an issue of much discussion and debate, but little has been done to tighten it up. As in New Zealand, there has been a transfer of people from the UB to SBs and IBs. It is a statistically significant correlation.

In Britain, the Labour Party Secretary for Work and Pensions, James Purnell, has announced a bold, new policy looking at potentially far more radical changes. After the ghastly Karen Matthews child kidnapping case,²⁸ the mood for reform in this area has gained some momentum. Up until now, the system has been very similar to New Zealand's (except more generous), but the new proposal advocates a mixture of Workfare and time-limiting of benefits.

The British plan proposes that after 12 months on benefits, clients will have to undertake a work-for-the-dole scheme. Non-compliance will result in progressively more serious sanctions. Women will have to begin work once their youngest child reaches the age of seven;²⁹ an even more radical proposal suggested that women should be encouraged to look for work once their youngest is one year old. The British government has also signalled its intention to aggressively reduce numbers on the sickness benefit through a strict regime of frequent testing.

Note of Interest: One of the original architects of these British reforms is Prime Minister Tony Blair's former adviser, Sir David Freud. He was commissioned by Gordon Brown's New Labour government to write a white paper on welfare reform. Once the paper was submitted in 2007, it was deemed too radical, and the Department of Welfare and Pensions (DWP) quietly let Freud go. Being interested in welfare reform and frustrated at the government's willingness to let his report 'die,' Freud continued his work with UK think tank *Policy Exchange*. Before long, however, he was reappointed by James Purnell, the new and youthful Secretary of the DWP. A former favourite of Tony Blair and adviser to New Labour, Freud has now been appointed Conservative Party spokesman for welfare reform. By the time the government's white paper, co-authored by Freud, was released by Purnell, it had such strong cross-party support that the only real debate has been over whose policy it was in the first place!

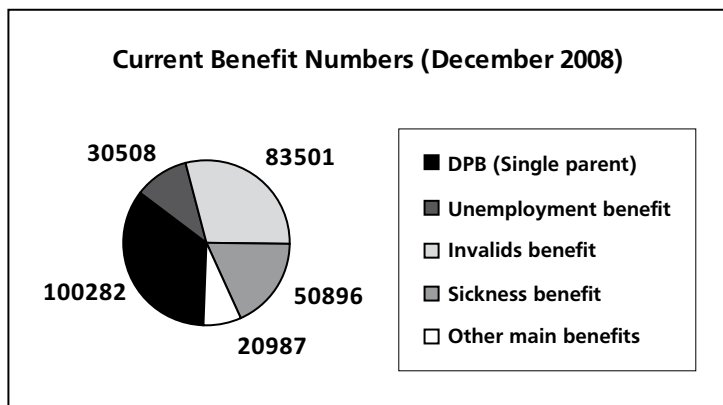
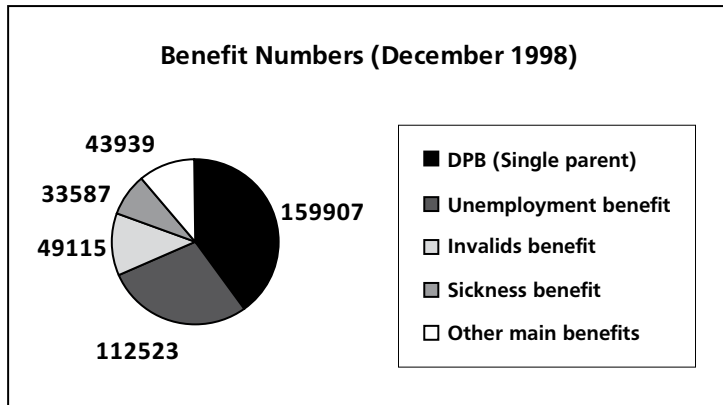
New Zealand lags behind

Given that the policies announced before the election were insipid compared to the ones above, what was the public reaction? Though seemingly sensible, National government's welfare policy was panned by many of those with an association to welfare provision, and on the left side of politics.

