

Values, Welfare and Work

Aspects of the Labour Market and Welfare Dependency

What is described as long-term welfare dependency is perceived to be a serious problem and was the focus of the terms of reference of the Welfare Working Group (WWG).¹ An examination of the way the labour market works indicates that we can expect some people in the labour market to show exactly the characteristics described as welfare dependency, with long periods of support from the welfare system. From this perspective, much welfare dependency is generated by the economic system, not personal characteristics. Personal characteristics still matter, but they influence who needs welfare, not the total amount

needed. Changing incentives, as proposed by the WWG, may not change the situation very much. Benefits for those on sickness, invalid's and caring benefits primarily provide for other social values: those groups should continue to be supported through separate benefits because of those values and the different difficulties each group has in the labour market.

The WWG was asked to 'provide a menu of practical proposals to reduce long-term benefit dependence' (WWG, 2011, p.36). The group focused on the long-term dependence issue, and addressed it from a narrow incentives framework and a cost perspective; only limited consideration was given to broader welfare objectives. This led the WWG to a menu of proposals that entail an unnecessary total upheaval and reconstruction of the whole welfare system around a much narrower focus.

Since Adam Smith's 1776 classic, *The Wealth of Nations*, there has been a tendency to treat the economic life of citizens as something separable from other aspects of their life. Deal with the

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economics and the rest will fall into place. However, many economists have moved to take a different view, exemplified by Partha Dasgupta (2007) who discusses the discipline under headings like Trust, Community, Markets, Science and Technology, Sustainable Development and Social Well-being. He states, 'What economics shows us is that neither personal failure nor personal success is entirely a matter of personal effort and luck. Success and failure lie at the intersection of the personal and the social' (Dasgupta, 2007, p.159).

Consistent with Dasgupta's view, this paper argues that benefit dependency of the kind identified in the WWG's final report (WWG, 2011, p.42) – where some people are on benefits for a substantial proportion of the time – arises from labour market structures and not necessarily from personal failure, lack of personal responsibility or lack of adequate incentives. Statistics of employment and unemployment illustrate the strong

labour market should not be given the pre-eminent role proposed by the WWG, and the latter half of this paper explores that question in the context of the wider roles of the welfare system.

The level of long-term dependence by those unemployed differs greatly at different points in time because of the structure that generates it. The argument which follows implies that the total cost of benefits may not be sensitive to long-term dependence. That makes it an even weaker pretext for overall system change. Over the last quarter century other areas of government services, such as infrastructure planning and development, rail transport, the energy system, research services and health services, have been subject to radical overhaul, with substantial costs. In some, 'essential major change' has often led to problems which need to be undone. Instead, careful evolution from the present structure, addressing problems with specific benefit types, would create

to the economic structure and the way rewards to activities in society are distributed, rather than a modification of the welfare system. Shifting more responsibility to the persons without paid work is failing to recognise that society has built a system which does not provide as much paid work as members of society clearly indicate they want. The welfare system, of course, also has to deal with issues arising from poor past policy in other areas, but that is different from the major change of focus of the welfare system which is proposed.

Is the emphasis on long-term dependence justified?

The OECD uses the proportion of those on an unemployment benefit who have been on the benefit for a year as an international comparative measure of long-term benefit dependence. In their latest figures, New Zealand had less than 10% for the four years between 2005 and 2008 (see OECD, 2010; also Silverstone and Bell, 2010). Only Canada, Mexico and Korea achieved less than 10% in all of those years, and Norway and Iceland less than 10% in three of those years. Clearly, New Zealand is one of the countries which ranks with the best performance in terms of low long-term dependency among persons registered for unemployment benefits. On the basis of this international comparison there is no case for a complete reorganisation of that part of the welfare system.²

Measures of long-term dependence are obviously modified by the historical sequence of employment opportunities and are rising as New Zealand experiences lower employment levels. At the beginning of 2011 New Zealand is in a different part of the international distribution. However, the statistics from 2005 to 2008 are important because they demonstrate that the true level of long-term dependence can only be observed at the peak of the business cycle. At other times insufficient jobs are available and the amount of long-term dependence is a result of the constrained supply of jobs, which we study below.

