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Editorial Note

The Welfare Working Group (WWG) was established by the National-led government in March 2010 to undertake a fundamental review of New Zealand's welfare system, with a primary focus on long-term welfare dependency for people of working age. More specifically, the Group was asked to provide practical recommendations on how to reduce the growth in beneficiary numbers and expenditure, and the related poor economic and social outcomes. The eight-person Group was chaired by Paula Rebstock, and the secretariat (led by Don Gray and drawn from a range of departments) was based at the Institute of Policy Studies.

Over the course of about 10 months, the WWG produced three substantial reports: an Issues Paper, an Options Paper and, finally, a detailed Report containing 43 recommendations. As fate would have it, the Report was released at noon on Tuesday 22 February 2011. As expected, it heralded a major 'shake-up' of the welfare system. Less than an hour later, however, Christchurch was struck by a damaging earthquake, providing a 'shake-up' of a rather different, and even more sobering, kind! Unsurprisingly, the earthquake dominated headlines for many weeks; the WWG's Report, by contrast, has received only modest media coverage. This is a pity. The Report is a landmark document. If its main recommendations are implemented, there will be significant implications, not merely for beneficiaries and their families, but also for the agencies that administer social assistance programmes. The Report thus deserves careful analysis and scrutiny.

This issue of *Policy Quarterly* makes a start in this respect. It contains six articles on issues related to the welfare state, welfare dependence and the design of social policy. All being well, the August issue of *Policy Quarterly* will contain further articles on topics related to the WWG's final report – although the main focus will be on public management issues. Collectively, the material being published in *Policy Quarterly* on the WWG's proposals will, I trust, contribute significantly to public debate about the various policy options available to the government and their respective strengths and weaknesses.

The first article in this issue, by Patrick Nolan, places the New Zealand debate about welfare reform in a wider international context, and highlights the similarities (as well as contrasts) between the recent reform proposals of the Conservative-Liberal coalition government in Britain and those advanced by the WWG. In both countries a central objective is to increase the conditionality of welfare benefits and the incentives for beneficiaries to seek paid work. Drawing on recent British experience, Nolan offers a number of important lessons for New Zealand policy makers, not least the fact that it is impossible simultaneously to reduce fiscal costs, increase incentives for work and lower poverty. Policy trade-offs are thus inevitable.

Louise Humpage's contribution has a very different focus. Based on data from the New Zealand Election Survey during the period from 1990 to 2008, she explores public attitudes to unemployment, employment, the role of the state, and the impact of welfare benefits on human behaviour. While the available data reveal various changes in public opinion over the past two decades, they also indicate that a clear majority of New Zealanders have remained supportive of the proposition that unemployed people are entitled to a decent standard of living and that the government has a responsibility to provide employment for all those of working age. At the same time, even larger majorities believe that the unemployed should be required to work for the welfare

benefits they receive and that such benefits make people lazy and dependent. Such mixed feelings are hardly surprising. Politically, the data provide comfort – and a caution – to parties at both ends of the ideological spectrum.

On a different front, Dannette Marie, David Fergusson and Joseph Boden explore the associations between ethnic identity and welfare dependence over recent decades drawing on data from a longitudinal birth cohort of New Zealanders born in 1977. Within this cohort those self-identifying as Māori reported much higher levels of benefit receipt (across the different types of benefit) than non-Māori. The analysis by Dannette et al suggests that ethnic differences in welfare dependence are mediated by a series of adverse life circumstances and events, for which Māori are typically at greater risk than non-Māori. This suggests that reducing ethnic disparities will require a multi-faceted approach that tackles the key disparities in life circumstances – such as family adversity, substance use disorders, low educational achievement, and early parenthood.

The next three articles – by Michael O'Brien, Fraser Jackson and Michael Fletcher – focus on the three reports of the WWG, with particular reference to the underlying philosophy and policy recommendations. The first two authors offer vigorous and relatively systematic critiques; the third poses some important analytical challenges and offers various cautionary remarks, but is less forthright. I will not recount the authors' many and varied concerns here, but several points are worth highlighting.

First, the terms of reference of the WWG were deliberately restrictive. This was politically driven. But the limitations imposed on the Group were potentially debilitating. In particular, the WWG was asked not to offer advice on the adequacy of welfare benefits, or the social assistance programme known as 'Working for Families', or the tax-benefit interface, or New Zealand Superannuation. This necessarily limited the nature of the policy issues under investigation and, therefore, the range of policy options that could be evaluated. Moreover, even if the WWG is correct in assuming that its proposals, if implemented, will successfully reduce beneficiary numbers by almost 100,000 within 10 years, more than 250,000 people are likely to remain reliant on some form of benefit – a substantial proportion of whom will be children. The absence of any commentary on the adequacy of such benefits may have suited the political agenda of the current government, but is nonetheless regrettable.

Second, the WWG's terms of reference suggest that the fundamental policy 'problem' is 'long-term benefit dependence', with the implication being that such 'dependence' is largely due to design problems in the benefit system (and/or the personal characteristics and proclivities of beneficiaries) rather than, say, structural issues in the operation of the labour market. But this begs some very large questions: for instance, of those who end up on unemployment benefits, what proportion do so because of inadequate jobs and what proportion do so for other reasons? Jackson's reflections on this matter, drawing on labour force data since the mid-1980s, are highly relevant.

The remaining three articles in this issue of *Policy Quarterly* address a range of broader issues of relevance to the design of social policy: Philip Morrison explores the process of residential sorting and, in particular, how residing in neighbourhoods with relatively high levels of deprivation lowers individual's prospects of social mobility; Matthew Gibbons endeavours to estimate the degree of intergenerational economic mobility in New Zealand by testing the relationship between the economic circumstances of parents and of their children as they reach adulthood; and Xavier Marquez considers the arguments surrounding income inequality and social justice – is income inequality unjust and, if so, what should be done about it? All contested territory, of course, but of critical importance.

Jonathan Boston

Patrick Nolan

Lessons for Welfare Reform from the United Kingdom

Introduction

Welfare reform is high on the political agenda in both New Zealand and the United Kingdom. In New Zealand an independent welfare working group has released its final report and the prime minister, John Key, signalled that the government would consider its findings. In the United Kingdom the secretary of state for work and pensions, Iain Duncan Smith, has outlined plans to radically reduce the cost and complexity of working-aged benefits and to increase the involvement of the private sector in the delivery of services. This article compares welfare reform in New Zealand and the UK. Such a comparison is of interest given the similar social policy traditions in the two countries and similarities and differences in the approaches taken to their welfare reforms. There are also important lessons – on what to do and on what not to do – that the countries can learn from each other.

Patrick Nolan is the chief economist at Reform, an independent, non-party think tank in London. The aim of Reform is to encourage better ways to deliver public services and economic prosperity. Patrick has a PhD in economics from Victoria University of Wellington.

The context for welfare reform

Welfare reform needs to be considered in its broader social and economic context. This is important for, at the very least, shaping the quantum of resources that can be committed to welfare spending. Measures such as GDP per capita¹ and rankings of global competitiveness² highlight how both New Zealand and the UK face challenges in ensuring that per capita incomes and relative living standards grow at rates comparable to those of other similar countries (such as Australia and Germany). This relative performance has a bearing on the resources available for redistribution (the dynamic size of the tax base and labour market). A fall in relative living standards may also create pressure to inflate incomes through borrowing or poorly targeted spending (Nolan, 2011).³

Public spending is lower (as a share of GDP) in New Zealand than in the UK. This partly reflects the UK's larger exposure to the global financial crisis (due to both the size of the financial sector and failures in the UK's approach to financial regulation), but it also reflects a large increase in spending before this. Between 2001 and 2007 (prior to the financial crisis) public spending in the UK rose from 36% to 41% of GDP (and

reached 48% of GDP in 2010) (Osborne, 2010). The health budget doubled in real terms between 1999 and 2010 and the welfare budget doubled between 1990 and 2010. The failure to combine this increase in spending with adequate supply-side reform (especially in areas like health) meant that much of the increase was absorbed in increased costs of delivering services rather than improved outcomes (Haldenby et al., 2009).

In New Zealand the increase in spending over this period was more moderate, from 31% to 34% of GDP

(\$21.2 billion, or 10% of GDP and 30% of core Crown expenses (English, 2010)) being equivalent to one and a half times the spending on health.

Welfare spending

Both countries have seen large increases in welfare spending over recent years. Some welfare spending varies with economic conditions, with increasing unemployment, for example, leading to greater expenditure on assistance to support people back into work (the automatic stabilisers). Yet in both

real rationale (beyond simply attracting votes). This included the establishment of a universal winter fuel allowance for pensioners, which in 2010 cost £2.7 billion and of which 88% went to people not in fuel poverty (Environment, Food and Rural Affairs Select Committee, 2009).

It is sometimes argued that spending on middle-class welfare is an important part of generating support for spending on the poor. Reform research has questioned whether this is the case (Cawston, Haldenby and Nolan, 2009, 2010). An increase in middle-class welfare tends to crowd out spending on the poor, with political incentives meaning that the wrong type of support tends to increase in value. Increased spending on middle-class welfare also undermines the legitimacy of a welfare system. Reform research on the British Social Attitudes Survey has shown, for example, that as spending on middle-class welfare increased in the UK from 1997 the public support for working-aged benefits for people out of work fell (Nolan, 2011).

A need for a clearer focus on priorities is important in both countries given the risks of increasing long-term unemployment arising from recent economic shocks, such as the global financial crisis and the 2011 Canterbury earthquake. Spending must be prioritised not only within the welfare budget, but also between this and other budgets. When government finances and tax revenue are limited, there is a trade-off between spending on welfare and departmental and infrastructure spending. Research by Gemmell, Kneller and Sanz (2008) has found that the return (in terms of growth) from spending on social protection (such as welfare and health) tends to be lower than spending on economic development (such as infrastructure) and education. This finding is consistent across studies and holds for both developed and developing countries.

A need for a clearer focus on priorities is also important given the changing demographic profile of the populations in the two countries. Increasing dependency ratios mean that in the absence of reform the costs of current welfare policy will escalate rapidly. A start has been made with managing the costs of pensions

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between the turn of the century and 2010 (Whitehead, 2010), potentially reflecting the greater control over expenditure following the introduction of the Public Finance Act 1989 and Fiscal Responsibility Act 1994. There was, however, concern over public service productivity and the increase in tax burdens due to fiscal drag. There was also concern that the inflationary impact of increases in spending in New Zealand contributed to the country entering recession prior to the global financial crisis (NZIER, 2007). New Zealand's public finances were nonetheless on a stronger footing going into the crisis than those of the UK.

Both countries need to improve the quality of public spending. Achieving better outcomes is not simply a question of spending more but requires spending in better ways. Welfare must be central to this value-for-money agenda. In both countries welfare is the largest area of spending. In the UK the 2010 welfare budget (including departmental spending) was £218 billion (16% of GDP and 32% of government spending (Bassett et al., 2010)), which was twice what was spent on the health system. In New Zealand the figures were smaller but still significant, with welfare spending

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in New Zealand, with contributions (currently suspended) being made to prefunding the costs of New Zealand Superannuation and the introduction of (heavily subsidised) personal retirement accounts. However, the ring fencing of New Zealand Superannuation, the cost of the KiwiSaver subsidies, the level of the state pension age and managing the long-term costs of health and long-term care require further debate.

In contrast, in the UK, while the debate on long-term care has been prolonged (although there is still political reluctance to commit to a funding framework) the debate on managing the cost of pension commitments is less developed than in New Zealand. Indeed, although some changes in the treatment of public sector pensions have been made, it is proposed to encourage contributions to individual retirement accounts (National Employment Savings Trust (NEST)) through auto-enrolment, and a proposed increase in the retirement age has been brought forward, the government remains largely in denial about the need to reduce the longer term cost of state pensions (and has actually significantly increased these costs through changing the basis for indexation).

'21st Century Welfare'

In the UK the Coalition government has made welfare reform (under the banner of '21st Century Welfare') a central feature of its policy agenda. Key reforms are shown in the box, and the three most important features are discussed below.

The flagship feature of these reforms is the proposed introduction of a universal credit. This proposal, similar to the single core benefit proposals of the fifth Labour government in New Zealand (Sainsbury and Stephens, 2009), would represent a significant simplification of the income transfer system. However, while simplification is the right goal, the universal credit is the wrong fix (Work and Pensions Committee, 2011, qn 17):

- The reforms place a lot of emphasis on the ability of smart automation to update changes in circumstances in real time. Experience shows how difficult it can be to accurately monitor fluctuations in income and

adjust levels of assistance. Further, not all important criteria for determining assistance can easily be automated without incurring significant administration and compliance costs.⁷

- There has been a lack of thought given to implementation of the reforms. There are important outstanding issues relating to the treatment of disability benefits, housing benefits and child support programmes.
- The approach of increasing the amount that can be earned before benefit abatement begins does not reward the right decisions. There will be a large increase in disincentives to work facing second earners in households, which was not recognised in the white paper proposing these reforms.

The Coalition's welfare agenda also includes the introduction of the work programme. This programme built on successful reforms introduced by the previous Labour government. It aims to engage private and third sector organisations in the delivery of welfare-to-work services. This is based on a new approach to contracting which aims to ensure that providers are paid out of the savings from reduced benefit payments. Getting these contracts to work will be difficult and there is a challenge in ensuring that there are enough contractors who can bring sufficient balance sheet strength to the table.

The Coalition also proposes to shift people on incapacity benefits onto the employment and support allowance, which is more focused on assessing capacity to work. Existing incapacity benefit recipients will be required to undertake a new work test. For some beneficiaries the benefit will also be time limited. This process began under the previous Labour government and was motivated by a concern that too large a proportion of the population is on these benefits, with benefit numbers being equivalent to around 9% of the number of people over 15 in work. There was also concern that rather than changes in need, such as a higher incidence of disability among an increasingly elderly population, this increase reflected a tendency for benefit-switching (people

Key UK welfare proposals

- Universal credit: replace all means-tested benefits and tax credits for those of a working age with a single benefit from 2013.
- The work programme: combine existing welfare-to-work programmes into one scheme which funds providers out of benefit savings.
- Employment and support allowance (ESA): shift incapacity benefit recipients onto the ESA, time-limit some payments and introduce a stronger work capability assessment (medical test).
- Child benefit: freeze benefit for three years and withdraw assistance from families containing a higher-rate taxpayer.
- Child and working tax credits: increase rate at which tax credits are withdrawn (from 39% to 41%) and taper the family element of the child tax credit immediately after the child element is exhausted; above-inflation increases in the per-child element of the child tax credit in 2011 and 2012.
- Housing benefit: set local housing allowance at the 30 percentile of rents in a local area (rather than the median) and introduce a nationwide cap on the level of payment.
- Benefit indexation: link benefits and tax credits with the consumer prices index (CPI) rather than the retail prices index (RPI) or Rossi index.

moving from other benefits) to avoid the greater conditionality of other benefits.