The policy proposal was initially slated for being an unoriginal, inhumane rehash of past ideas. The then Minister of Social Development, Ruth Dyson, attacked it saying such reform would have 'devastating effects on the young and vulnerable.'³⁰ Former Prime Minister Helen Clark commented, 'I can see they've got the hoary old beat up on single parents.'³¹ However, it seems that the measures proposed are simply nudging the country closer to what most people would describe as 'international best practice.' New Zealand has in fact stuck itself out on a limb in order to be all carrot and no stick.³² We are among the few countries such as the United Kingdom and Ireland who do not attach meaningful reciprocal obligations to the receipt of benefits. Even the very generous and often held as virtuous Nordic welfare models have very strict and inflexible reciprocal obligations³³ that would horrify many New Zealanders.

Has the New Zealand approach worked? In December 2008,³⁴ New Zealand had 286,176 people on benefits; approximately 30,508 of those on the UB and 100,282

on the DPB for single parents. Of the rest, 83,501 are on the IB 50,895 on the SB, and 20,989 on other benefits. The landscape of unemployment is vastly different to what it was 10 years ago. The corresponding numbers then were 159,907 unemployed; 112,523 on the DBP; 48,115 on the IB; 33,587 on the SB; and 43,939 on other benefits.³⁵ Where reciprocal obligations have been increased in quantity, punitive measures have been repealed. Indeed, judging by the reduction of numbers on the UB over the past decade, one could easily say that this approach has broadly worked. Unemployment has been at the lowest levels for some decades.



However, unemployment numbers only tell part of the story. The rise in labour market participation over the past decade has been a product of several forces. Economic growth is the most obvious one.³⁶ Much of this growth can be credited to the reforms undertaken in the 1980s and '90s. Some of the credit has to be taken by the Ministry of Social Development, which has developed and implemented an 'intensified approach' to getting long-term unemployed back into the labour market.³⁷ But this ignores the 'hidden unemployed' on the IB, SB, DPB, and other benefits who make up approximately 6 per cent of the population and 7.7 per cent of the working age population.

Even with large surpluses and sharp increases in government expenditure under the Clark government, there has been a sharp decrease in those on the main UB (dole). This has, however, been counterbalanced by an increase in those on the IB and SB. As can be seen in the diagrams, there has been an increase in sickness/invalids benefits from just under a quarter of all claimants to almost half. Are there that many more people who fall sick and become invalided in New Zealand than before? Most probably not. Are there no jobs for people who wish to work? Up until recently, no. Though the labour market is much looser in the current economic environment, until lately, many industries and workplaces saw labour shortages in both low and high-skilled jobs in New Zealand.

Box 2: Job Retention of Welfare to Work Recipients in the United States³⁸

In 1996, President Bill Clinton signed the *Personal Responsibility and Work Opportunity Reconciliation Act* into law. The stated aim of this measure, according to Clinton, was to 'change welfare as we know it.' In the United States, two academics did a study published in the *Public Administration Review* in 2001. Given that previous research suggested that welfare recipients exhibit weaker attachment to the labour market, Susan Tinsley Gooden and Margo Bailey hypothesised that welfare-to-work recipients would have worse job retention outcomes than those who had not been through welfare-to-work schemes. The results were surprising.

Gooden and Bailey found that of those who returned to federal employment from welfare-to-work programmes were more likely to retain employment than those who hadn't.

Welfare-to-work employees have greater odds of retaining their jobs at both three and six months post hire than non-welfare-to-work employees. Admittedly this effect may have been greater earlier in the reform process as those who remained on welfare roles likely have more complex barriers to work, and have been out of the labour force for longer—therefore find it more difficult to retain work. The retention rate also may have been higher as federal agencies place more emphasis on employing former welfare recipients.

Overall, however, the findings were extremely positive as they demonstrate that (despite the hypothesis of the researchers) welfare-to-work schemes yield real and measurable results in helping the recipients.

It has to be noted that results in the United States have been mixed. As many of the reforms have had a heavy focus on training and re-education they have often saved the US taxpayer little money. Many of the reforms have also not dealt with the most difficult cases, but encouraged some who simply needed a nudge into employment. Despite the resources poured into job education, 'the consensus among most academics is that the decline came from a change in expectations, that is, in the "culture of welfare".'³⁹

Job training uptake rates have remained low, and while workfare schemes do not appear to have had a direct effect on workforce participation, they appear to have helped build an environment where unneeded welfare receipt is less acceptable.