Long-term dependency is much higher for the sickness, invalid's and domestic purposes benefits, and for

For the individual the present has developed from past decisions. These dynamics make statistical analyses very difficult because nearly all the variables are endogenous to the social structure.

incentives for individual participation in the labour force. Without wanting to downplay the potentially serious effects of long-term dependence, we need to keep it in perspective.

The main focus here is on the unemployment benefit, where the problem affects a small proportion of the labour force. The proportion in a long-term dependence situation differs greatly for other benefit groups supported by the welfare system (WWG, 2011). That should suggest different underlying structural factors and the need for distinct approaches depending on matters appropriate to those groups. A strong case can be made that the common issue of the interface with the

a better range of future alternatives – as many submissions to the WWG urged. A menu of a limited kind can achieve very useful and lasting improvements.

In recommendation 1 the WWG outlines the features underlying the proposed 'new' welfare system (WWG, 2011, p.50). Most of the difficult problems for the welfare system which the group seeks to address through this list arise because of a failure of other areas of social and economic policy. The welfare system should not be blamed for these other failures. Placing 'paid work' as the first feature in the list does nothing at all to change the amount of paid work available. Recognition of its importance should be influencing other changes

persons in those groups a whole range of special features influence transitions into or out of long-term dependency and their interface with the labour market. Those features further weaken the case for the complete restructuring the WWG recommends.

The labour market and paid work

Economists have traditionally examined 'paid work' choices by dividing the workforce-age population into three groups: the employed (E), the unemployed (U) and those not in the labour force (N).

In any study of particular personal situations you start in the middle in both time and space. For the individual the present has developed from a set of past decisions; there is the current situation, often subject to shocks of many kinds; and there is a set of potential choices of future options subject to risk and uncertainty. For the individual the present has developed from past decisions. These dynamics make many statistical analyses very difficult because nearly all the variables are endogenous to the social structure. Decisions about labour force participation embody the whole set of values listed later in Table 1. They frequently involve joint options available to several co-operating people in the household or even in the extended family, current jobs, historical work participation and the experience of all household members. Education introduces an investment dimension for longer-term capabilities and extends freedoms for the individual and the household.

Usually these decisions involve a finite set of large or lumpy alternatives. Associated with each alternative are costs and benefits, of monetary and social kinds: to work or not to work, to take a nearby part-time job or a less convenient full-time one involving a lot of travel but more money, to care for a child or send her to pre-school. There is limited opportunity for the sort of marginal balancing which is the staple of elementary economics. Given differing personal values, it is not surprising that this behaviour cannot be modelled well without information most people would regard as personal and private, and perhaps not even then.