Possible lessons from the UK

Debates on the proposed welfare reforms in the UK highlight a number of potential lessons for welfare reform in New Zealand. An important lesson is that it is inevitable that any policy change will involve trade-offs. These trade-offs are often referred to as an iron triangle (when it is impossible to simultaneously improve fiscal cost, incentives to work and poverty reduction), but even within objectives (such as making work pay) trade-offs are required. In the case of the universal credit, for example, increasing the amount that a person can earn before facing benefit abatement would mean that some people

The Coalition has placed emphasis on conditionality and responsibility. Conditionality has already been successfully used in the UK. The Flexible New Deal, for example, required people who had been on the job seekers allowance for 22 months to engage in intensive activity periods. This conditionality, matched by more intensive support, reduced the level and duration of benefit receipt. Increases in conditionality have also led to reductions in caseloads in the US, Denmark, the Netherlands, Australia and New Zealand (DWP, 2008). Indeed, conditionality has been so successful that countries are extending variations of these policies to recipients of what were previously considered inactive benefits, such as lone parents, disabled people and

The UK experience also highlights that the only way to effectively lower the cost of welfare is through reducing entitlements, especially poorly targeted ones. While there is a broad consensus across the political spectrum on the benefits of having people enter work (both for the people themselves and for society), the fiscal savings from such 'spending to save' approaches tend to be overstated. To make savings, entitlements have to be reduced. Yet a risk in making these cuts is that they are made in the wrong places or in the wrong way.

A criticism that Reform has made of the Coalition's welfare policy is that too much emphasis has been given to 'salami slicing' the main out-of-work benefits, while large middle-class benefits have remained untouched, particularly the poor value-for-money expenditures on the elderly (Cawston, Haldenby and Nolan, 2010). The reason for this is political, with the Coalition being unwilling to risk a backlash among the large number of pensioners who vote. Consequently, the principle that spending should be cut from those areas that produce least value has been lost and the Coalition has exposed itself to the challenge that it is unfairly targeting segments of the working-aged population.

In areas where the Coalition has been willing to address the costs of middle-class welfare, such as by means-testing the child benefit, the right thing has been done in the wrong way. Means-testing can create economic cost (such as disincentives to work) and compliance and administrative burdens, and both New Zealand and the UK already have overly complex welfare systems. Yet the political reluctance to abolish this programme means that a half-measure approach has been taken and as a result the Coalition's policy (withdrawing the child benefit from families with higher-rate taxpayers) will make complexity worse (Cawston, Haldenby and Nolan, 2010).⁸ Reducing costs requires removing programmes entirely, not merely fine-tuning them.

The reforms in the UK also highlight the importance of changing the way assistance is delivered and not just the structure of its design. Through

A major reason for failure has been an unwillingness to reduce the generosity of entitlements, particularly those to people not in need.

will face improved incentives to work a small number of hours a week, but other people would be encouraged to reduce their hours of work or to stop working all together. There is no silver bullet and it is impossible to make work pay for everyone at every time.

This need for trade-offs has two implications. First, welfare policy needs to recognise that families must take some responsibility themselves. In the real world there is no perfect welfare system where at every point work always pays, all in-work costs are covered and change never creates 'losers'. There are at times, for example, costs associated with working that no realistic welfare system could ever compensate for. But this should not be used as an excuse when families fail to make decisions that are in their – and society's – long-term interests. The flipside of having a welfare system which provides an important social safety net is that most people can reasonably be expected to take up work if it is available and adequate.

people with health conditions.

The second implication is to not lose sight of the importance of the labour market context. There is a need to not just look at the impact of reform at the individual or family level but to consider how reforms interact with the labour market. In the UK the white paper on the universal credit contained no indication that broader labour market issues have been given consideration (Work and Pensions Committee, 2011, qn 18). But, as Chris Goulden (2010) from the Joseph Rowntree Foundation has noted, 'the crucial point is that the aim of policy should be to promote a good job match for all customers. ... This takes us back to the flipside of "making work pay" and the importance of the labour market – the kinds of jobs that are incentivised will be vital. It will be no good for long-term poverty if the benefits bill is reduced by making it easier for people to get stuck in cycles of low-paid, unskilled, insecure and dead-end jobs.'

encouraging the greater involvement of private sector and charitable providers it is hoped that the provision of welfare-to-work services will to a greater degree reflect local variations in welfare and labour market conditions. Taking a more creative approach to contracting providers could potentially allow independent providers to absorb more of the risk associated with getting people back into work, although the difficulties in developing contractual arrangements should not be underestimated. If done correctly, encouraging profit-making firms to enter the welfare-to-work market can improve productivity and achieve better outcomes at lower costs.

Conclusion

New Zealand and the UK have approached welfare reform in relatively similar ways. In both countries there has been a greater emphasis on conditionality, and efforts to make work pay have been pursued through the tax credit system. These approaches have been consistent with those of many other OECD countries, where conditionality of benefits has been extended to new groups and there has

been greater use of private sector providers and insurance mechanisms, especially for disability benefits. Yet in both countries approaches of 'spending to save' have failed to reduce the overall cost of welfare. A major reason for failure has been an unwillingness to reduce the generosity of entitlements, particularly those to people not in need. Spending on the elderly has proven especially difficult to reduce. The need to put welfare on a fiscally sustainable footing means that popular spending cannot remain outside the value-for-money agenda. Consideration must be given to reforming New Zealand's state pension age, KiwiSaver subsidies, Working for Families tax credits (especially the parental tax credit) and independent earner tax credit.

- 1 The UK is the sixth largest and New Zealand the 26th largest economy in the OECD. On a GDP-per-capita basis the UK is 16th and New Zealand 22nd. Although it is important to recognise that the OECD is a collection of relatively high-income countries, within this group the UK is a middle-ranked country and New Zealand a low-ranked one.
- 2 The World Economic Forum's global competitiveness report 2010–11 ranked the UK as the 12th most competitive economy in the world, down from second in 2006–07. The main factors holding back competitiveness were the macroeconomic environment and budget deficits. New Zealand was ranked 23rd in 2010–11, compared with 21st in 2006, largely due to the need to upgrade infrastructure, especially roads and the electricity supply.

- 3 This can be seen most clearly in the UK, which has high levels of both household and public debt and is, among developed countries, second only to Japan in levels of national debt (McKinsey Global Institute, 2010). New Zealand has lower levels of public borrowing but household debt is high (McDonald et al., 2011). High levels of debt make the economy vulnerable to shocks such as a global financial crisis or a natural disaster. High public debt also crowds out other areas of spending, with, for example, more now being spent on servicing debt than on schools in the UK (Bassett et al., 2010).
- 4 The policy objective of reducing child poverty was given greater emphasis in the UK, with the goal to eradicate child poverty being enshrined in legislation.
- 5 Other areas of poorly targeted spending in New Zealand include KiwiSaver subsidies and the interest free student loans policy. Gibson and Le (2008) highlighted that the KiwiSaver subsidies represent poor value for money. Only a small proportion of each dollar of KiwiSaver balances represents new saving. The large majority of these balances is 'either reshuffling amongst existing saving and debt by KiwiSaver members, or else taxpayer and employer transfers which reduce national saving elsewhere'.
- 6 Child trust fund, child tax credit, working tax credit, education maintenance allowance, local housing allowance, sure start maternity grant, child care vouchers, healthy start, health in pregnancy grant, winter fuel allowance, free TV licences, free bus passes, employment and support allowance and the job grant.
- 7 While, for instance, earned income and ages of children could be monitored automatically, criteria such as marital status, the length of time a child resides with a caregiver in a separated household and hours of work are more difficult to keep track of.
- 8 Rather than withdrawing the child benefit from higher-rate taxpayers, commentators such as Reform, the Institute for Fiscal Studies and Martin Narey (recent chief executive of Barnardo's) have proposed the simpler approach of abolishing the child benefit and compensating lower-income families through increasing the generosity of an already widely received means-tested programme (the child tax credit) (see Cawston, Haldenby and Nolan, 2010).

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What Do New Zealanders think About Welfare?

Introduction

‘Welfare’ is always a controversial topic, with considerable debate about the causes of need and thus who is responsible for ensuring well-being. In its final report the Welfare Working Group (WWG) (2011) acknowledges this, noting that structural factors, such as the recent recession, shape welfare outcomes alongside individual behaviours and problems within welfare institutions. However, the WWG was established specifically to examine ways to reduce long-term benefit dependency in New Zealand amongst people of working age. Its recommendations thus place a particular focus on the individual behaviours of the unemployed. The proposed introduction of Jobseeker Support, a new single work-focused welfare payment to replace all existing categories of benefit, suggests that the circumstances behind working-age benefit receipt are similar and that it is therefore appropriate to extend new reciprocal obligations to a wider range of benefit recipients, including young people, sole

parents and people facing sickness or disability. The new obligations will, however, run alongside ‘effective, tailored and innovative support to those people at risk of long-term welfare dependency through the use of contracted not-for-profit, private sector and community responses’ (WGG, 2011, p.3). This latter focus, along with the development of a new outcomes-focused delivery agency called Employment and Support New Zealand, indicates that the WWG also views current welfare institutions as part of the problem. This belief lies behind a call for the new agency to be driven by an actuarial approach to measuring the forward liability of ‘welfare dependency’, including numerical targets for reducing the number of income support recipients.

The WWG conducted two rounds of public submissions and stresses that ‘the views of a wide range of New Zealanders’ were ‘invaluable in shaping our analysis and recommendations’ (WWG, 2011, p.41). Inevitably, however, the 500-plus submissions made to the WWG inquiry were written by individuals and groups with a particular interest in welfare issues, and it is unclear how well they or the WWG’s final recommendations fit with general views and preferences

of 'average' New Zealanders on welfare issues. As such, this article documents findings from two research studies which explored public support for the welfare state and notions of social citizenship (the guarantee of basic rights to health, education, work and welfare) in New Zealand. The first used existing quantitative data from the New Zealand Election Study (NZES) over an 18-year period (1990–2008) to track trends in attitudes across time.¹ With at least 1,000 individuals responding to a relatively stable set of questions each cycle, this data set is New Zealand's most comprehensive and reliable on welfare state issues. The second study documented contemporary attitudes to social citizenship through interviews and focus groups involving 87 New Zealanders from a wide range of backgrounds between 2007 and 2008 (Humpage, 2010).² This qualitative approach allowed a deeper exploration of the ambivalence found in the NZES data and in welfare debates more generally.

While neither study addresses the WWG recommendations specifically, responses to questions relating to the unemployed, employment, work-related conditions and the impact of the welfare system on benefit recipients give us some idea of whether public opinion supports the general tenor of the recommendations detailed above. It is argued that public attitudes appear to be shaped by a range of factors and are thus rather mixed: consequently, the New Zealand public is likely to endorse some but not all of the proposals made by the WWG.

Responsibility for the unemployed and for employment

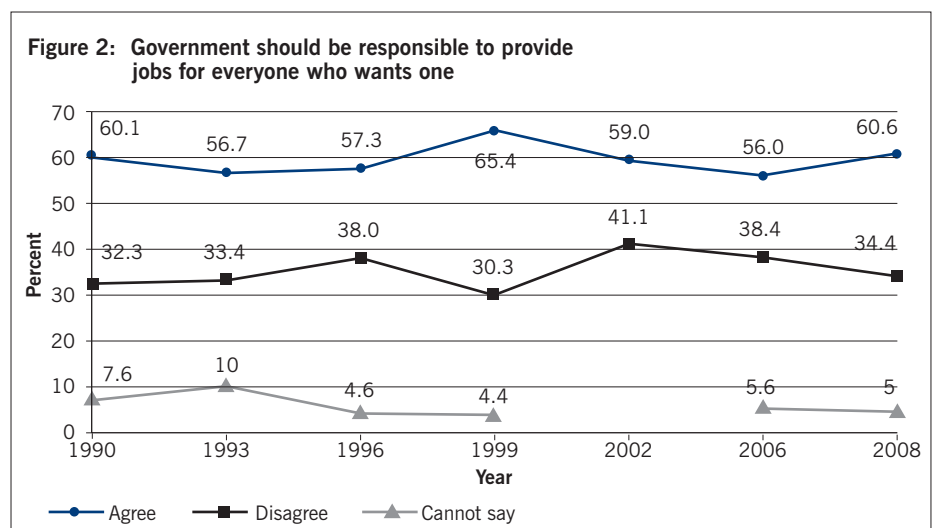
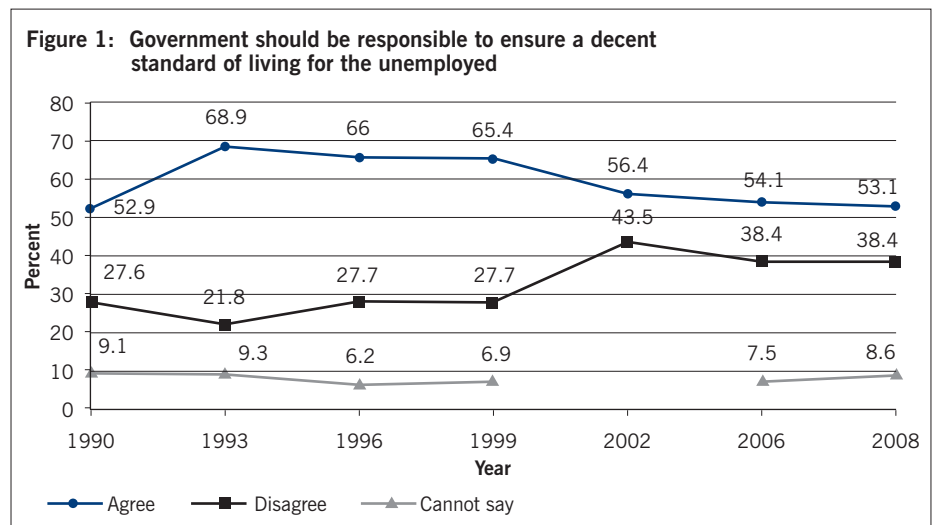
This section highlights tensions between an apparent hardening of public attitudes towards the unemployed and a continuing belief that employment is shaped by structural factors outside the control of unemployed individuals. Figure 1 shows that 53% of NZES respondents in 2008 agreed³ that 'Government should be responsible to ensure a decent standard of living for the unemployed'. This represented virtually no change on the level of affirmative support offered in 1990, although a 16% rise between 1990 and 1993 was followed by decline

(most sharply between 1999 and 2002). In addition, almost 11% more New Zealanders disagreed with government being responsible for ensuring a decent standard of living for the unemployed in 2008 than in 1990, with the greatest increase occurring, once again, between 1999 and 2002. These results suggest a hardening of attitudes towards the unemployed.

International research (e.g. Blekesaune, 2007; Brook, Preston and Hall, 1998), however, finds that economic conditions often shape public attitudes towards the welfare state. In New Zealand, analysis does show that more respondents agreed that 'Government should be responsible to ensure a decent standard of living for the unemployed' during the early 1990s as unemployment rates rose. Support remained high during the 1990s even while unemployment rates dropped significantly, suggesting that this effect lasted for some time. Nonetheless, in the 2000s support for a decent standard of

living for the unemployed fell at about the same rate as the unemployment rate. It will be interesting to see if 2011 NZES data shows any shift in thinking as a result of the 2008 financial crisis. But existing results suggest that structural factors, like the level of unemployment, have shaped public attitudes towards the unemployed in the past and that attitudes on this issue are neither fixed nor necessarily in terminal decline.

Further evidence that New Zealanders are aware of how structural conditions influence unemployment and employment is found in Figure 2. In 2008, 60.6% of respondents agreed that 'Government should take responsibility to provide jobs for everyone who wants one', a statement that implicitly assumes that employment is influenced by structural factors that are outside an individual's control but may be malleable to government intervention. Figure 2 shows that almost the same number of NZES respondents agreed



that government should be responsible for jobs in 1990 as in 2008, with only mild fluctuations in the intervening years. This suggests public preferences on this issue are consistent and fairly stable across time, and have not been irreversibly changed by income support policies framing both employment and unemployment as an individual responsibility since the 1990s. Indeed, they may well be more in line with the National government's employment assistance packages for employees affected by recession-related redundancy in 2008 and the Canterbury earthquakes in 2010 and 2011, which both demonstrate how

over 6% higher in 2008 than in 1999. This indicates a hardening of attitudes towards the unemployed in a relatively short time, a finding reinforced by steady, although small, declines in 'neutral' and 'disagree' responses to the statement.