But what about the recession?

As far as best practice in welfare policy goes, New Zealand is behind the times. We have few reciprocal obligations, no time-limiting on benefits, no 'workfare' type schemes. The Clark government instituted work-first principles, but for whatever reason, was not prepared to bring in any policies found to substantially reduce welfare dependency.⁴⁰

It is always politically difficult to reform welfare. The amount of spending, the delivery of those services, operating inefficiencies, and overall structure of the welfare system have consistently been put in the too-hard basket. Resistance to change is met from many quarters, some with legitimate concerns, some with ideological disagreements, and some with vague appeals to a sense of fairness or equity.

During times of recession, the social welfare safety net is used more. Historically, when there are layoffs and redundancies in the economy, the government has taken a role in lessening the impact and helping people through those difficulties. Most New Zealanders would agree that this is a valid and important task for government. But it is also during a recession that an honest appraisal of the system can be conducted, concentrating on getting the incentives right so that when the economy kicks over again, people can get back into work with ease.

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Box 3: Reform in a recession: the German example

Since the reunification of Germany in 1990, unemployment had grown steadily across the country. By 2002, there were 7.6 per cent unemployed in former West Germany and 17.7 per cent unemployed in the east. This still meant far greater numbers of unemployed in the west: 2.5 million compared to 1.6 million in the east.⁴¹

Four million unemployed people was popularly considered far too high, and the economic slump in Germany in 2002 created immense political pressure to do something. At that point, the Coalition government led by the Social Democratic Party and the Green Party decided on a path of reform in the midst of a recession.

The 'Hartz reforms,' named after its architect, were fully introduced in December 2003, and although unemployment rose until 2005 to a high of 5 million, from 2006 to 2008 it dropped substantially to 3.5 million, a rapid fall.

Most experts are convinced that the Hartz reforms significantly contributed to this development. Some observers see the time lag between implementation as a tragedy for the Schroeder government, which made the changes but were kicked out of office in 2005 (during the peak in the unemployment figure) before success could be demonstrated.⁴²

Recessionary reforms in the UK

After the economic reforms of the 1980s, many countries saw large-scale and long-term unemployment. This unemployment became structural, and many people were locked out of the labour market for years. Most governments in the West responded by putting people onto inactive benefits—first, the unemployment benefit (as it was previously administered) and, in more recent years, sickness and invalids benefits. The problem is that in times of increasing unemployment, it is easy for people, especially those with few skills, to lose touch with the world of work—and this is what happened.

In his introduction to the newly introduced white paper, UK Secretary of State for Work and Pensions James Purnell states:

Some people say that we should slow down welfare reform because we are entering a recession ... we should increase the pace, because that means offering more support to people and *matching it with the expectation that they should not fall out of touch with the world of work* [my emphasis].⁴³ He goes on to add that the white paper has a 'vision of a welfare state where virtually everyone is looking for work or preparing for work—instead of just a third of benefit claimants having obligations.'⁴⁴

Basing policy on these kinds of principles is built on international research and experience that shows active work programmes to be the best way of bringing people out of poverty.

The United Kingdom has a far greater welfare dependency problem than New Zealand. It also has the looming spectre of industries reaching the end of their natural lives, large-scale migration, entrenched estate poverty, generational joblessness, and drug problems to deal with. The barriers many people face to work are greater, and the prospect of finding jobs slimmer. Yet the UK government is still committed, in the face of substantial opposition from well-organised lobby groups, to implement reforms that are far greater in scope and 'stick' than any proposed in New Zealand.

Conclusion

Welfare is a difficult area to reform. It often is a difficult area to discuss rationally and sensibly—and debates are often emotionally charged. This is understandable because many of those involved in various welfare agencies, services, and advocacy deal with some truly tragic cases and with people facing genuine hardship. Unfortunately, appeals to fairness like this cannot be the rule followed when dealing with welfare dependency. Around 8.6 per cent of New Zealand's working-age population rely on the state for

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their primary source of income. Considering that relatively few of those are on the UB, it is difficult to believe that such a large number of people incapable of working exist in New Zealand.