Figure 1: Numbers in labour force and employment

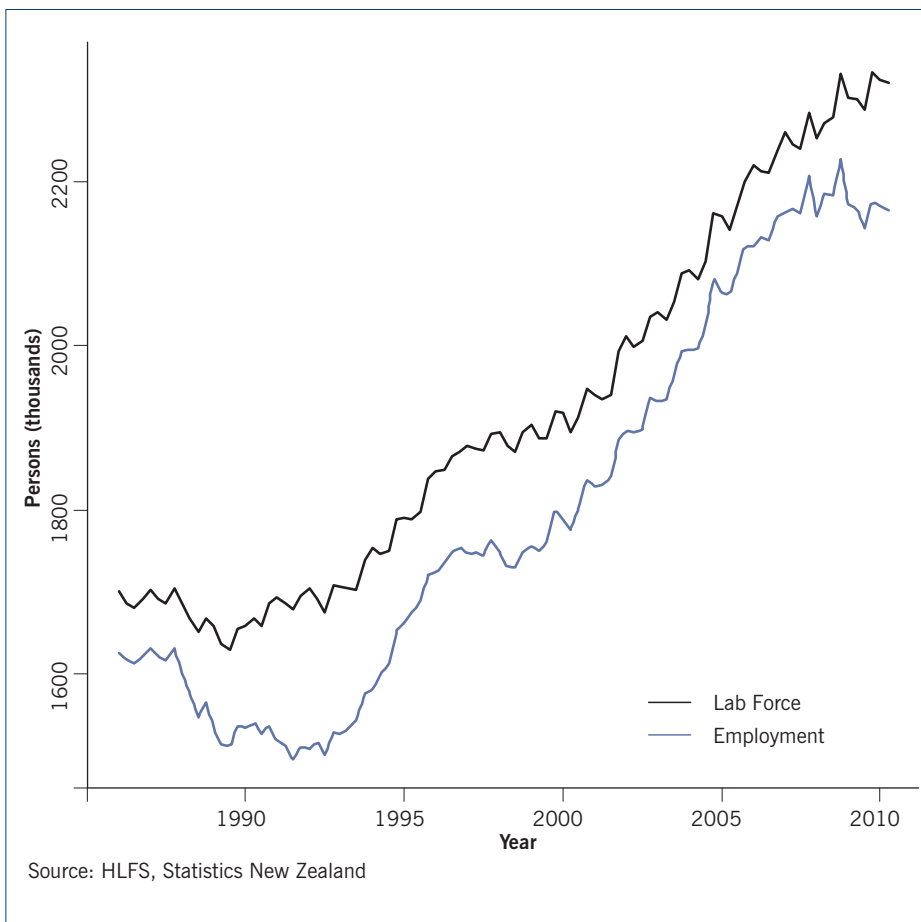


Figure 2: Participation in the labour force and employment



In addition, all such decisions have externalities which are probably much larger than in most product markets. For instance, decisions about education modify the numbers enrolling for courses and the economies of scale attainable in educational activities. They also modify the choice sets for potential employers and technologies they may use. A decision to accept a job will pre-empt it for others. Decisions about early child care by parents may make some alternative forms of support economically viable, and others not.

Even if all [seeking work] satisfy basic conditions for employment, some with the fewest skills ... will end up with a very low probability of being selected for long-term positions.

Observed outcomes of labour force choices

The Household Labour Force Survey (HLFS) gives us a picture of these decisions. Figure 1 shows the total number in the labour force, which is defined as the sum of those employed³ and those unemployed but actively seeking work.⁴ There is considerable seasonal variation which we have not tried to remove because it illustrates the many short-term job changes in this market.

Figure 1 shows that since 1989 there has been an upward trend in the number in the labour force and that there has always been a substantial number who would like to find a job. The number is quite volatile and impossible to predict long term, but does show a strong association with other statistics of changes in economic activity.

Figure 2 redraws the data to convert it to a percentage of the current working-age population. It gives a striking picture of the last 25 years. After the 'reforms' of the 1980s, the proportion of the working-age population in work fell dramatically, and it did not regain the levels of 1987 until 2004. Were they 17 lost years? It continued to grow, with higher participation and further growth in the labour force until 2008. When jobs are available the number has continued to rise, and further people

have joined those who are seeking work. When employment fell as a percentage the number seeking work also tended to decline, but it was not sufficient to offset the employment decline and the number of unemployed rose. For a matter so important to personal and household well-being, the changes in Figure 2 represent major changes in the population experience and situation.

Have higher benefits numbers become 'locked in'?

The WWG claims that 'the inactive nature

of applicants who were outside groups they normally considered.

It is foolish to try and build a very complex quantitative model of this process with these series of almost 25 years' experience, but they are broadly consistent with a very simple story. When the proportion in employment falls, the proportion in the labour force remains close to the previous employment levels. Some of those who had been seeking work sense the increased difficulty of getting work and drop out of the search process, as they had not been able to get work before. When the proportion employed starts increasing again, those not currently employed become aware of the change, and an increasing proportion start looking for work. The pattern of changes is consistent with it being driven by levels of job opportunities associated with changing economic activity and a strong desire to be in work.