The NZES question does not allow respondents to differentiate between types of benefit recipients, yet it is well documented that the public differs in its support for various groups of needy people and for the schemes directed towards them. In all countries studied internationally, members of the public are most likely to favour social protection

people' are regarded as very deserving because they have usually spent a lifetime working (and paying tax), and because old age comes to us all. In contrast, not everyone will be unemployed, and this circumstance can result from both structural and individual factors (van Oorschot, 2008).

The NZES data on attitudes towards sole parents and the sick or disabled is rather limited, but the qualitative study suggests that New Zealanders consider them more deserving than the 'unemployed'. This was especially the case when participants were asked whether they supported work-related conditions being placed on benefit recipients. Around a third of participants fully supported 'work-for-dole' (28%), 'work-tests' (37%) and 'other conditions' (34%) being imposed. But another 33–51% of participants said they only 'sometimes/maybe' supported such conditions. Analysis of these ambivalent responses showed that many participants did not consider work-related conditions appropriate for sole parents and sick or disabled benefit recipients. Many others indicated that they were not sufficiently knowledgeable about what these conditions entail to offer a clear-cut answer. This level of ambivalence suggests there may be some discomfort with WWG recommendations which reframe both sole parents and sick/disabled groups as simply 'unemployed', not only by merging the unemployment, domestic purposes, sickness and invalid's benefits into one Jobseeker payment but also by extending work-related obligations to them.

In all countries studied internationally, members of the public are most likely to favour social protection for, in this order, old people, the sick and disabled, needy families with children and the unemployed

factors other than individual behavior can affect employment (Key, 2008, 2011).

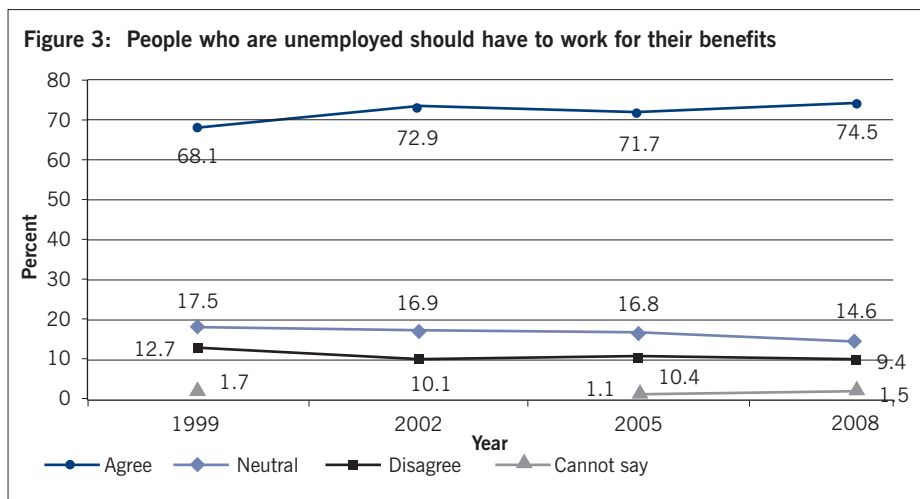
Work-related conditions for the unemployed

Despite public recognition of the structural factors highlighted above, this section finds that many New Zealanders support work-related conditions being imposed on the 'unemployed', but it is unclear exactly who they include in this category. When asked whether 'People who are unemployed should have to work for their benefits', 74.5% of NZES respondents agreed in 2008. Figure 3 shows that support for the unemployed working for their benefit was

for, in this order, old people, the sick and disabled, needy families with children and the unemployed (Forma, 1997; Larsen, 2006; van Oorschot, 2008). These differing perceptions of deservingness have long been apparent in New Zealand (Humpage and Craig, 2008) and are evident in NZES responses. For instance, 93–94% of respondents agreed that it should be the 'Government's responsibility to ensure a decent standard of living for old people' between 1990 and 2008. This contrasts with the lower and more volatile level of support for a decent standard of living for the unemployed found in Figure 2. 'Old

Welfare as the 'problem' – and the 'solution'

This section highlights that many New Zealanders acknowledge problems associated with welfare state institutions, but they continue to believe government has a responsibility to help the needy. Figure 4 shows that around 62% of respondents agreed that 'Welfare benefits make people lazy and dependent' in 2005 and 2008. Many New Zealanders may, therefore, support the WWG's premise that the welfare system itself encourages inappropriate individual behaviour. However, it difficult to gauge exactly to whom respondents thought the generic



term 'welfare benefits' referred. Previous discussion highlighted how old people are not considered 'lazy and dependent', while the qualitative study indicates that they are not regarded as being on 'welfare'. It is possible NZES respondents also excluded other groups considered to be more 'deserving' of assistance than the unemployed, such as the sick/disabled or sole parents, when answering this question. If so, this would be in conflict with the WWG's framing of these groups as a major factor in the 'welfare dependency' problem.

Although we must read Figure 4's findings with caution, it is clear the New Zealand public acknowledges that there are problems within the welfare system. 90% of interview and focus group participants agreed in some way that 'People receiving social security benefits are made to feel like second class citizens': that is, devalued or unequal compared to other New Zealanders. Importantly, when asked *why* benefit recipients might feel 'second class', 48% of responses referred to the poor treatment of benefit recipients by 'Work and Income/ Accident Corporation Compensation officials and policies'. Current benefit recipients offered examples of this most frequently, but they were not alone in describing attitudes of disrespect and suspicion and rules that do not take into account individual circumstances. 33% of participants felt that 'stigma', referring to a broader societal perception of benefit recipients as lazy and undeserving, was an important factor in explaining why

benefit recipients feel 'second class'. Surprisingly few participants thought that feeling 'second class' had more to do with personal factors associated with benefit recipients themselves, such as their being 'lazy' (3%), 'dependent' (3%) or because they 'feel guilty' for not working (2%).

This identification of welfare policies and practices, rather than the personal behaviours of individuals, as the cause of benefit recipients feeling 'second class' is in

of improving our welfare institutions and cultures, but are likely to be wary of the WWG's recommendations which seek to enhance the aspects of the welfare system that coerce, penalise and stigmatise benefit recipients.

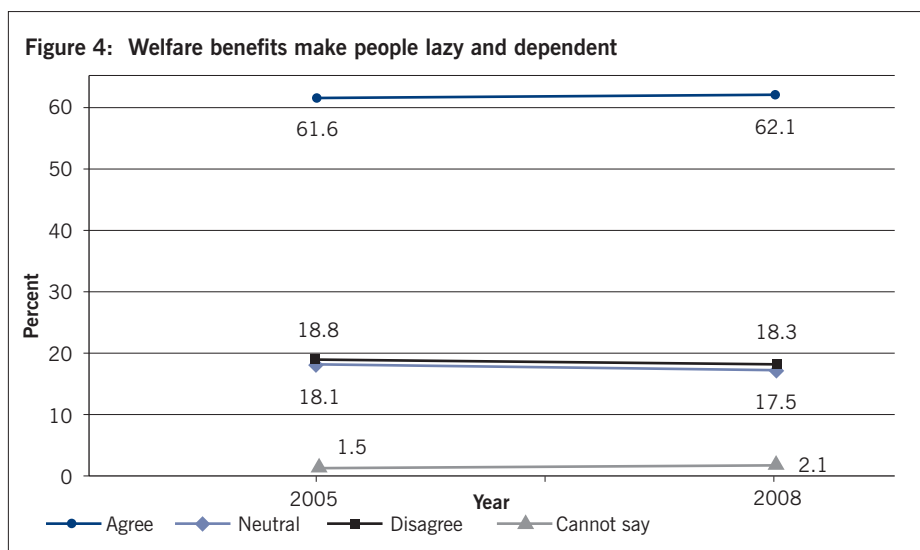
This argument is reinforced by considerable ambivalence and uncertainty about the causal factors shaping need in New Zealand. When asked 'Why do you think there are people in New Zealand who

... New Zealanders have a far wider interpretation of individual responsibility than is evident in the dominant discourses framing government policy and the WWG's recommendations, and that there is no majority support for coercive or punitive means of encouraging 'responsible' behaviour ...

tension with the NZES findings depicted in Figure 4. This tension is heightened by the fact that when participants were asked whether it was *appropriate* that benefit recipients should be made to feel like 'second class' citizens, only 3% of participants answered 'yes', 55% said 'sometimes/maybe' and another 41% said 'no'. Thus, almost all participants were either ambivalent or did not think benefit recipients should be treated differently than other citizens. The New Zealand public consequently may support the idea

live in need?', 38.3% of NZES respondents said people were 'poor because of laziness and lack of will-power'. Just 21.7% of respondents acknowledged structural factors, agreeing that people were 'poor because of an unfair society'. But the most common response was 'neither/don't know' (39.9%). This significant number of ambivalent responses, along with noticeably higher (60%) support for the lazy/lack of will-power option when the New Zealand Values Study (Rose et al., 2005) asked a similar question in 2004, indicate that many people are uncertain about or find it difficult to respond to such questions in opinion surveys.

In part this finding may support Espiner's (2010, p.94) claim that: 'The Bennett welfare reforms are about politics, plain and simple. The Government knows voters hate the idea that others might be ripping them off and few will have a clear idea of whether that is actually true or whether the solutions put forward will actually work.' The qualitative study offers evidence that some New Zealanders may favour individualistic causal factors for poverty and support conditions being placed on benefit recipients such as work-for-dole simply because they



are responding to the dominant cues provided by public discourse, or opinion surveys. Prior to specific questions about work-for-dole and other conditions, participants were asked more generally about how we might encourage greater 'individual responsibility' in New Zealand. Participants named a total of 23 activities that might encourage individual responsibility. Although 18% supported 'sanctions', such as the work-tests or work-for-dole conditions noted above, 45% named 'education', 31% favoured 'incentives' and a further 21%

responsibility, the most common responses by far were those categorised as 'helping the needy' (66%). This category included specific references to Work and Income and Accident Compensation Corporation payments, as well as more general comments about assisting those who cannot help themselves because of sickness, injury or bad luck. Although only around a third of respondents thought having 'basic needs met' (34%) and 'welfare entitlement' (31%) were rights of citizenship, it is also notable that they were even less likely to name traditional

policies targeting benefit recipients is mixed. Evidence from the NZES suggests a hardening of attitudes towards the unemployed over the last 18 years. But New Zealanders also seem to be more supportive of welfare assistance in times of high unemployment, a majority believe government is responsible for ensuring jobs are available, and they employ a hierarchy of deservingness when considering policy for different groups of income support recipients. Thus, New Zealanders frequently take into account the structural factors that shape unemployment and employment and do not endorse a purely individual or institutional view of causality on these matters.

In New Zealand it is likely that the public will support some WWG proposals, such as a greater work focus for benefit recipients, without necessarily constructing the problem in terms of 'welfare dependency' which downplays the structural factors they identify as shaping employment outcomes.

It would be easy to argue that such mixed findings, alongside a high degree of uncertainty about why people live in need, suggest a lack of knowledge or understanding of welfare issues in New Zealand. However, such ambivalence is not unique, with similar tensions evident in public opinion in Britain (Sefton, 2003) and Australia (Eardley and Matheson, 2000). Dean and Melrose (1999) stress that we should not assume people are ignorant 'dolts' whose opinion shifts like the wind simply because they offer mixed or even contradictory viewpoints on welfare issues. Instead, they demonstrate how individuals draw upon differing discourses about responsibility, justice and equality when considering differing policy areas, welfare issues or groups of welfare recipients. Their British empirical study found, for instance, that although moral concerns about income inequality did not necessarily translate into support for redistributive intervention, and people's expectations of the state were inflected towards highly-focused and instrumentally-specific demands, these expectations nonetheless remained strong.

indicated 'role-model values' as a way of encouraging individual responsibility. These results suggest that New Zealanders have a far wider interpretation of individual responsibility than is evident in the dominant discourses framing government policy and the WWG's recommendations, and that there is no majority support for coercive or punitive means of encouraging 'responsible' behaviour when questions do not specify work-related obligations, especially when it comes to the sick/disabled and sole parents.

In addition, although the NZES findings suggest that a significant minority of New Zealanders consider need to be caused by personal failings, such as laziness or lack of will-power, we should not assume they are unwilling to assist the 'needy' nonetheless. 82% of participants in the qualitative study agreed in some way with the statement that 'Government should take responsibility to ensure that everyone is provided for'. When asked specifically what activities they thought should be a government's

political rights, such as 'freedom of speech' (17%), the 'vote' (16%) or 'passport/diplomatic protection' (13%). Indeed, only 'health' (54%) and 'education' (44%) were more likely than 'basic needs met' or 'welfare entitlement' to be named as rights of citizenship. Thus, even if some members of the public believed need to be caused by individual behaviours and many were ambivalent when asked specifically about the unemployed, this did not undermine their strong belief that the government should continue to help needy New Zealanders. Other survey results support this argument: although it was earlier noted that 60% of respondents in the New Zealand Values Study (Rose et al., 2005) believed need was caused by laziness or a lack of will-power, 77% also thought government was doing 'too little' or 'about the right amount' for needy people.

Conclusion

This paper has indicated that New Zealand public opinion about unemployment, employment and particular kinds of

In New Zealand it is likely that the public will support some WWG proposals, such as a greater work focus for benefit recipients, without necessarily constructing the problem in terms of 'welfare dependency' which downplays the structural factors they identify as shaping employment outcomes. This appears to be particularly the case for sole parents and

the sick or disabled. The public may also view welfare institutions as part of the problem but, given that the New Zealand economy remains weak and that the Canterbury earthquakes have reminded us of the unpredictable risks that can affect us all, be unwilling to dismantle a system

founded on the belief that government has a responsibility to help the needy. In this way, public endorsement of the WWG recommendations is likely to be as mixed and ambivalent as opinion on welfare is more generally.

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- 1 Data sourced from New Zealand Election Study computer files, 1990–2008, New Zealand Social Science Archive Data Services, Auckland. Research funded by the University of Auckland Faculty of Arts Research Development Fund.
- 2 This research was funded by the Royal Society Marsden Fund.
- 3 In Figures 1–4, 'agree' includes 'definitely should' and 'should' responses, while 'disagree' includes 'definitely should not' and 'should not' responses.

Retirement Income Policy and Intergenerational Equity

Edited by Judith Davey, Geoff Rashbrooke and Robert Stephens

Population ageing is widely recognised as a major issue throughout the world. A crucial implication of ageing is its impact on retirement income policy. Having a reliable income in retirement or being able to look forward to a comfortable standard of living is important for everyone. It is not just a concern for older or even middle-aged people.

Retirement income policy raises questions of fairness and intergenerational equity. Whether a tax-funded pension system is sustainable depends on the balance between the number of recipients and the number of taxpayers who can contribute to it. If the financial support of pensioners is indeed a 'burden', then how could that fiscal burden be shared between current and future taxpayers, and pension recipients?

These and related issues are discussed in *Retirement Income Policy and Intergenerational Equity* in a series of papers from a wide range of perspectives. These papers were originally presented at a conference run by the Institute of Policy Studies, with the support of the Retirement Commissioner, in July 2010.

All three editors are senior associates at the

Institute of Policy Studies, Victoria University of Wellington.

Judith Davey is a consultant on social policy and social research. Her research focus is the ageing of the population and its policy implications.

Geoff Rashbrooke is a fellow of the Institute of Actuaries. From 2004 to 2009, Geoff specialised in retirement income policy at the Older People's Policy Unit, Ministry of Social Development.