Reciprocal obligations, time-limiting of benefits, and workfare schemes are not about blame, or punishment and finger-pointing, as is often characterised in political debate and by welfare lobbyists. It is about leaving no one behind—and if any government is serious about alleviating poverty, then encouraging paid work is the best way to do it.

In New Zealand, we trail behind international best practice. The government's proposed welfare reforms, while in no way representative of a total or coherent programme, are steps in the right direction. The government, even in the face of a challenging economic situation, should still be eager to take up these measures. High levels of unemployment affect us all, they are truly challenging events for communities, and retrenchment can have a profound effect on those unfortunate enough to be on the receiving end. Given that the short-term economic future is highly unpredictable, the government needs to act now to ensure the next decade is not defined by people left languishing on welfare rolls and long-term structural unemployment.

Endnotes

1. John Key was then the leader of the opposition. He is now the Prime Minister of New Zealand.
2. NZPA, 'Government welfare policy "cruel and deliberate"—Greens,' *The New Zealand Herald*, 12 Monday 2008, www.nzherald.co.nz/social-welfare/news/article.cfm?c_id=322&objectid=10509583.
3. John Key, 'Speech: National's Benefits Policy,' 11 August 2008, <http://national.org.nz/Article.aspx?ArticleId=28357>.
4. National's Benefits Policy Backgrounder, http://national.org.nz/files/2008/benefits_backgrounder.pdf, 3.
5. OECD, *Growing Unequal: Income Distribution and Poverty in OECD Countries* (OECD, 2008), 303.
6. National's Benefits Policy Backgrounder, http://national.org.nz/files/2008/benefits_backgrounder.pdf, 3.
7. Charles Murray, *In Our Hands: A Plan to Replace the Welfare State* (Washington, DC: AEI Press, 2006), 82.
8. Murray, as above, 82.
9. Michael Bassett, 'Labour Faces Its Demons,' 8 July 2008, www.michaelbassett.co.nz/articleview2.php?id=185&cyh=2008&cyl=2007.
10. Bruce Heady, 'The Psychological Impact of Unemployment,' in Peter Saunders and Richard Taylor (eds), *The Price of Prosperity: The Economic and Social Costs of Unemployment* (Sydney: UNSW Press, 2002), 216.
11. Peter Saunders, *Australia's Welfare Habit and How to Kick It* (Sydney: Duffy and Snellgrove, 2004), 3.
12. Charles Murray, *In Pursuit of Happiness and Good Government* (New York: Simon & Schuster, 1988), 113.
13. Self-respect is essentially a self perception of self-worth. It is closely linked to self-esteem. These are slippery terms and are sometimes used interchangeably in this paper.
14. Charles Murray, *In Our Hands: A Plan to Replace the Welfare State* (Washington, DC: AEI Press, 2006), 95.
15. Charles Murray, *In Pursuit of Happiness and Good Government* (New York: Simon & Schuster, 1988).
16. Murray, *In Our Hands*, as above, 95, also points out that some people find vocation, or something that has true value in paid work, and others find 'a surrogate elsewhere, an avocation or through involvement in the community.'
17. Peter Saunders, 'Australia: From Entitlement To Employment,' in Lawrence Kay and Oliver Marc Hartwich (eds), *When Hassle Means Help* (London: Policy Exchange, 2008), www.policyexchange.org.uk/images/libimages/441.pdf.
18. This frustrated former Prime Minister Malcolm Fraser and his wife, who is said have broken into tears of frustration. They realised that each extra measure taken by the then government simply created demands for more to be done. See Michael Bassett, *The State in New Zealand 1840–1984: Socialism Without Doctrines?* (Auckland: Auckland University Press, 1998).
19. Roger Douglas, *Just Do It: Beat Australia by 2020* (Auckland: Douglas Management & Investments Ltd, 2008), 70.
20. Phil Rennie, *Are Tax Cuts Good for Growth?* (Sydney: CIS, 2006).
21. Although open to debate, I would argue that the Families Commission, Children's Commissioner, Charities Commission, and Tertiary Education Commission are good examples of low quality expenditure. In short, any quango (Quasi Autonomous Nongovernmental Organisation) with the word commission at the end seems to be a good guide.
22. Phil Rennie, *New Zealand's Spending Binge* (Sydney: CIS, 2006).
23. Time-limiting benefits is the practice that places a time limit on benefit receipt. Time limiting tends to be carried out on a particular time basis, or a per-lifetime basis.
24. As above.
25. That is, aside from nominal job skills training and WINZ reporting requirements. Similar conditions exist in the United Kingdom and Ireland.