Many of the adjustments which the WWG claims point to 'locking in' are sensible adjustments to changed circumstances. They are not evidence that members of these households want to avoid re-entry to the workforce if jobs are available. Some are responses which may make it more costly to re-enter the labour force later, but households may not have enough capital to do anything else. Social provision of housing may have a role here. Some other features they mention are matters for the benefit system.

Figure 2 is evidence of a population with a high desire to be involved in paid work and to use that as a means of expanding the capabilities and freedoms of those in its households. It shows clearly that problems arise when there are significant changes in the number of jobs. Many are forced to seek additional income from the benefit system.

If under the WWG proposals everyone on a benefit had to make a job application at least once a month, they would qualify under the international definition as being in the labour force. Adding all the sickness, invalid's and caring beneficiaries who made such an application to the labour force is not sensible. No government would be proud of the internationally-accepted measure

of the benefit system meant that high levels of benefit receipt became "locked-in" after the economic restructuring of the late 1980's and early 1990's (WWG, 2011, p.44). But there is a much simpler explanation for the changes in the numbers unemployed. In the mid-1980s over 64% of the working-age population was in work. With the restructuring, the percentage had fallen to under 59% by 1989 and was to continue to fall until 1992, when it reached close to 56%. In response to this change, Figure 2 shows that the percentage in the labour force, at between 63% and 64% was almost exactly the same as the employment level in the mid-80s. Far from a 'locking in' of benefit receipt, what had happened was that the proportion seeking work was maintained at the highest-experienced employment level from the past in spite of the dramatic fall in the number of jobs available.

The proportion in the labour force recovered to the levels of the mid-1980s about 2002. It was 2004 before employment reached the proportions of 1986. By 2008 they reached the highest percentages in employment ever observed in the HLFS. It is not surprising that some employers found difficulty in recruitment and were forced to consider some job

of unemployment levels under that scenario.

Job search, long-term dependence and the labour market

There is a huge literature on search models in the labour market. Most jobs involve a mix of skills and of those skills to different levels. If we had a matrix we might have n skills (where n is very large) and m levels. Employers search for employees who combine groups of these skills in novel ways and are willing to work in diverse structured environments. Potential employees have different histories, different skill sets and aptitudes and, as important as both of these, different objectives and values which they wish to achieve and satisfy. They put time and money into the search for jobs. Finding an appropriate match is often difficult. The search costs for both employer and employee in these decentralised markets may be large, and the search will conclude either with an appointment deemed capable of yielding a satisfactory outcome or failure and the desired outcome unrealised.

One way of thinking of observations of those unemployed is to regard the labour market outcomes as a result of a sorting process. Employers select from those available the best match they can find to their skill requirements. The selection rations the jobs among potential employees available. It would not be surprising in this process if there was a group whose skills and ability provided a very poor match with the set of skills employers seek and that they therefore remained unemployed for long periods, or have repeated spells of unemployment. The uniform experience of studies of benefit payments has been that, in most labour markets, there is a group who have repeated spells of unemployment, and those spells are likely to be a continuing feature of their personal history. We should regard it as evidence that the labour market and its search processes are working.

At the heart of the WWG's proposals is increasing the intensity of search by those on benefits. Pissarides comments:

We have argued that search intensity is not likely to be very responsive to policy instruments. A more effective

way of improving the intensity of search, which so far we did not discuss, might rely on structural measures. A central agent sets up employment agencies or subsidizes the information networks in labour markets that bring together firms and workers. ... a structural policy increases the rate of job matchings for given vacancies and unemployment. (Pissarides, 2000, p.231)

That, however, is not a sufficient condition for increasing the level of employment, or ensuring that the new jobs make the greatest contribution to net output.

From the long-term perspective promoted by the WWG, ensuring that those entering the labour market have the essential skills for available jobs should be an important goal of the educational system. In the search model, good skill sets are important for potential employees. They will improve the ability to satisfy an

length of benefit spells. Nearly all of the active labour market policy (ALMP) studies fail to provide any analysis of the difficult task of finding the impact of those policies on the numbers employed or the total number of benefits needed. They do explore impacts on individuals, but good outcomes for individuals are not the same thing as a good outcome for the whole set of individuals. In a job-constrained labour market, a good outcome for one individual implies a poor outcome for another individual.