Robert Stephens retired as associate professor in public policy at Victoria University in January 2010. His research has been largely in the areas of social and public policy and tax reform.

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Retirement Income Policy and Intergenerational Equity

Edited by
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Dannette Marie, David M. Fergusson
and Joseph M. Boden

Ethnicity and Pathways to Welfare Dependence in a New Zealand Birth Cohort

Introduction

The provision of welfare has long been an issue that has attracted extensive debate.¹ Familiar themes that perennially feature in this debate involve determining who is responsible for providing economic and social security to citizens; in what form and to what extent should provision be made available; what criteria and terms should be employed to determine welfare eligibility; and whether the provision of welfare helps or hinders an individual's pursuit of purpose and independence (Allen and Scruggs, 2004). Although philosophies of welfare and the practical support provided vary across a range of advanced industrial societies, common to all is the attempt to find a mutually agreeable balance between recognising the responsibilities of the state and providing viable support to citizens (Bane and Elwood, 1994; Herd, 2005). An important issue to emerge, however, is the problem of welfare dependency and its long-term consequences to individuals, their families and, more broadly, to a nation's social capital.

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A substantial body of empirical evidence now suggests that ongoing reliance on welfare support can have a potentially corrosive impact on childhood and family outcomes and, further, that it is associated with the limiting of opportunities across the life span (Serbin and Karp, 2004). Just as concerning is the evidence for a link between the intergenerational transmission of welfare dependency (Antel, 1992) and the development of structural or concentrated poverty (Putallaz, Costanzo, Grimes and Sherman, 1998). In view of these findings, researchers have continued to direct attention toward ascertaining the factors that may lead or have led to welfare dependence in the hope that by doing so they may also identify plausible intervention points and exit routes out of welfare.

New Zealand's modern welfare state came into being with the Social Security Act of 1938 (Castles, 1985). In line with other nations and concurrent with the shift towards a globalised economy, New Zealand's welfare system was reformed during the latter part of the 20th century (Mackay, 1998). Although it retains its central characteristics of being funded through general taxation and covering a range of circumstances and contingencies, notable changes were also implemented (Boston, 1999). These changes included benefits becoming simplified and directed toward those with the greatest need; the expansion of private arrangements for social security; and more stress being placed on individual self-sufficiency (Mackay, 2003).

While New Zealand's system of social security is often lauded for its emphasis on providing universal support (Rudd, 1997), one of its conspicuous, yet downplayed, features is the early emphasis that was directed toward providing welfare assistance to Māori. New Zealand was one of the first nations to remove ethnic biases relative to welfare eligibility. In 1945 the New Zealand government passed the Māori Social and Economic Advancement Act, and, in the following year, implemented the universal family benefit whereby Māori were equally entitled to benefit receipt as non-Māori (Labrum, 2004). In recent years, however, it has been well documented that Māori have higher rates of welfare dependence than non-Māori (Ministry of Social Development, 2009). This over-representation holds across all main benefits, but is particularly stark relative to the unemployment and the domestic purposes benefits (DPB) (Ministry of Social Development, 2010a). Currently, Māori comprise around 15% of the New Zealand population.² According to official statistics describing the rate of all working-aged adults in receipt of unemployment benefits, at the end of March 2010, 33.3% of recipients were Māori (Ministry of Social Development, 2010b). At the same time approximately 110,000 adults were in receipt of the DPB, of whom it was estimated 41.6% were Māori (Ministry of Social Development, 2010c). It is figures such as these that have generated both widespread concern and calls for levels of welfare dependence to be reduced amongst Māori (see New Zealand Institute of Economic Research, 2003).

While Māori being over-represented as welfare beneficiaries has led to much public and political discussion, less is known about the risk factors and life processes that place Māori at greater risk of poverty and welfare dependence. One prominent explanation attributes it to being another adverse consequence for Māori of the organised colonial settlement of New Zealand (Robson, 2004). However, it could be argued that a more plausible explanation is that the over-representation of Māori among those receiving welfare benefits may arise via several diverse pathways, with each having different implications for social policy (Chapple, 2000).

One potential pathway that may place Māori at greater risk of welfare dependence is family instability and dysfunction. It has been well documented that Māori are at greater risk than non-Māori of being exposed to family instability and dysfunction (e.g. Marie, Fergusson and Boden, 2008a), and evidence suggests that these factors contribute to increased

It also seems likely that the higher rates of welfare dependence among Māori may be attributed, in part at least, to their higher rates of early parenthood ...

risks of adverse outcomes later in life (Forehand, Biggar and Kotchik, 1998). A second set of factors that may increase risks of welfare dependence amongst Māori relates to the higher rates of personal adjustment problems experienced by Māori. These problems include being more likely to engage in substance misuse, and also being more likely to experience behavioural problems and mental health difficulties (Fergusson, 2003). It may be that these problems of adjustment contribute to welfare dependence by decreasing individual capacity to participate effectively or consistently in the work force.

An additional factor that may contribute to the ethnic differential in welfare dependence involves education. One of the most well-established features of New Zealand's education system is the enduring disparity in educational achievement between Māori and non-Māori (Marie, Fergusson and Boden, 2008b). Given the recognised contribution of education to improved life opportunities, it may be proposed that the lower levels of educational achievement amongst Māori limit the range of occupations available to them and therefore expose Māori to a higher risk of welfare dependence.

It also seems likely that the higher rates of welfare dependence among Māori may be attributed, in part at least, to their higher rates of early parenthood (Statistics New Zealand, 2004). Early parenting has been associated with increased risks of poverty, single parenthood and the breakdown of two-parent families (Robson and Berthoud, 2006). Therefore, the earlier age of parenthood may contribute to the higher level of welfare receipt amongst Māori.

While it is likely that the higher rates of welfare dependence amongst Māori will involve some or all of the factors reviewed, each of these factors leads to a different policy perspective regarding the causes of, and responses to, that welfare dependence. The personal adjustment perspective, for example, implies that a major pathway for reducing welfare dependence amongst Māori may be through the development of policies which address ethnic differentials in substance misuse and behavioural disorders. The explanation regarding education implies that the major pathway is through improving the overall educational achievement level of this ethnic group. Finally,

A measure of family adversity was calculated using a count of 38 different measures of family disadvantage during the period 0–15 years ...

encouraging the deferral of early parenthood may also present a major pathway to reducing welfare dependence of Māori, and in the process enhance the educational prospects of members of this group. For purposes of clarity, it is therefore important to understand the relative contributions that family dysfunction, personal adjustment factors, educational achievement and early parenthood make to current ethnic differentials in rates of welfare dependence in New Zealand.

Against this background, this paper examines the factors associated with the development of welfare dependence in a birth cohort of Christchurch-born children who have been studied to the age of 30. The aims of this study were:

- 1) To document ethnic disparities in rates of welfare dependence in a birth cohort of young adults aged 21–30.
- 2) To examine the extent to which ethnic disparities in exposure to family dysfunction, personal adjustment, educational achievement and early parenthood may mediate links between ethnicity and welfare dependence.

Methods

The data were gathered during the course of the Christchurch Health and Development Study (CHDS). In this study a birth cohort of 1,265 children (635 males, 630 females) born in the Christchurch (New Zealand) urban region in mid-1977 has been studied at birth, 4 months, 1 year and annually to age 16 years, and again at ages 18, 21, 25 and 30 (Fergusson and Horwood, 2001; Fergusson et al., 1989). The analyses reported here were based on those study participants for whom information was available concerning: (a) ethnic identity at age 21; (b) welfare dependence during the ages 21–25; and (c) welfare dependence during ages 25–30. Sample sizes ranged between 963 and 978 participants (76%–77% of the original sample). All study information was collected on the basis of signed and informed consent from study participants.

Welfare dependence, ages 21–25 and 25–30

Dependence on three different categories of welfare benefit (unemployment benefit, sickness/invalid's benefit and DPB), and overall welfare benefit dependence was assessed in the following manner. At ages 25 and 30, cohort members were questioned as to their receipt of welfare benefits during each year of the assessment period from age 21 to 25, and during the assessment period from age 25 to 30. Participants were asked to indicate the number of months they had received one of the three classes of benefit (unemployment; sickness/invalid's; DPB) during each year (or during the period for ages 25–30), and whether they were currently receiving any of the three classes of benefit. For the purposes of the present investigation, those individuals who reported receiving a particular benefit for at least one month during the assessment period were classified using a dichotomous measure as having received that benefit. In addition, participants who reported receiving any benefit for at least one month during the assessment period were classified as having been welfare dependent during that period.

Furthermore, the number of months that each cohort member reported being on a welfare benefit were summed across all benefits and the assessment period to arrive at a measure of the total number of months spent on benefit by each participant.

Ethnicity

At age 21 years respondents were asked about their ancestry, ethnic and cultural identification, level of participation in Māori cultural domains, and proficiency in the Māori language (Broughton et al., 2000). As part of this questioning, participants were asked to indicate which ethnic groups they 'belonged to' or 'identified with'. For the purposes of the present investigation, all participants who chose 'New Zealand Māori' as a response option (whether alone, or in combination with one or more other options) were classified as Māori (11.1% of the sample).

Childhood, family and individual confounding and intervening factors

In order to examine the links between ethnicity and exposure to adverse, potentially confounding, or intervening childhood, family and individual factors, a number of measures were drawn from the database of the study. Measures which were found to be unrelated to either ethnicity or welfare dependence at ages 21–25, or that were not found to be statistically significant mediating factors, were eliminated from further analyses and will not be described here. The measures retained included:

Family socio-economic status

Several measures of family socio-economic status were chosen from the study database and included as potential confounding factors. These measures included:

Maternal age. The mother's age was recorded at the birth of each cohort member.

Maternal education. Maternal education levels were assessed at the time of the survey child's birth using a three-point scale which reflected the highest level of educational achievement attained. This scale was: 1 = the mother lacked formal educational qualifications (had not graduated from high school); 2 = mother had secondary-level educational qualifications (had graduated from high school); 3 = mother had tertiary-level qualifications (had obtained a university degree or equivalent qualification).

Family living standards (0–10 years). At each year a global assessment of the material living standards of the family was obtained by means of an interviewer rating. Ratings were made on a five-point scale that ranged from 'very good' to 'very poor'. These ratings were summed over the ten-year period and divided by 10 to give a measure of typical family living standards during this period.

Family socio-economic status (at birth). This was assessed at the time of the survey child's birth using the Elley-Irving (Elley and Irving, 1976) scale of socio-economic status for New Zealand. This scale classifies socio-economic status into six levels on the basis of paternal occupation ranging from 1 = professional occupations to 6 = unskilled occupations.

Average family income, ages 0–10. At each year estimates of the family's gross annual income were obtained from parental report. To provide a measure of the average level of income available to each family over the period from the child's birth to age 10 the income estimates for each year were first recoded into decile categories, and the resulting measures then averaged over the ten-year period to produce a measure of the family's averaged income decile rank.

Family functioning

A measure of family functioning was also chosen from the study database: family adversity. A measure of family adversity was calculated using a count of 38 different measures of family disadvantage during the period 0–15 years, including measures of disadvantaged parental background, poor pre-natal health practices and perinatal outcomes, and disadvantageous child-rearing practices (Fergusson, Horwood and Lynskey, 1994).

Behavioural issues and substance use disorders (ages 15–21)

Measures of mental health and substance use disorders from age 16 to age 21 included:

Conduct problems (ages 14–16). At ages 15 and 16, sample members and their mothers were interviewed regarding behavioural issues, with information obtained on DSM-III-R (American Psychiatric Association, 1987) symptom criteria for disruptive childhood behaviours, including symptoms of conduct disorder (CD). For child self-report CD was assessed using the Self-Report Early Delinquency (SRED) scale (Moffitt and Silva, 1988). For parental reports CD was assessed using a parent version of the SRED. For the purposes of the present investigation, responses on these measures were adapted into

a continuous scale measure reflecting the number of symptom criteria reported by either the child or the parent.

Alcohol abuse/dependence (ages 15–21). At age 16 items from the DISC (Costello et al., 1982) were used to assess DSM-III-R symptom criteria for alcohol abuse/dependence. From age 18 onwards these disorders were assessed using CIDI (World Health Organization, 1993) items and DSM-IV (American Psychiatric Association, 1994). Individuals who met the relevant DSM diagnostic criteria for alcohol abuse/dependence in one of the assessment periods were classified as having alcohol abuse/dependence.

In all cases, the associations between ethnicity and receipt of welfare benefits remained statistically significant after adjustment for potentially confounding measures of childhood socio-economic status ...

Individual factors

Individual factors included:

Leaving school without qualifications (by age 18). At age 18 participants were assessed on their educational achievement to date. Those participants who reported attaining no formal secondary educational qualifications (a minimum of one grade above C on School Certificate examinations) were classified as having left school without qualifications by age 18.

Parent by age 21. At each assessment from age 15 to age 21 cohort members were asked whether they had become pregnant or caused a partner to become pregnant since the previous assessment, and were questioned as to the outcome of the pregnancy. Those cohort members who reported that a pregnancy had resulted in a live birth were classified as having become parents prior to age 21.

Statistical analyses

All analyses were conducted using Stata 10.0 (StataCorp, 2007). The associations between ethnicity and the repeated measures of welfare dependence during the periods of age 21–25 years and 25–30 years were estimated by fitting repeated measures logistic regression models to the data, of the form:

$$\text{Logit}(Y_{it}) = B_0 + B_1X_i + B_2t \quad (\text{EQ1})$$

where Y_{it} was the log odds of each welfare dependence outcome (unemployment; sickness/invalid; DPB; overall welfare dependence) for the i -th individual at time t (where $t = 21$ –25 years and 25–30 years); X_i represented ethnicity (Māori/non-Māori); and t was a dichotomous variable representing period of assessment, which was included in the model to allow for changes in the rate of welfare dependence with age. In each case estimates of the population-averaged odds ratio (OR) and 95% confidence

interval (CI) between ethnicity and each outcome pooled over the two observation periods were obtained from the fitted model parameter (B₁) in the usual manner ($e^{B_1} \pm 1.96SE(B_1)$).

In order to adjust the associations between ethnicity and the repeated measures of welfare dependence for potentially confounding socio-economic factors, the models presented above were extended to include confounding factors. These models were of the form:

$$\text{Logit}(Y_{it}) = B_0 + B_1X_i + B_2t + \sum B_jZ_{ij} \quad (\text{EQ}_2)$$

where $\sum B_jZ_{ij}$ represented the effects of the set of confounding socio-economic factors on each welfare dependence outcome. Confounding factors were entered into the equations simultaneously.

Then, in order to examine the extent to which potentially intervening factors mediated the associations between ethnicity and welfare dependence, the models specified by equation 2 (above) were extended to include a set of intervening factors. This model was of the form:

$$\text{Logit}(Y_{it}) = B_0 + B_1X_i + B_2t + \sum B_jZ_{ij} + \sum B_kZ_{ik} \quad (\text{EQ}_3)$$

where $\sum B_kZ_{ik}$ represented the effects of the set of intervening factors on each welfare dependence outcome. Intervening factors were entered into the equations using methods of both forwards and backwards variable elimination to identify a stable model for each outcome. Each intervening factor was then tested for mediation by using a Sobel test procedure on Stata 10.0, which employed a weighted-least squares analysis with bootstrapping. Using this procedure, potentially intervening factors that were not found to be significant mediating factors were excluded from further analyses. The parameter estimates from the final repeated measures logistic regression models (including mediating factors) were used to derive estimates of the OR and 95% CI for the associations between ethnicity and welfare dependence outcomes.