26. Reciprocal obligation—where welfare recipients must undertake some sort of activity or ‘obligation’ in order to receive their payments. In New Zealand, these might include interviews, job training, or reporting to a WINZ office depending on circumstances.
27. Ivan Harslof, ‘Conditionality in Norwegian Welfare Policies,’ in Lawrence Kay and Oliver Marc Hartwich (eds), *When Hassle Means Help* (London: Policy Exchange, 2008), www.policyexchange.org.uk/images/libimages/441.pdf, 49.
28. Karen Matthews conspired with her partner’s uncle, Michael Donovan, to fake the kidnapping of her own daughter to collect the ransom money being offered and split it. Unfortunately for them, her daughter was found drugged and tied up at Donovan’s property. Matthews had never worked, had children with four or five different men she wasn’t sure. See Peter Saunders, ‘Price of Money for Nothing,’ *The Australian*, 13 December 2008, www.cis.org.nz/executive_highlights/EH2008/eh73908.html.
29. Department of Work and Pensions, *Raising Expectations and Increasing Support: Reforming Welfare for the Future*, White Paper (London: The Stationary Office, December 2008), www.dwp.gov.uk/welfarereform/raisingexpectations/fullversion.pdf, 7.
30. John Armstrong, ‘Blurring the Lines of Welfare Policies,’ *The Otago Daily Times*, 16 August 2008.
31. Martin Kay and Vernon Small, ‘Mandatory Work Tests for Beneficiaries,’ *The Dominion Post*, 11 August 2008, www.stuff.co.nz/4651590a23917.html.
32. Simon Collins, ‘Forcing Parents Back to Work May Not Be the Answer,’ *The New Zealand Herald*, 12 August 2008, www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10526509.
33. Policy Exchange, *When Hassle Means Help*, (London: Policy Exchange, 2008), www.policyexchange.org.uk/images/libimages/441.pdf.
34. The December figures have been used to give a picture of the situation before the major downturn and any retrenchments in the New Year. Rapidly worsening figures would distort the issue being discussed.
35. Ministry of Social Development, *Benefit Fact Sheet*, (Wellington: December 2008), www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/2008-national-benefit-factsheets.html.
36. Phil Rennie, *New Zealand’s Spending Binge* (Sydney: CIS, 2006).
37. New Zealand Government Cabinet Paper, *Intensified Approach for the Very Long Term Unemployed*, (Cabinet paper released under OIA request, 15 October 2007).
38. Susan T Gooden and Margot Bailey, ‘Welfare to Work: Job-Retention Outcomes of Federal Welfare-to-Work Employees,’ *Public Administration Review* 61:1 (Jan–Feb 2001), 83–91.
39. Douglas Besharov, ‘Two Cheers for American Welfare Reform—Lessons Learned, Questions Raised, Next Steps,’ in Lawrence Kay and Oliver Marc Hartwich (eds), *When Hassle Means Help*, (London: Policy Exchange, 2008), www.policyexchange.org.uk/images/libimages/441.pdf, 37.
40. For an excellent overview and comparative case studies, see Lawrence Kay and Oliver Marc Hartwich, as above.
41. Jochen Kluge, ‘Fordern und Forden: The Principle of “Help and Hassle” in German Labour Market Policy,’ in Lawrence Kay and Oliver Marc Hartwich (eds), *When Hassle Means Help*, (London: Policy Exchange, 2008), www.policyexchange.org.uk/images/libimages/441.pdf, 59.
42. As above, 65.
43. Department of Work and Pensions, *Raising Expectations and Increasing Support: Reforming Welfare for the Future*, White Paper (London: The Stationary Office, December 2008), www.dwp.gov.uk/welfarereform/raisingexpectations/fullversion.pdf, 7.
44. As above, 8.



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