The WWG states that in June 2009 about 12,000 people aged 28–64 were on an unemployment benefit for periods cumulating to five out of the last ten years (WWG, 2010a, p.12). Even adding in a significant allowance for additional younger persons, this is not a large proportion of the total in excess of 2,200,000 in the E group at the peak in 2008. It is less than 1% of the total labour force, given the participation options

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employer's objectives. The data of Figure 2 showed that the number employers were willing to employ was substantially less than those seeking work and that the market operates as a rationing process. Even if all satisfy basic conditions for employment, some with the fewest skills or other disadvantages will end up with a very low probability of being selected for long-term positions.

The detailed studies by Stillman and Hyslop (2006) and Gobbi and Rea (2002) provide New Zealand evidence of these characteristics of the labour market. They show that the proportion of time individuals spend on benefit support has a very skewed distribution in common with many other economic characteristics. Gobbi and Rea also illustrate that the changing economic cycle modifies the

available at that time. Over the previous ten years the percentage employed had risen from 60% to 66% and then fallen to 64%. Many people would have had jobs over the whole period. Among those who experienced job changes and some unemployment, the outcome that fewer than 1% had more than 50% of the time on benefit support is probably a good achievement. Using figures from the reports of the Ministry of Social Development in June 2008, about three out of every 1,000 in the labour force had been on unemployment benefits for longer than a year. By December 2010 the unemployment rate was 6.8%, or about 20 times the level of long-term dependence at the peak. On this evidence, so far as the unemployment benefit is concerned the low long-term dependence could not

Table 1: Gross labour flows from Silverstone and Bell

Status in previous quarter	Status in current quarter			Row totals
	Et	Ut	Nt	
Et-1	1737.0 (EE)	27.4 (EU)	77.6 (EN)	1842.0
Ut-1	35.1 (UE)	50.8 (UU)	35.1 (UN)	121.0
Nt-1	77.7 (NE)	42.0 (NU)	887.5 (NN)	1007.2
Column totals	1849.8	120.2	1000.2	2970.2

possibly justify a complete upheaval of the system to obtain an uncertain, and probably small, improvement for a very few beneficiaries.

Silverstone and Bell (2010) use a diagram which shows that New Zealand has relatively high flows into and out of unemployment compared with virtually all European countries. The diagram shows that it has a labour market which appears to be handling high rates of job transitions well. While it is appropriate to consider ways of improving job transitions, it seems that the market institutions are sufficient already to give our market a high degree of flexibility. The flexibility may arise from the type of industries we have, but before considering costly system-wide change we should recognise that it is starting from a labour market that is already achieving internationally high levels of flexibility and low levels of long-term dependency. If further progress from that point can be achieved, it may not be easy to make gains large enough to have a significant effect on the extent of long-term benefit dependence for persons who do not qualify for support under other conditions.

Gross flows in the labour market

In making the decision that a member of a household will not participate in the labour force, the individual and household are implicitly saying that, given the current labour market situation and the skills and skill levels of its members, the costs of job search exceed the expected value of the outcome of that search.

Silverstone and Bell (2010) have reviewed studies of gross flows between the labour force categories over the last two decades and emphasise the importance of labour force participation decisions. Their table, included here as

Table 1, gives the average numbers from quarterly patterns over the 20 years between 1991 and 2010.

For persons leaving employment, close to three quarters move to the N group and not into unemployment. This emphasises the complex choice situation involved in many of these changes. Of those in the N group whose situation changes, almost two thirds move to employment, while almost a third look for work and cannot find a job so move to the U group. Clearly, the definition of N does not mean that people are 'disconnected' from the labour force. All it means is that they have not recently undertaken some job search activity. Either some change in the household or their perception of the environment leads them to move from no search to applying for and accepting a job. Of those moving out of U, approximately equal numbers move to the alternatives E and N. These data show the huge importance of the group N: those not currently 'in' the labour force. The numbers in U depend on transitions to and from both the other groups. The secular decline in the percentage of those of working age in N is evidence of strong pressures for members of the population to be involved in the labour force.