Results

Associations between ethnicity and welfare dependence, ages 21–30

Table 1 shows the rates of welfare dependence across each class of benefit, and overall, for non-Māori and Māori cohort members during the periods of ages 21–25 years, 25–30 years, and overall from ages 21 to 30 years. The table also reports on the mean number of person-months spent on benefit during the period 21–30 years for both non-Māori and Māori cohort members. In addition, the table shows estimates of the pooled odds ratio (OR) and 95% CI for the associations between ethnicity and each class of welfare benefit. These were obtained by fitting population-averaged logistic regression models that predicted welfare dependence as a function of ethnicity and time period (see Methods above). The table shows:

- 1 Across all categories of welfare benefit, and in overall welfare dependence, Māori cohort members were at significantly ($p < .05$) increased risk of welfare dependence during the age period 21–30 years as compared with non-Māori. The pooled OR estimates showed that Māori cohort members had odds of welfare dependence that ranged from 1.62 to

3.73 times higher than non-Māori cohort members. Overall, Māori had odds of any type of welfare dependence that were 2.51 times that of non-Māori.

- 2 In addition, Māori cohort members reported spending significantly ($p < .0001$) longer periods of time on welfare benefits than non-Māori cohort members during the period 21–30 years. On average, Māori cohort members spent more than 12 months longer on welfare than non-Māori cohort members during that period.

In all cases, the associations between ethnicity and receipt of welfare benefits remained statistically significant after adjustment for potentially confounding measures of childhood socio-economic status, with adjusted odds ratios ranging from 1.54 to 1.88.

Table 1: Associations between ethnicity and welfare dependence, ages 21–25, 25–30 and overall

Welfare dependence ages	Ethnicity		Pooled OR	95% CI	p
	Non-Māori	Māori			
% reporting unemployment benefit					
Ages 21–25	23.3	31.8			
Ages 25–30	4.9	9.5		1.08-	
Overall	24.8	33.9	1.62	2.43	<.05
% reporting sickness/invalid benefit					
Ages 21–25	6.0	12.7			
Ages 25–30	5.7	8.6		1.10-	
Overall	9.1	16.1	1.92	3.35	<.05
% reporting DPB					
Ages 21–25	5.4	19.1			
Ages 25–30	4.9	13.3		2.23-	
Overall	7.3	22.3	3.73	6.23	<.0001
% reporting any benefit					
Ages 21–25	31.3	54.5			
Ages 25–30	14.3	27.6		1.77-	
Overall	34.7	58.9	2.51	3.57	<.0001
Mean (SD) person – months spent on benefit, ages 21–30					
	8.50 (21.63)	20.95 (31.29)	--	--	<.0001
N					
Ages 21–25	868	110			
Ages 25–30	858	105			

Associations between ethnicity and intervening factors (to age 21)

In order to examine potential intervening pathways that may place Māori at greater risk of later welfare dependence, the associations between ethnicity and a range of potentially intervening family and individual background factors were examined. These factors included family functioning, behavioural issues and substance use, and life circumstances including education and early parenthood, each of which was significantly ($p < .05$) correlated with at least one welfare dependence outcome (see Methods). The results of these analyses are reported in Table 2, which shows the

associations between ethnicity and: exposure to family adversity; conduct problems; alcohol abuse/dependence; early parenthood; educational achievement. Tests of significance are given by the chi-square test of independence for dichotomous variables, and the t-test for independent samples for continuous measures. The table shows that:

- 1 Māori were significantly ($p < .0001$) more likely to have had exposure to a range of adverse family circumstances than non-Māori. These results suggest that Māori cohort members were at increased risk of exposure to family instability and dysfunction associated with later welfare dependence than non-Māori.
- 2 Māori were at significantly greater risk of conduct problems ($p < .0001$) in mid-adolescence, and alcohol abuse/dependence ($p < .001$) during the age period 15–21 than non-Māori. These results suggest that Māori cohort members were at increased risk of behaviour disorders and alcohol use disorders associated with later welfare dependence than non-Māori.
- 3 Māori were significantly ($p < .0001$) more likely to have become parents by age 21, and were significantly ($p < .0001$) less likely to have completed secondary educational qualifications. These results suggest that Māori cohort members were at increased risk of experiencing life circumstances that were associated with later welfare dependence than non-Māori.

Table 2: Associations between ethnicity and intervening factors, to age 21

Intervening Factor	Ethnicity		p ¹
	Non-Māori	Māori	
Family Functioning			
Mean (SD) family adversity score	6.63 (4.91)	11.55 (6.20)	<.0001
Mental health and substance use			
Mean (SD) conduct problems score, ages 14–16	0.65 (1.27)	1.71 (2.43)	<.0001
% alcohol abuse/dependence, ages 15–21	35.9	53.5	<.001
Life circumstances			
% became a parent by age 21	12.2	39.5	<.0001
% left school without formal qualifications	16.8	30.9	<.0001

¹ Chi-square test for percentage measures; t-test for continuous measures

Associations between ethnicity and welfare dependence, ages 21–30, after adjustment for covariate factors

The findings presented in Tables 1 and 2 raise the possibility that the increased rates of welfare dependence in early adulthood amongst Māori cohort members may be mediated via higher levels of exposure to adverse circumstances in childhood and adolescence. This proposition was examined by extending the repeated measures logistic regression models in Table 1 to include the range of potentially intervening factors included in

Table 2 (see Methods). The results of these analyses are presented in Table 3, which shows estimates of the odds ratio and 95% CI for the associations between ethnicity and welfare dependence, adjusted for the range of intervening factors described in Table 2. The table also reports on statistically significant ($p < .05$) mediating factors for the link between ethnicity and each welfare dependence outcome. The table shows that:

- 1 After adjustment for potentially mediating factors, the associations between ethnicity and unemployment benefit were reduced to statistical non-significance ($p > .20$). Sobel tests of mediation suggest that both conduct problems at ages 14–16 and alcohol abuse/dependence during ages 15–21 were statistically significant ($p < .05$) mediating factors in the link between ethnicity and unemployment benefit.
- 2 Adjustment of potentially mediating factors also reduced the associations between ethnicity and sickness/invalid benefit to statistical non-significance ($p > .50$). Statistically significant ($p < .05$) mediating factors included exposure to family adversity, and alcohol abuse/dependence during the ages 15–21.
- 3 Similarly, adjustment for potentially mediating factors reduced the associations between ethnicity and DPB receipt to statistical non-significance ($p > .80$). Statistically significant ($p < .05$) mediating factors included exposure to family adversity, and becoming a parent by age 21.
- 4 Finally, adjustment for mediating factors reduced the associations between ethnicity and overall welfare dependence to statistical non-significance ($p > .10$). Statistically significant ($p < .05$) mediating factors included: exposure to family adversity, alcohol abuse/dependence during ages 15–21, early parenthood, and leaving school without formal educational qualifications.

Table 3: Adjusted odds ratios for the associations between ethnicity and welfare dependence, ages 21–30, and statistically significant ($p < .05$) intervening factors

Welfare dependence ages 21–30	OR	95% CI	p	Statistically significant ($p < .05$) intervening factors
Unemployment benefit	1.30	0.84-2.01	>.20	Conduct problems ages 14–16 Alcohol abuse/dependence ages 15–21
Sickness/invalid benefit	1.23	0.66-2.26	>.50	Family adversity Alcohol abuse/dependence ages 15–21
DPB	1.08	0.59-1.95	>.80	Family adversity Becoming a parent by age 21
Any welfare benefit	1.37	0.92-2.03	>.10	Family adversity Alcohol abuse/dependence ages 15–21 Leaving school without qualifications Becoming a parent by age 21

Supplementary analyses

In addition to the above analyses, the Māori cohort members were further classified into two groups representing degrees of cultural identity (sole Māori; Māori/other cultural identity) as in previous analyses of the present cohort (Marie et al., 2008a; Marie et al, 2008b). The analyses described above were then repeated using the three-group classification scheme (sole Māori; Māori/other cultural identity; non-Māori) in place of the two-group ethnicity measure. However, the analyses did not reveal any statistically significant differences between Māori cultural identity groups on any of the welfare dependence outcome measures, suggesting that variations in Māori cultural identity were not linked to welfare dependence outcomes.

It is ... not Māori ethnicity *per se* which leads to welfare dependence, but rather the increased likelihood that individuals affiliated to this group will have much higher exposure to risk factors associated with adversity throughout the life course and into adulthood.

Discussion

In this study we have used data gathered over the course of a 30-year longitudinal study, the Christchurch Health and Development Study, to investigate the issue of welfare receipt and dependency. A specific focus has been the examination of a range of factors that may contribute to the current over-representation of Māori in receiving social security benefits when compared to other New Zealanders. We now discuss in more detail the key findings and their implications.

Irrespective of benefit type, Māori respondents were more likely to be welfare recipients than non-Māori cohort members, with rates of welfare dependence that ranged from 1.62 to 3.73 times those of non-Māori. In addition, Māori spent on average 12.45 months longer on welfare than non-Māori during the age period 21–25. These findings are in general agreement with previous data showing that Māori were more likely to be in receipt of social welfare benefits (Statistics New Zealand, 2002; Ministry of Social Development, 2009). In addition, the analyses showed that these associations persisted after controlling for potentially confounding family socio-economic factors.

Previous research on Māori over-representation in social welfare benefit receipt has suggested a range of possible explanations for these observed ethnic disparities (Chapple, 1999, 2000). However, a strength of the present study was the use of prospective data that allowed the examination of the mediating pathways by which young Māori were at increased risk of benefit reliance. The results of these analyses showed

that Māori cohort members had increased rates of exposure to a range of adverse circumstances in childhood, adolescence and early adulthood, which were in turn associated with increased levels of welfare benefit receipt. Analyses of the links between ethnicity and welfare dependence, accounting for possible intervening pathways by which Māori may be placed at greater risk of welfare benefit receipt, showed that the statistically significant associations between ethnicity and each class of welfare benefit were mediated by a series of factors related to: family instability and dysfunction; behaviour disorders and substance use disorders; and life circumstances related to early parenthood and educational outcomes. In general, the analyses of the intervening pathways in the links between ethnicity and benefit receipt are congruent with previous research which suggests that the risks of welfare dependence in adulthood are increased by early signs of adjustment difficulties, including: behaviour and adjustment problems; exposure to higher levels of family stress and dysfunction; failure to complete educational qualifications; and early parenthood (e.g. Boden, Fergusson and Horwood, 2008).

The results of the present analyses also showed that the links between ethnicity and receipt of each class of benefit were associated with a different pattern of intervening factors, suggesting that the risk of receipt of a particular class of benefit in adulthood was increased via specific developmental trajectories. For example, the links between ethnicity and unemployment benefit receipt were mediated via alcohol abuse/dependence during the ages of 15–21, and conduct problems during ages 14–16. This is in general agreement with findings that suggest that personal adjustment and behaviour problems in adolescence are a risk factor for adult unemployment (Brook and Newcomb, 1995), in that long-term disruptive behaviour compromises the individual's ability to participate effectively in the workforce. Similarly, the present study found that links between ethnicity and later DPB receipt were mediated via early parenthood and exposure to family adversity. Previous research suggests that family adversity in childhood is a strong indicator of later social welfare benefit receipt, while early parenthood is associated with increased risks of poverty, single parenthood and the breakdown of two-parent families (Robson and Berthoud, 2006).

The results reported here suggest that the over-representation of Māori in welfare statistics is best understood as an outcome of greater exposure to a multitude of adverse influences beginning in childhood. It is therefore not Māori ethnicity *per se* which leads to welfare dependence, but rather the increased likelihood that individuals affiliated to this group will have much higher exposure to risk factors associated with adversity throughout the life course and into adulthood. The ecological 'at risk' model of familial adversity provides a suitable explanatory framework to interpret these results in more detail (Repetti, Taylor and Seeman, 2002). In basic form, stressful

environments characterised by, for example, a lack of support or accessible emotional and material resources are more likely to have negative consequences for individuals who are raised in them. These 'environmental insults', which might include adverse child experiences and stressful life events, can have an accumulative effect and influence vulnerability dispositions as well as healthy development and functioning. The over-representation of Māori amongst those receiving social security in adulthood may therefore be a negative outcome of a pattern of adversity more likely to be experienced by Māori beginning in childhood.

The fact that the links between each particular class of benefit and ethnicity had a distinct pattern of intervening pathways further suggests that the life course pathways leading to welfare dependence are multifarious, and also suggests that attempts at reducing ethnic differences in welfare dependence should not be targeted at a single factor, but rather should be aimed at the broader range of factors that lead to increased risk of welfare dependence, such as those shown in the present study. Importantly, the results suggest that interventions and programmes that target a single specific driver of welfare dependence (such as early parenthood) may achieve only modest results. The results of this study imply that ethnic disparities in

welfare dependence may be best addressed by a comprehensive range of policies aimed at reducing exposure to socio-economic adversity, addressing causes of family dysfunction, providing assistance and treatment for mental health and substance use disorders, improving educational outcomes, and discouraging early parenthood.

It should be noted that the findings reported are based on a particular birth cohort born in a specific place and at a particular time. The extent to which these findings can be generalised to other cohorts of New Zealanders is therefore open to debate and awaits further research. In addition, the research reported here is subject to the usual limitations of reporting and other errors in data provided by survey methods. Also, it should be noted that the assessment of ethnicity in the CHDS cohort differs from the measurement of ethnicity in administrative data sources such as that of Statistics New Zealand, which may raise issues in terms of the interpretation of the present findings.

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- 1 The research on which this paper is based was funded by grants from the Health Research Council of New Zealand, the National Child Health Research Foundation, the Canterbury Medical Research Foundation and the New Zealand Lottery Grants Board.
 - 2 The estimate of 15% is based on Level 1 of the ethnicity classifications used by Statistics New Zealand (in which individuals are classified as a member of a single group as follows: European; Māori; Pacific Peoples; Asian; Middle Eastern/Latin American/African; Miscellaneous).

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Michael O'Brien

Reforming Welfare A Look Backwards

Introduction

In its final report the Welfare Working Group (WWG) asserts that 'Our welfare system has major deficiencies that need to be corrected if we are to achieve the outcomes New Zealanders expect from the welfare system. Addressing these issues requires innovation and fundamental change to the welfare system, rather than further piecemeal change' (WWG, 2011, p.i). The report fails to meet all these aims because of: (1) its imprecision and lack of clarity about key terminology; (2) the agenda which it set, including the terms of reference under which it worked; and (3) the assumptions it made about the purpose and role of income support

systems and the values on which those systems should be based. Furthermore, if implemented, its fundamental approach, directions and recommendations create pathways for welfare in New Zealand which are destructive and divisive and do not deliver the 'better social and economic outcomes for people on welfare, their families and the wider community' (ibid.), which it claims to be the goal. This article pursues these issues and concludes that the WWG has failed in its fundamental role of providing good quality policy advice.