Who are affected by economic cycle changes?

It is helpful to consider the dynamics in terms of both their long-term components and the shorter-term 'cyclical' and 'random' fluctuations. In the New Zealand context there is a long literature which examines some of the implications of rapid fluctuations in its external situation. Simkin (1951) provided an early quantitative examination of some aspects of this, and the sensitivity of many parameters of our macroeconomy

to fluctuations in a relatively small set of prices has been an enduring theme. The exchange rate, the Fonterra milk-solids price today and its predecessors, together with other farm produce and commodity prices have played a central role in transmitting changes in the world economy to changes in economic activity here. While these prices do vary with economic conditions in the rest of the world, they are like many commodity prices in having significant components best described as a 'random walk'.

The way in which the economy responds to these short-term changes is important. Recent work by Maré and Hyslop (2008) has shown that changes in the level of economic activity at the margin have an impact on the observed mean real wage in the economy. Over the 2002–2008 expansion, increasing numbers of low-skill or low-wage positions were created. The growth of numbers unemployed is consistent with the relative numbers of those low-skill and low-wage positions having since declined. The Maré and Hyslop result is consistent with changes in the numbers of low-skilled or low-wage individuals in employment, and with relatively smaller changes in the economic situation of high-skilled and high-income persons. This generates counter-cyclical behaviour of the real wage which has been widely observed internationally, and been something of a puzzle. The Maré and Hyslop work provides a framework consistent with it for this period in New Zealand. For a substantial low-income group in the population, variation in the number of jobs available appears to be the way in which the economy adapts to changes in its external situation. The other side of the same coin is a change in the number of persons seeking unemployment benefits. These fluctuations may persist for a period of years and can clearly extend to 'long term' as considered by the WWG. If they do they can easily create long-term benefit dependence. It is created by a system with fluctuating demand, not by indolence and laziness.

If the relative incomes of high-income and lower-income groups in the population are changing, there are likely to be serious implications for poverty

levels. That subject is largely discussed in the WWG report on the basis of some studies in other economies. Serious concerns about the quality of inference from that information and the inadequate links between the WWG proposals and changes of the set of households in poverty need to be explored in a further article.

The Statistics New Zealand LEED database now provides tools to explore many of these issues in depth, and a better insight into the income distribution effects of economic change and policy should precede any further steps to modify the welfare system.

What are the objectives? Help, social welfare or 'paid work'?

The WWG issues paper lists the aims of the benefit system as outlined by the Social Security Act 1964, and indicates that the purpose and underlying requirements remain valid today (WWG, 2010a). The act makes a general provision '(i) to help people to support themselves and their dependents while not in paid employment; and (ii) to help people to find or retain paid employment; and (iii) to help people for whom work may not currently be appropriate'. Under (i) there is no reference as to how they came to be in that situation and no disparagement of it; (ii) recognises the important feature that the labour market is a very decentralised market. There is no auctioneer and no board listing the trades. The welfare agency can help fill this information gap. Part (iii) makes provision for those who cannot contribute to the market work of society. The act mentions 'paid employment', but the WWG recommends elevating 'the value and importance of paid work' to become the primary organising principle of a strong benefit system. This shifts the emphasis from help and assistance to work (WWG, 2011, pp.23, 55, chapters 4 and 5). In the act, each objective begins with 'help'. The focus was on assistance when needed and assistance to find jobs which might be available. It is a different function and outside the scope of the act to ensure that sufficient work is available. When the act was written there was a great deal of government emphasis on its role in economic management in employment

as well as prices. This role was the responsibility of various departments.

The WWG argues that their approach is strengthened by the International Convention on Economic, Social and Cultural Rights (ICESCR), which recognises the 'right to work', and goes on to mention social security and family as among the list of other rights (WWG, 2010b, p.37). In this debate the issues do not revolve around the right to work, but around the existence of jobs which enable people to work. The benefit system is not set up to provide work or create jobs. It is a system which must take the changing availability of work as given and do what it can to facilitate matching those available with those seeking jobs. It's job is to provide assistance and it should be about social welfare in a broad sense.

Social value systems

That broader sense requires a values framework. There are few examples of empirically-based value frameworks which can be used to go beyond a purely economic base for welfare judgements. One was constructed by Narayan et al. in *Voices of the Poor*, a study sponsored and published jointly by the World Bank and the OECD (Narayan et al., 2000). The study involved 20,000 participants spread across 23 less-developed countries, but their analysis is still valuable. It illustrates how a clearly stated set of values can advance the discussion, without wanting to suggest that it is adequate for New Zealand in the 21st century. The summary of values based on their international surveys is listed in Table 2.

Some lists formulated by other scholars are summarised in Alkire (2002). In most of them, work is only implicitly included within an economic dimension. The Narayan list is one of the few which directly mentioned work, paid or unpaid. In another there is an explicit reference to meaningful work. The ICESCR certainly gives emphasis to 'paid work', but lists many other important 'rights' and provides little guidance as to how individuals might order them. Even in market-oriented societies a huge amount of work is unpaid, but work can be important and meaningful irrespective of the tag. While being in 'paid work' is

Table 2: Human values from Voices of the Poor

Material well-being: having enough
Food
Assets
Work
Bodily well-being: being and appearing well
Health
Appearance
Physical environment
Social well-being:
Being able to care for, bring up, marry, and settle children
Self-respect and dignity
Peace, harmony, good relations in the family/community
Security
Civil peace
A physically safe and secure environment
Personal physical security
Lawfulness and access to justice
Security in old age
Confidence in the future
Psychological well-being
Peace of mind
Happiness
Harmony (including a spiritual life and religious observance)
Freedom of choice and action

socially important in our society, each of the broad headings and sub-headings are also important to individuals, and 'paid work' is just an instrument among many to help achieve them.

It is extraordinary to have 'paid work' playing such a completely dominant role in the definition of a good benefit system and the changes proposed. There are already strong incentives for people to participate in the market for 'paid work' if they are able. A report so focused on 'paid work' is an example of the excessive monetisation of social and policy decision-making models within policy analysis. Things which can be quantified are easier to argue about than

broader values. Monetary accounts need to be balanced, but in the service of a multidimensional values framework. As Sen (1985, 1987) and others have shown, that broader framework will often lead to implicit partial ordering models where the choice depends on the values first, and then the money. Sen's work leads to formulation of decisions about well-being in terms of capabilities and freedom. The Narayan set of values help us explore specific capabilities and freedoms.

have issues normally treated by the health system, so have a primary interaction with another area of public provision. Chapter 6 of the WWG's final report shows how different many of the welfare needs of sickness beneficiaries are, and thus a need for specific tools to deal with the issue of long-term dependence for them. Invalids and disabled have problems under bodily well-being, but also often have to deal with issues of social well-being, self-respect and dignity. Their needs are sufficiently different from those

objectives. Those in these groups have problems enough without us demeaning them with the long-term label of failure as a jobseeker. To impose an overarching set of objectives related to finding market-oriented jobs for everybody is to shift society towards a materialist and individually-oriented focus which is almost unprecedented in human society. Its closest analogy might be making everyone slaves for a social objective like building the pyramids.

You cannot have a benefit system which does not modify the set of options available to low-income households. Sen's framework places options in a broader context than the traditional income-based cost-benefit analysis. Applying it to the decision about labour force participation makes it clear that there are a whole host of specific value areas where households will have heterogeneous values and reach different decisions. Given that real income levels are now at nearly twice those per capita when the original Social Security Act was passed, it should be possible to think about its impact more broadly. Given also the flattening of the income-tax scale and the introduction of expenditure taxes at a common rate for all, the benefit system has become de facto a major tool for income redistribution. It is no wonder it is under attack.