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Agenda, terms of reference, definitions

As Humpty Dumpty once said, the best place to start is at the beginning. 'The beginning' for discussion of the WWG's report must be the terms of reference. The significance of those terms of reference for this discussion lies in two considerations. First, the terms of reference defined 'the problem' in a particular way, namely as a problem of 'welfare dependence'. Second, the terms of reference quite specifically excluded critical issues from the working group's consideration. Specifically, the group was unable to include the crucial

the work of Deacon in relation to values and ideas in the context of social policy, with the following apposite quotation from his work: 'welfare raises fundamental questions about the rights and obligations of citizenship, and about the scope and purpose of public policy, which is essentially about our responsibilities one for another' (McClelland and Smyth, 2006, pp.21-2). As they, and a range of policy commentators and analysts, have observed, policy analysis is not value free and the discussion of values and ideologies needs to be informed and

The acceptance of 'welfare dependence' as the description and definition of 'the problem' is significant because it constructs and creates the discussion of social security, income support, government activity and beneficiary lives and behaviour in a particular kind of way. That is, 'the problem' becomes one of beneficiary receipt of social welfare assistance (defined as dependence), an approach which leads to the focus being placed on the lives, behaviours and circumstances of beneficiaries rather than on the adequacy of benefit levels, the cause of the poverty experienced by so many beneficiaries and their dependent children. Furthermore, such an approach also neglects consideration of other vital social and economic factors, such as the availability and quality of jobs, a key component of the New Zealand approach to income support (O'Brien, 2008). In the context of the discussion in this article, the significance of the 'problem definition' as one of 'dependence' is that policy advice, analysis and recommendations become framed by that definition and lead then to particular sets of recommendations and to neglect of key dimensions of the topic under consideration.

In its report, the WWG defines welfare dependence as benefit receipt for longer than six months (WWG, 2010, p.3). As the group's issues paper acknowledges, this is a completely arbitrary definition. 'Dependence' has been the subject of significant discussion in the social policy literature and clearly identified as a concept with multiple levels of meaning (see, for example, Dean and Taylor-Gooby, 1992; Gibson, 1995; Lister, 2004; O'Brien, 1997). However, as used by the WWG 'dependence' takes on a pejorative meaning, a use of the term which has become increasingly widespread in both the social security debates and, to a lesser extent, in other areas of social policy, such as services for families and for mental health users. That pejorative and ideological use strips the term of any descriptive usefulness and both shapes the discussion in particular ways and precludes meaningful and productive discussion of the nature, meaning and implications of 'being dependent'. It is an approach in which 'dependence' by definition is bad and must be stopped. What, then, of the 'dependence' of a

... the framing of the 'problem' as one of 'dependence' is based on the political and ideological assumption that 'the problem' is the behaviour of beneficiaries.

issues of superannuation, the tax/benefit interface and in particular Working for Families and benefit rates in its work. The exclusion of these dimensions of welfare policy meant that the working group was unable to provide a thorough, comprehensive and considered report on income support and social security. It might be argued that the working group cannot be criticised for an inadequate report on the basis of items that were not included in the terms of reference. However, members of the group knew that these issues were outside the scope of their attention when they agreed to join; thus, in accepting the terms of reference they also accepted the parameters and definition of 'the problem' as defined by government in creating the WWG. Moreover, as I will discuss later in this article, they did, implicitly and to some degree explicitly, take up the issue of benefit levels.

Why do the terms of reference matter? In their discussion of social policy and social policy analysis, McClelland and Smyth (2006, p.20) note that 'social policy is about purposeful activity to improve societal well-being ... [and] is particularly concerned with the distribution of well-being and social relationships. Social policy involves rational analysis and action but also political contest about different values and the position of different groups'. They go on to draw on

supported by a thorough, thoughtful and coherent analysis of the requisite and appropriate data (Craig, Burchardt and Gordon, 2008; Esping-Andersen, 2002; George and Wilding, 1994; Hudson and Lowe, 2004; Lavalette and Pratt, 2006). The values which inform the work of the WWG are clear. Although not always explicitly articulated, they are in many respects reflected in the group's definitions and principles set out at the beginning of their final report; I will return to that below. In the context of thinking about issues of values in a social policy framework, it is worth noting Bradshaw's final comment in his recent reflection on Peter Townsend's contribution to poverty research when he noted that Townsend 'wanted to change the world. Let us try to do the same' (Bradshaw, 2010, p.vi). The WWG is clearly arguing for change in the way in which welfare is provided, organised and delivered, but in doing so comprehensively fails to explore the fundamental question asked by Richard Titmuss: namely, in whose interest is the change taking place? (Titmuss, 1968). Good social policy analysis and decision making will advance the interests, well-being and circumstances of the poorest and most vulnerable and in doing so must contribute to greater social cohesion and a better society. The WWG report fails on all these grounds.

newborn child on its parents' care and protection, or the 'dependence' of a frail, older person on his or her carers, or the 'dependence' of employers on having a skilled workforce or of employees on the availability of adequately paid work? 'Dependence' is a word with many meanings; defining it as the WWG has done fails to attend to these meanings and, even more importantly, shapes and determines the discussion in ways that are inimical to good social and economic outcomes.

As noted above, the framing of the 'problem' as one of 'dependence' is based on the political and ideological assumption that 'the problem' is the behaviour of beneficiaries. This framing then precludes and effectively disqualifies any discussion of the living standards, lives, circumstances and poverty levels experienced by beneficiaries, despite the extensive body of data which clearly demonstrates the levels of poverty among beneficiaries (see, for example, Centre for Social Research and Evaluation, 2007; Jensen et al., 2006; Krishnan, Jensen and Ballantyne, 2002; Perry, 2009; Stephens, 2003; Stephens, Frater and Waldegrave, 2000). Logically, but with significant and destructive consequences, the 'solution' then leads to an emphasis on changing that behaviour rather than on what is required to ensure that benefit levels are sufficient to at least minimise poverty (and ideally remove poverty), particularly the poverty experienced by children. Broad questions of income distribution, inequality and income adequacy do not need to be considered when the focus is placed on the behaviour of the beneficiaries rather than on the adequacy of their income. A focus on income adequacy and on preventing and reducing poverty would inevitably lead to much more fundamental and significant questions about the role of government and markets in distributing and redistributing income: that is a question which government, having established the WWG, could avoid by defining the problem as 'welfare dependence'. Unfortunately, and with disastrous consequences, as I will demonstrate below, the failure to attend to the question of poverty will mean the further entrenchment of poor living standards and of the severe and significant hardship

identified in the Living Standards research (Jensen et al., 2006).

Defining 'the problem' as resulting from the behaviour of beneficiaries also means that a fundamental component of the income support system was completely ignored. That is, the WWG completely failed to undertake any analysis of the nature of the job market, relying on assertions from employers that there were job vacancies which they had difficulty in filling (WWG, 2010,

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2011). In their discussion on this issue, the nature of those jobs and their match with the skills of beneficiaries is ignored. The final report does note that there are some current difficulties in the labour market (WWG, 2011, p.3), but places this to one side arguing that the task is to prepare beneficiaries so that they are able to compete in the job market when that improves. It is the state of the job market, and the economy – the demand (not supply) side of the equation – that is critical in moving people from benefits into work. Even more critical than its failure to attend to the nature of the labour market, however, is the WWG's lack of discussion of the implications of the available statistical data about the labour market. This data is conspicuous by its absence; for example, the most recent Household Labour Force survey (HLFS) shows a decline in part-time jobs (Statistics New Zealand, 2011), a key component of the labour market with particular significance and implications for lone parents and for those receiving a sickness or invalid's benefit. As the Alternative Welfare Working Group noted in its report, employment and jobs have been, historically, a key component of the New Zealand approach to social security and income support and are vital to any

comprehensive and systematic analysis of welfare change and welfare directions (O'Brien et al., 2010). Any approach to issues of welfare change which does not consider what is happening in labour markets (the plural is deliberate) is both totally inadequate and certainly cannot be said to contribute in any way to improved social and economic outcomes for New Zealand and New Zealanders. Such work is certainly not good policy advice.

The active citizen: reshaping and reducing welfare

As much of the social policy literature in recent years has noted, one of the fundamental areas of debate and consideration in the reshaping and reforming of social security and income support is the relationship between rights and responsibilities, particularly as these relate to issues of the nature and form of contemporary citizenship. (For a useful discussion of many of the issues, see Dwyer, 2004). In its Marshallian conception, citizenship, in the context of welfare programmes, placed a strong emphasis on the rights of citizens in relation to their access to and use of a range of 'social goods'. As various commentators have demonstrated, international changes in welfare provision over the last two decades have emphasised responsibilities, with increasing constraints and sanctions being placed on and linked to the welfare rights of citizens (Andersen et al., 2005; Andersen and Jensen, 2005; Dwyer, 2000, 2004; Edwards and Glover, 2001; Esping-Andersen, 2002; Hvinden and Johansson, 2007). While there are a range of influences and forces shaping this shift, one of the ways in which the shift is explored, described and captured is through the notion of what is often referred to as

‘active citizenship’. (For a useful discussion of aspects of active citizenship, see Andersen et al., 2005). Perhaps the most succinct definition of active citizenship is provided by Andersen et al.: ‘a new ideal of citizenship or a new set of rights and duties based on a conception of a claimant (e.g. an unemployed person) as an active citizen. The active citizen is granted more autonomy and choice but in return is assumed to be self-responsible, flexible and mobile’ (2005, p.vii). The ‘active citizen’ is often discussed and described in contrast to the ‘passive citizen’, depicted as the hallmark of ‘old social security’. (For an example of this see Clark and Maharey, 2001.) However, as I have noted elsewhere, the characterisation of ‘old social security’ as ‘passive’ and its contrast with the

in contemporary welfare systems, which have an emphasis on building social and community relationships in the interests of all citizens. However, it is a distinction that is reinforced by providing assistance to those in paid work while denying that assistance to beneficiaries and their children who rely on income support (St John and Craig, 2004).

‘Active citizenship’, as undertaken by those who secure paid work, may reduce poverty levels, particularly for those children whose families are eligible for Working for Families tax credits. However, the WWG calculates that implementation of all its recommendations would, over ten years, reduce the numbers receiving a social security benefit by somewhere between 49,000 and 93,000 (WWG, 2011,

deeper as a result of the implementation of the report’s recommendations. The individualised emphasis on ‘responsibility’ will result in a deterioration in the living standards and circumstances of too many children, a deterioration below what are already very poor and unacceptable living standards. The deterioration will occur because of the proposal to create a standard benefit and because of the proposals for tightening of third-tier assistance, assistance which is critical for many beneficiaries with children as they attempt to provide their children with opportunities and necessities available to others.

Significantly, although benefit rates were outside the WWG’s terms of reference, the group’s discussion of the standard benefit, set at the rate of the unemployment benefit (currently the lowest rate of income support), and their proposals around third-tier assistance represent at least an implicit definition of acceptable benefit levels, without any discussion of the implications in the light of the available evidence on living standards and poverty. (Incidentally, this suggestion of a standard benefit rate is not new; earlier reforms in 1990 and the work on the core benefit idea by the last Labour government represent but two of its previous iterations.) While the report’s recommendations will exacerbate poverty levels, this is not discussed in the final document. Presumably it is not important. These outcomes certainly mean that ‘active citizenship’ does not represent an advance in terms of welfare; rather it will mean a fundamental retreat from policy development which would lead to improved social and economic outcomes, given the effects of poverty, especially on children. Clearly, McClelland and Smyth’s argument and Bradshaw’s challenge drawn on above, namely that good policy work should lead to improvements in human circumstances and conditions, are not met. On a range of grounds, then, the WWG report fails to meet fundamental imperatives for appropriate and effective social policy advice and decision making.

The purposes of income support

The WWG’s lack of clarity about the meaning of ‘dependence’ is reflected too in its discussion about the nature and purposes of the social security/income

The WWG’s lack of clarity about the meaning of ‘dependence’ is reflected too in its discussion about the nature and purposes of the social security/income support system.

new ‘active social security’ is a spurious distinction which ignores the form, nature, structure and history of social security (O’Brien and Salonen, 2011). In its final report the WWG reflects some of this language and shift, characterising the existing income support system as ‘passive’ in contrast with the ‘activity’ which, it argues, is at the heart of its proposals (see, for example, chapter 2 and the figure on p.57).

In the conclusion to their review of welfare policy changes, Andersen et al. (2005) suggest that the outcomes of the growth and development of ‘active citizenship’ are uncertain and unknown. However, in the context of the work of the WWG the outcomes are entirely predictable, particularly in relation to the reinforcement of distinctions between the deserving (those in paid work and receiving in work tax credits) and undeserving (those receiving a benefit) poor, and in relation to issues of child poverty. This distinction between the deserving and undeserving poor has its roots in the old Poor Law (Jones and Novak, 1999; Morris, 1994). It has no place

p.161). (A further 8,000 are added to the calculation on the basis that they are supported by a beneficiary who secures paid work and therefore move from receiving a benefit). I want to leave aside the important assumptions built into this calculation and focus the discussion briefly on the implications of this anticipated effect in the context of ‘active citizenship’.

On the basis of these calculations, somewhere between 250,000 and 300,000 would, on current numbers, still be reliant for their income on a social security benefit. Many of these would be sole parents with responsibilities for dependent children. At present, upwards of 170,000 children live in poverty (based on calculations in St John and Wynd, 2008). Depending on the mix of those who moved from a benefit into paid work, more than 100,000 children would remain in poverty after implementation of the changes. ‘Active citizenship’ with its emphasis on responsibilities and obligations means that these children and their parent/carer will remain in poverty, a poverty that will become even

support system. The issue of values is critical here. From the basis of a neo-liberal and residual approach to welfare provision (George and Wilding, 1994), the report provides a set of terminological definitions and descriptions at the beginning in which it says that it refers to the current system as 'the benefit system' and their new proposal as 'the welfare system' (WWG, 2011, p.vii). However, it then proceeds, in a somewhat confusing way, to use other language such as 'safety net' and 'social assistance' in its discussion of the nature and purpose of the system. There is a disturbing lack of clarity, accuracy and consistency here; but, much more importantly, throughout their discussion there is an approach to welfare and the role of the state in welfare which can only be described as limited and coercive, reflecting the residual and neo-liberal frames within which their work is located. Significantly, in their discussion of the principles on which their proposals are based (WWG, 2011, p.37), there is no reference to adequacy of income and prevention of poverty as aims of income support,¹ fundamental omissions which speak voluminously of both their approach to the work and of the significance of the terms of reference in setting the agenda, as

discussed earlier in this article: references to poverty in the final report are in the context of participation in paid work. Significantly, there are a number of references to budgeting assistance and financial management, including key elements of compulsion, all indicating a failure to address issues of poverty and income adequacy comprehensively.

This selectiveness of focus clearly demonstrates a failure to meet the WWG's own objective of providing an overhaul of welfare. The narrow focus on benefits and benefit incomes means that the dual and judgemental approach in current welfare provision is completely ignored and, arguably, reinforced. Beneficiaries are to be managed and controlled and their lives are to revolve around paid work; by contrast (the dual approach), if they move into a relationship and are entitled to state support and welfare assistance through tax credits, they are allowed to reduce their work participation because they will meet the work test requirements through their partner, as is reflected in the data from the recent evaluation of the Working for Families package (Ministry of Social Development and Department of Inland Revenue, 2010).

Concluding comments

On a number of counts the WWG's report on 'welfare dependency' both fails to meet its own objectives and, much more importantly, provides a framework for a major step backward to nineteenth-century welfare provision. Informed by a neo-liberal approach to welfare, its narrow, inadequate and disturbingly selective terms of reference, its construction of the agenda and its failure to engage with key ideas and concepts and contemporary debates and data lead inevitably to a set of recommendations which can only mean that the 'active citizen' who sits at the centre of their approach to welfare is increasingly impoverished and undeserving. The recommendations represent the complete antithesis of aspirations to deliver 'better social and economic outcomes for people on welfare, their families and the wider community' (WWG, 2011, p.i). They will achieve the opposite.

1 Principle 2 in the report is: 'provision of financial support to people not in employment when no other income is available'. This does not include any reference to or discussion of adequacy (Welfare Working Group, 2011, p.37).