We do not want persons and families seeking work to feel unwanted, and we do want to encourage ways in which they can participate in and contribute to society.

More than money

The Narayan framework emphasises that 'man does not live by bread alone'. Individuals can participate in and contribute to society through a wide range of ways in which their values are sustained and experienced. Increasing involvement in some of these activities will contribute and develop skills valued in the labour market, and provide an additional means of maintaining important skills for times of high labour demand. The WWG places a great emphasis on what is called an 'active' benefit system. If this is interpreted as encouraging and assisting those without paid work to contribute towards the huge set of non-market activities which help to enhance such values as social cohesion, personal self-worth and social identity, it would be enriching at the individual and social level; but that is unlikely to be what they meant.

The Narayan framework also gives an insight into ways of thinking about the benefit structure. The unemployment benefit is primarily oriented to maintenance of material well-being. All of the other benefits must contribute to that end, but they have specific reference to contributions to other values where attaining well-being is difficult. Persons with physical or mental health problems

of the sick to differentiate clearly the set of policies which are important for their well-being and for active participation in society. Chapter 7 of the report deals with special problems of those in caring roles. Many persons in caring roles, for aged, sick, disabled or invalids, and especially for children, place a very great emphasis on social well-being, contributing to those values and providing security for those with whom they have bonds or with whom the future of society lies. In each of these areas the evolution of the condition of dependency involves multiple areas of well-being in an intertwined and complex way. The report highlights how some teen parents in these roles need assistance to develop the skills and understanding to fulfil their caring roles. Other material quoted provides evidence of the need for a long-term perspective to make the investments necessary to assist young people earlier in the educational system. Shifting to 'paid work' as a primary focus for those in these groups will lead to neglect of the greatest and most valued needs for many members of them.

To treat these concerns as insufficiently worthy of distinctive recognition is to belittle some of the most important features of human relations. The present distinct benefits deserve to have distinct

Some concluding observations

Returning to a values and behavioural framework: most people resist major change. They develop behaviours that are habitual which simplify decision costs and processes, and want the good periods to continue even when circumstances change. In society, some have been able to largely insulate themselves from changing economic circumstances, and have incomes which are seldom modified when there is a downturn. Among those on the highest incomes, even a major downward step leaves them in a high relative position and with high levels of real income. However, for others the data in Figure 2 show there are major changes in their ability to participate in the labour market. Those on high or relatively unchanging incomes are able to do so because they have established institutional structures which protect them. But there are many

without that protection. For them, jobs come and go. Some with limited skills find it difficult to compete.

The welfare system is the means by which society makes provision for them. Most of these people want paid work and do not need the imposition of further job-search costs to pursue it. We do not want persons and families seeking work to feel unwanted, and we do want to encourage ways in which they can participate in and contribute to society. We need to think creatively about the whole range of non-monetary values and ways they can contribute to those. Yes, there will be some who ‘need a kick in the pants’, but the whole system should not be redesigned around them.

In 1930 at the height of the Great Depression, Keynes, perhaps the greatest economist of the 20th century, but also a scholar in philosophy and ethics, wrote about the risk of unduly emphasising the economic perspectives, and issues of affordability and sustainability which are a feature of the WWG report.

But, chiefly, do not let us overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance. It should be a matter for specialists – like dentistry. If economists could manage to get themselves thought of as humble, competent people, on

a level with dentists, that would be superb. (Keynes, 1930, p.375)

If we follow Keynes’ advice, and take a look at what is of more permanent significance, we can do much better than the WWG recommendations.

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 - 2 It is difficult to relate the OECD numbers to the quarterly unemployment benefit reports issued by the Ministry of Social Development, but since MSD include the OECD numbers in their own reports we must presume they are constructed on a consistent basis for international comparisons.
 - 3 Employed are defined as those who worked at least one hour or more of paid work, worked at least an hour unpaid in a relative’s business, or had a job but were away on leave or other grounds.
 - 4 Unemployed are defined as those who are without a paid job, are available for work and have actively sought work in the past four weeks, or have a new job to start within the next four weeks.