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Enhancing Performance-Based Regulation

Lessons from New Zealand's building control system

Peter Mumford

Performance-based regulation establishes mandatory goals rather than enforcing prescriptive standards. Performance-based regulation has become popular over the past two decades as an alternative to prescriptive regulation, as it holds out the promise of simultaneously achieving health, safety, and environmental outcomes while facilitating innovation and reducing regulatory costs.

In the early 1990s New Zealand adopted a performance-based building control regime. This regime demonstrably failed, resulting in then 'leaky building' crisis. In *Enhancing Performance-Based Regulation: Lessons from New Zealand's building control system* Peter Mumford examines whether the failure can be attributed to the performance philosophy and features of the regime.

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the predicative capability of decision-making systems through the better application of intuitive judgement associated with expertise and wisdom, and treating novel technologies as explicit experiments.

Peter Mumford works for the Ministry of Economic Development. He has a broad public policy background, ranging from small and medium-sized enterprises policy and technology policy to regulatory impact analysis and regulatory policy in areas as diverse as securities markets regulation, building controls and international regulatory coordination.

Enhancing Performance-Based Regulation

Lessons from New Zealand's building control system

Peter John Mumford



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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

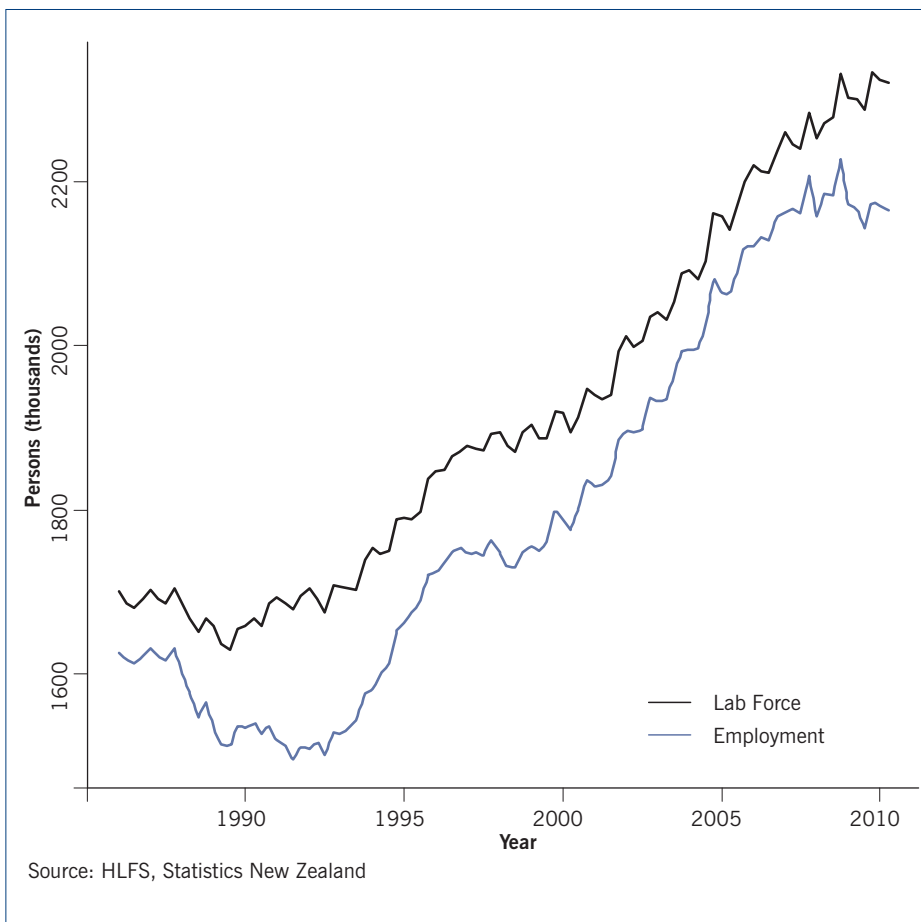


Figure 2: Participation in the labour force and employment



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

In making the decision that a member of a household will not participate in the labour force ... [they] are ... saying that, ... the costs of job search exceed the expected value of the outcome of that search.

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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- 1 I thank the editor and referees for very helpful comments on the argument in this paper but they are not responsible in any way for its perspective, final form, argument or conclusions.
 - 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.

Some Policy Issues for Reforms of Assistance to Sole Parents

Introduction

The National-led government is currently considering a number of major policy initiatives that potentially have significant implications for sole parents, especially sole parents on benefit. These include changes to welfare following the Welfare Working Group's (WWG) final report (WWG, 2011), and possible amendments to child support (see Dunne, 2010) and to early childhood education and care (ECEC) arising from the recommendations of the Early Childhood Education Task Force (which at the time of writing had not reported). Following the Christchurch earthquake on 22 February, the government has also indicated that it is considering tighter targeting of family tax credits.

This article does not attempt to make an assessment of these proposals and recommendations. Rather, its purpose is to set out some of the factors which will need to be taken into account by policy advisers and the government, and to highlight some underlying issues to be considered.

Moreover, its focus is only on a subset of the policy questions – principally those relating to financial issues affecting sole parents whose youngest child is over three years of age, a group for whom the WWG proposes new or extended work search obligations. Important issues relating to

parents with younger children and also to the group's proposals regarding structural and delivery changes are not covered. Questions regarding benefit adequacy – which were outside the WWG's terms of reference – are also not discussed.

Financial factors are focused on not just because of their obvious importance to the sole parent families concerned but because they are central to achieving the stated goal of promoting sole parents' labour market participation. There is

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evidence that work-testing alone has some impact on domestic purposes benefit (DPB) receipt (Wilson and Ball, 2000; WWG, 2010), but its effect is likely to be muted (as well as potentially detrimental for the families) if not aligned with financial gains from increasing work hours that are large enough to increase income net of the costs of working.

The article is divided into two parts. The next section sets out some key features of the current situation and of some of the WWG's proposed changes. This is followed by a discussion of four issues that arise from that analysis.

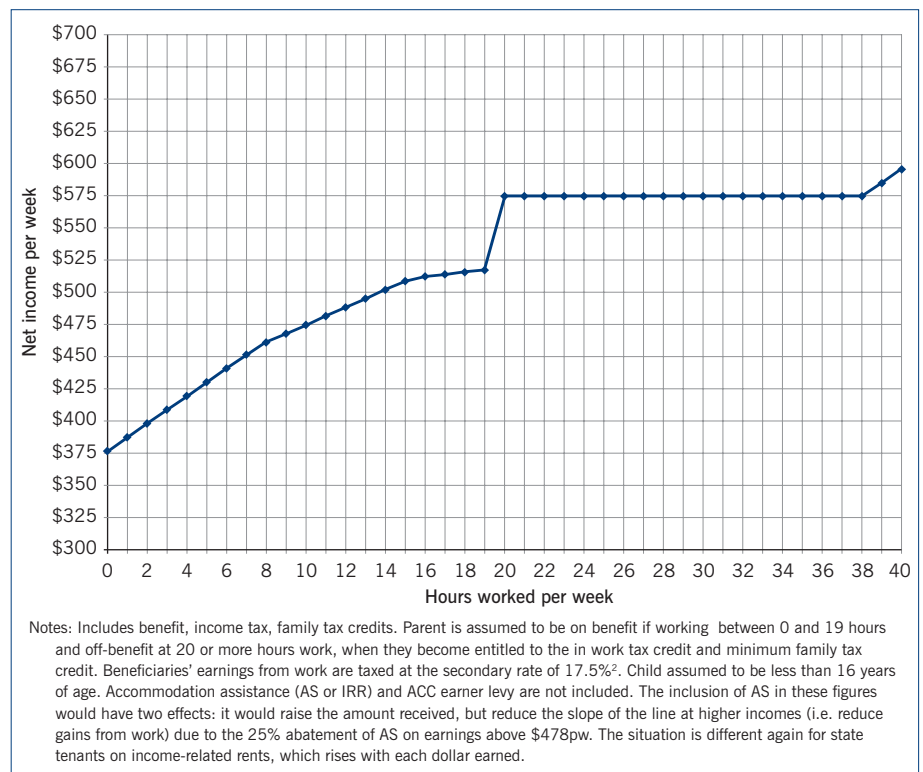
Current policy and some of the suggested changes

The returns to work for sole parents

Figure 1 presents the budget constraint for a sole parent with one child under 16 years of age. The data are graphed assuming the parent earns the minimum wage of \$13.00 per hour. Tax, family tax credit and benefit rates and rules are those applying as at 1 April 2011.¹ Accommodation assistance is not included as this varies greatly depending on location and tenure type (state housing or accommodation supplement (AS) for private costs). Where accommodation assistance would substantially affect the analysis, this is noted. Child care costs are presumed to be zero; ECEC costs are discussed below. The minimum wage is used first to show the 'base case' for a sole parent on the lowest wage. Wage issues are discussed in the next section.

Several key points are evident from Figure 1. First, even at the minimum wage there is a sizeable increase in net income resulting from moving from zero hour's employment on a benefit to full-time paid work. At 40 hours per week, the sole parent is \$219.38 per week (or 58%) better off in net terms than if she/he was on a benefit with no paid work. Second, however, all but about \$20 of that gain – \$198.53 – results from the first 20 hours of work – the minimum number of hours for entitlement to the in work tax credit (IWTC) and the minimum family tax credit (MFTC) if off benefit. At the minimum wage rate there is no gain at all for additional paid work between 20 hours and 38 hours. This is the result of

Figure 1: Budget constraint, sole parent with one child, minimum wage rate (\$13/hr)



the operation of the MFTC which 'tops up' the net wage to \$427 per week but which is reduced dollar-for-dollar for additional earnings.³

Third, the 'dual abatement' regime of a \$100 per week 'free zone', followed by 30 cents per dollar abatement on earnings between \$100 and \$200 dollars per week and 70 cents per dollar on earnings above that results in a relatively high return to work for part-time employment while on benefit. Sole-parent domestic purposes beneficiaries⁴ on the minimum wage have an increase in net income of \$84.60 from eight hours work and \$136.00 from 16 hours. The dual abatement regime was first introduced in 1995 as part of the then government's response to the Prime Ministerial Task Force on Employment.⁵ Its express purpose was to encourage labour market attachment through part-time work for sole parents on benefit. Currently about one in six domestic purposes beneficiaries reports earnings to Work and Income.

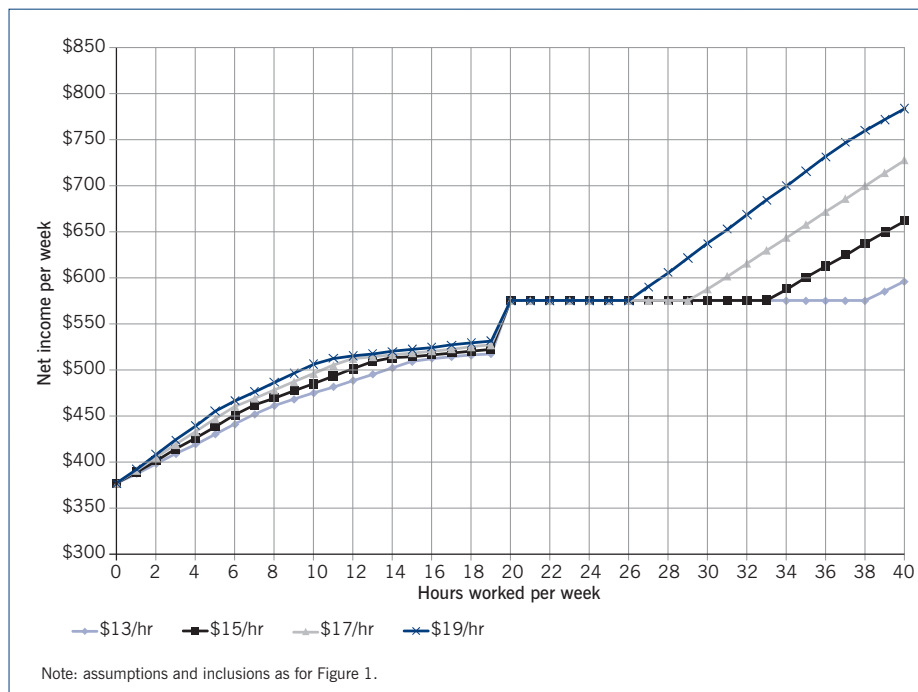
A separate point to note is that Figure 1 does not take into account child support. Child support generally increases a custodial parent's incentive to move off a benefit and into work, although by how much depends on the circumstances of the other parent. When

the custodial parent is on a benefit all child support payments up to the value of the core benefit are retained by the Crown. If the custodial parent moves off a benefit (or if they re-partner and are on a couple benefit), child support payments are forwarded to them. How much is received depends on whether the paying parent is on a benefit and their income and family circumstances. Proposed amendments to the child support system are not discussed in this article but will need to be aligned with any amendments to welfare rules.

The importance of wage rates

Low wages are likely to represent a significant barrier for many sole-parent beneficiaries seeking to work full time. Of sole parents on the DPB, 88% are women, and 52% Māori or Pacifica people. Median earnings for all waged women – across all levels of education and experience and in all regions – are \$19.00 per hour.⁶ For Māori and Pacifica women median wages are \$17.00 and \$16.88 respectively. Some 48% of domestic purposes beneficiaries have no formal educational qualifications and a further 44% have no post-school qualifications (Ministry of Social Development, 2010). Median hourly earnings for people (men and women)

Figure 2: Budget constraint, sole parent with one child, various wage rates



with no qualifications are \$16.00 and for those whose highest qualification is NCEA levels 1–3 (or their earlier equivalents) between \$16.50 and \$17.39. These figures are the median; many domestic purposes beneficiaries wanting to move into employment or increase their hours are likely to face wages below these levels.

Figure 2 shows the situation for the same sole-parent family but with different hourly wage rates, ranging from \$13.00 per hour up to \$19.00 per hour.

Two important features of the current system are evident in Figure 2. First, the current system – and specifically the MFTC – works to ensure a set level of income for low-paid sole parents working 20 hours per week. This is its basic objective. Second, the corollary is that the wage rate a sole parent is able to earn is crucial in their ability to escape the poverty trap created by the MFTC’s 100% abatement and improve net family income by increasing their hours of work. Thirty hours per week is treated as full time by the benefit system⁷ and in official statistics. A sole parent does not receive any gain from moving from 20 to 30 hours unless their wage rate is about \$17.00 per hour (and then only \$12.60 per week for the extra 10 hours work).

Working a full 40-hour week rather than 20 hours, a sole parent gains \$87pw for the extra 20 hours’ work if the wage rate

is \$15.00 per hour, \$120pw if it is \$16.00 per hour and \$153 if on \$17.00 per hour. These figures are before the abatement of AS and assume no additional child care or transport costs (or other work-related costs).

In summary, Figures 1 and 2 suggest that current policy settings encourage low-income sole parents to choose between one of four discrete labour supply choices:

- benefit receipt with no earned income;
- benefit receipt supplemented by income from a limited number of paid work hours;
- off-benefit and working 20 hours per week to gain the advantage of MFTC entitlement; or
- if they can achieve a wage rate of at least \$16.00 or \$17.00 per hour, full-time work of around 40 hours per week.

Which of these options makes most sense for any particular sole parent will depend on their circumstances, including the number and ages of the children, travel-to-work and travel-to-care costs and time, and, crucially, early childhood education and care and out-of-school service costs. Options may also be affected by government policy introduced in September 2010 requiring domestic purposes beneficiaries whose youngest

child is six or older to be available for and seek at least 15 hours paid work.

The Welfare Working Group’s proposals

The text of the WWG’s report makes clear that they are aware of most of the policy design issues discussed above. Their main recommendations relevant to the above are:

- that sole parents receiving welfare be required to seek at least 20 hours work per week once their youngest child is three years old and at least 30 hours per week once the youngest child is six (recommendation 5 b) i. (a) and (b));
- that abatement of Jobseeker Support (their proposed replacement for core benefits) be better aligned with paid work expectations and that consideration be given to an abatement-free zone that is as small as possible coupled with a single abatement rate designed to cut out at about 30 hours work at minimum wage for a single recipient; they suggest, as an example, a \$20 per week an abatement-free zone and 55 cent/dollar abatement rate (a 72.5% marginal tax rate for sole parents) (recommendation 20 d) ii and iii); and
- consideration be given to how the proposals will interact with Working for Families [i.e. family tax credits] and to ensuring the incentives for people to work 20 or more hours per week are increased (recommendation 20 d) iv).

The WWG does not devote much time to interactions between the benefit system and tax credits. This is not surprising given that the ‘tax-benefit interface and Working for Families specifically’ were ruled out of the scope of their terms of reference, and it would be unfair to hold them to account on the detail of policy parameters put forward as examples. Nonetheless, these are issues policy makers will need to consider, and it is useful to draw out some implications. To this end Figure 3 uses the same one-child sole-parent family to compare the group’s abatement proposals with the current system. Minimum wages are assumed, as

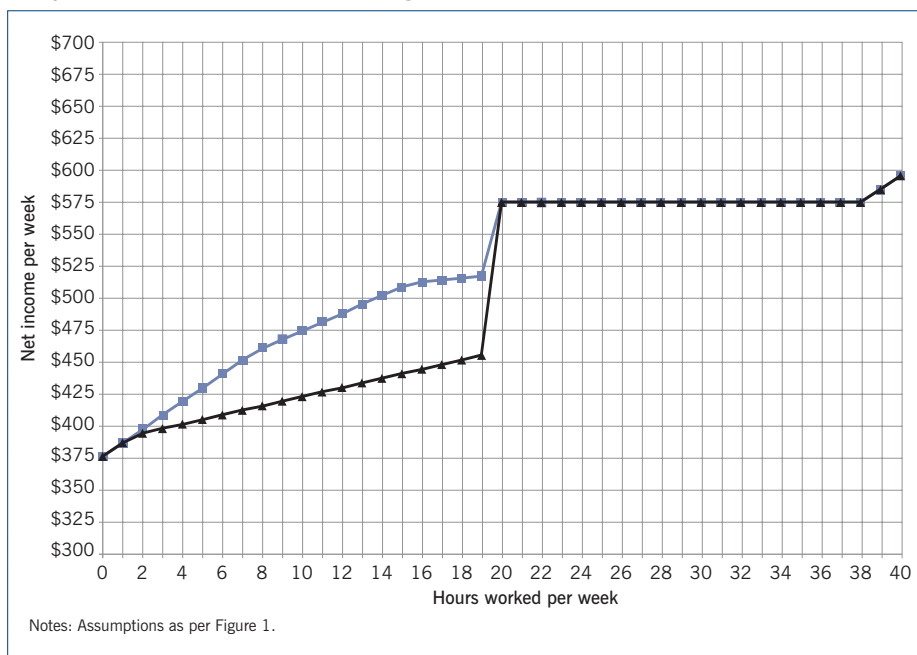
in Figure 1, but the choice of wage rate is not critical to the conclusions.

Three points arise from Figure 3. First, and most obviously, the alternative steeper abatement regime has the effect of incentivising beneficiaries to work 20 hours by reducing the gain from fewer hours. The EMTR on earnings above \$20 per week up until moving off benefit rises to 72.5%. Assuming no behavioural response, the WWG's suggestion would result in a considerable number of losers. Currently, approximately 15,800 domestic purposes beneficiaries (16%) and 44,400 beneficiaries in total (12.6%) report some earnings to Work and Income.⁸ These people would all have their benefit reduced by more than at present except for a small number reporting earnings of under \$20 per week and those deemed to have very little capacity to work, for whom the WWG proposes a different, more generous abatement regime. At the same time, if the change were to have the intended effect of encouraging sole parents to move to 20 hours work it is not clear that the fiscal savings would be great, given that at low wage rates, total assistance (benefit plus tax credits less income tax) may be greater at 20 hours work off a benefit than at fewer working hours on an abated benefit.

Second, unless other changes were made, the combined proposals introduce an inconsistency between the proposed work expectation rules and the financial incentives. The WWG recommends that sole parents whose youngest child is six or older be required to seek at least 30 hours work per week rather than the current 20 hours. However, based on the current MFTC, there is no financial gain at all from moving from 20 to 30 hours work unless the person's wage rate is above approximately \$17.00 per hour. It seems anomalous to target full-time work in the work test and part-time work in family tax credits. Moreover, it is likely to be difficult to make full-time work search obligations effective when the financial incentives favour part-time work.

Third, Figure 3 is plotted on the basis of the current MFTC. In fact, however, if the MFTC was set according to existing rules, its level would need to

Figure 3: Budget constraints, Welfare Working Group suggestions and current rules, sole parent with one child, minimum wage rate



be altered to ensure no one was worse off moving off a benefit at 30 hours for couples, or 20 hours for sole parents. The procedure for setting the MFTC is somewhat complex. The 'worst case' situation is found, which may or may not be at minimum wages and may be for either the sole parent working 20 hours or couple working 30 hours. The necessary top-up is then applied to both family types. Even though the alternative abatement structure results in a higher gain for a sole parent moving off benefit at 20 hours, by my calculations it would be necessary to set the MFTC higher to accommodate the effect on couple families moving off benefit at 30 hours.

The obvious policy design question this raises is whether there should be two MFTC top-up rates: one for those with a 20-hour work expectation and one for people (couples and sole parents with school-aged children) expected to seek full-time work. Such a scheme would have a number of other consequences. It would involve additional losers: namely, sole parents doing the 'right thing' by moving off a benefit and working between 20 and 29 hours. It would add complexity and it would require changes to the IWTC, which draws the same 20-hour/30-hour distinction between sole parents and couples. At one level these are technical issues of detail, but

on another they potentially have large implications for sole-parent families with low incomes and go to the heart of the objectives sought through these policies.

The impact of early childhood education and care costs⁹

So far the discussion has assumed zero child care costs, whereas in fact ECEC and out-of-school care costs can make a large difference to sole parents' financial incentives to take work, especially full-time work.

ECEC is funded through three main instruments. These are:

- Ministry of Education funding (at variable rates) for all occupied places in licensed services;
- additional Ministry of Education funding through the 20 Hours ECE policy, which provides 20 hours 'free' or near-free¹⁰ ECE for 3 and 4 year olds in centres that have opted in to the programme;
- Ministry of Social Development child care subsidy (CCS), paid at three rates dependent on family income and number of children for attendance at qualifying providers. The three rates are \$3.77, \$2.62 and \$1.46 per child per hour. The CCS is available for up to 50 hours care per week for those in work or approved

training. It cannot be claimed in respect of hours for which 20 Hours ECE is being paid.

Unfortunately, we do not have good data on the actual costs parents pay per hour for child care after accounting for the various subsidies.¹¹ The Childcare Survey does provide some data on the amount paid per week, but there is no way of knowing how many hours of ECEC is being paid for. That survey showed that for all children attending formal care for

Education Taskforce consider the benefits of extending the 20-hours provision to 25 hours to accommodate this.

The second issue is the difficulty in matching Ministry of Education rules for use of the 20 Hours ECE with the hours structure provided by ECEC services and with the hours of the job. The ministry funds a maximum of six hours per day under 20 Hours ECE, whereas most ECEC centres offer only full-day or half-day options. There is a logic

included in the remit of the WWG and other review committees and the scope of changes currently under consideration include many other significant matters.

How important is the 'on-benefit'/'off-benefit' distinction?

A first point is how much significance should be attached to the distinction between being 'on-benefit' and 'off-benefit'. The WWG clearly sees moving people off a benefit as very important. This is perhaps not surprising for a committee charged with advising on ways of 'reducing long-term benefit dependence'. However, it is important to be clear what that term means and why it is considered a desirable outcome, if indeed it is. If 'benefit dependence' is measured by the amount of direct cash assistance received (less income tax paid), then a sole parent off-benefit and working 20 hours per week on minimum wages would under the WWG's abatement suggestions be more 'dependent' than if she/he were working nine hours and receiving an abated benefit.¹³

Usually the term is used to refer to receipt of core benefits, yet nearly all sole parents (and many other beneficiaries) moving off a benefit would continue to be entitled to second-tier benefits, most commonly the accommodation supplement and child care or OSCAR Subsidy. In other words, if the objective of reducing benefit dependence is to detach people from contact with the welfare system, then simply shifting people off a benefit at 20 hours per week does not succeed as they continue to be clients of Work and Income. The WWG appears to be aware of this and suggests consideration be given to delivery of second-tier assistance through the tax system in the same way that family tax credits are delivered. This has some potential advantages, including the fact that it is likely to result in more complete take-up of entitlements, but may also lead to more debt due to innocent overpayment problems.

Another consequence of an 'off-benefit' focus is that it leads to the type of sharp abatement regime discussed above, where any labour force attachment below 20 hours per week is strongly discouraged.

While the 20 Hours ECE policy clearly made ECEC more affordable, one key difficulty, well-recognised by the Welfare Working Group, is fitting the ECEC hours around work hours.

at least part of the week (and excluding playgroups and Playcentre where a parent attends with the child), the cost to the parent was between \$51 and \$100 per week for 20% of the children and over \$100 for a further 23%. In addition, consumer price index data provided to the Early Childhood Education Task Force by the Ministry of Education show that fees fell by 34% on average immediately following the introduction of the 20 Hours ECE policy in mid-2007. A very rough check of websites suggests wide variation in costs for full-time, full-day ECEC services, with an average of somewhere around \$75+ per week for a 3–4 year old entitled to 20 Hours ECE plus the maximum rate of CCS for the remaining hours. If this figure is about right, a sole parent with one 3–4-year-old child and earning \$16.00 per hour would be only about \$45 per week better off shifting from 20 hours to 40 hours paid work.¹²

While the 20 Hours ECE policy clearly made ECEC more affordable, one key difficulty, well-recognised by the Welfare Working Group, is fitting the ECEC hours around work hours. Two issues face parents. The first is the additional time required to travel to and from the ECEC centre/provider and the workplace. The WWG suggests the Early Childhood

behind both arrangements: the ministry is modelling its policy on education delivery in primary schools and what is best for young children's learning; ECEC providers are driven by the practical and financial imperatives of running a centre. As a result, though, there are limited work patterns that permit a sole parent to move off benefit by working 20 hours without incurring at least some ECEC costs outside the 20 Hours ECE provisions. Five mornings or five afternoons per week might work, depending on travel times, but most other arrangements, such as two and a half days per week, do not. A sole parent who has a pre-schooler plus an older child at school and who wants to fit 20 hours paid work around school hours is likely to have to pay for five days full-time ECEC.

Discussion: some underlying issues

The above discussion of policy design details brings out some of the more basic issues policy makers will need to consider when implementing changes. In part these are about the objectives policies are seeking to achieve, and in part they relate to integrating policies across objectives that may in places conflict or compete with each other. The discussion below covers only four of these issues. As mentioned in the introduction, the range of issues

Is it better for a sole parent to work zero hours in paid work until she/he is in a position to shift to 20 hours per week than it is for her/him to work, say, 10 or 12 hours before later shifting to 20 or more? In part one's view on the on-benefit/off-benefit question depends on whether one believes contact with the benefit system is in some way corrosive or stultifying. The WWG report is clear in its concern to avoid situations where sole parents and other beneficiaries adapt to a low-income life where all or nearly all their income derives from benefits and tax credits. It is less clear, though, that the only positive alternative is 20 or more hours work and no core benefit.

Full-time versus part-time employment

The WWG is clear in wanting policy settings to encourage and expect sole parents to work full time once their youngest child is school-aged. One rationale it gives for this is that increasingly women, and specifically partnered mothers, are choosing full-time employment and the welfare system should be aligned with these preferences. However, the logic of this argument is open to question: couples where both parents work full time still have twice the number of non-paid work hours available to run the home and manage child-rearing and child care responsibilities. This includes greater opportunities to manage the day-to-day balance between paid work and care, such as morning start times, after-school care, school holidays and time off when children are sick.

Moreover, the data are less compelling than a reading of the group's report might imply. I do not have figures on both parents' combined paid work hours for couple families by age of child. However, figures on partnered mothers' employment rates suggest most couples with pre-secondary-aged children do not both work full time. Looking at 2006 Census data for partnered mothers who are aged 20–54 and who have no post-school qualifications (i.e. a group similar to sole parents on a benefit), only 40% whose youngest child was aged 5–9 years worked full time compared with 35% who work part time (defined as between one and 29 hours per week). For those whose youngest was aged 10–17 years the

Table 1: Full- and part-time employment rates, partnered mothers, by age of youngest child

	Full time (%)	Part time (%)	Total employment rate
Youngest child aged 5–9 years			
No post-school qualifications	40.2	34.9	75.1
All qualification groups	42.8	33.7	76.5
Youngest child aged 10–17 years			
No post-school qualifications	52.4	28.4	80.8
All qualification groups	55.3	26.9	82.2

Source: Ministry of Women's Affairs (2009), 2006 Census data.

full-time employment rate was just over a half (see Table 1). Allowing for the fact that in a number of cases the mother would have been the only earner in the family, the proportion of such families where both have full-time paid work would be lower still.

Wage rates and education and training

Figure 2 makes clear how critical the wage rate a sole parent can earn is in determining her/his ability to improve on the modest level of income guaranteed by the MFTC. However, prevailing wage rates for women who have few qualifications and limited labour market experience – who comprise the majority of sole-parent beneficiaries – are low. Durable strategies to allow sole parents to earn a greater proportion of their family's income and to reduce the amount paid in state assistance must surely include ways of raising sole parents' wages when in employment. Increases in statutory minimum wages and other regulatory support to raise low wages are part of this.

Also important are the education and training opportunities available to sole parents. The WWG recommends incentives for employers to provide more on-the-job and NZQA-approved vocational training. (It is not clear, though, what the report means by employer incentives 'such as through tiered training wages'. Lower training wages will not work if the constraint is the sole parent's income rather than the cost to the employer.)

The report also acknowledges the value of sole parents undertaking tertiary study. However, the group's recommendation on this needs more

work. They note the disincentive effects of the higher level of housing assistance available to sole parents on benefit (or in work) through the accommodation supplement compared with what is payable in accommodation benefit if they are tertiary students supported through StudyLink. They recommend that these effects be addressed 'to enable [sole parents] to move out of the welfare system and undertake tertiary study through the student support system' (recommendation 16).

Anomalies between the accommodation benefit for students and the accommodation supplement for beneficiaries and low-income workers are a long-standing and complex problem. My understanding of the current system is that sole parents on a benefit can sometimes continue to receive their benefit and accommodation supplement and also receive student assistance for fees and course-related costs but only where Work and Income deems the course to be part of a return-to-work plan. In general this would be for shorter courses and be unlikely to include multi-year tertiary education. One way of resolving the problem is to allow sole parents on a benefit to access assistance for fees and course costs for university and other tertiary study while retaining their benefit and accommodation supplement. The other is to transfer them to a student allowance (at the same rate as the DPB but with different abatement/earnings rules) but allow them to access an accommodation supplement. Both options would cost extra, but would provide recipients with the opportunity to raise their earning power to levels that

With (usually) only one adult to manage the occasional and often unpredictable problems that arise – children’s illnesses, doctors and other appointments, school events, school holidays and so on – a sole parent’s ability to sustain her employment is often dependent on her employer’s flexibility and co-operation.

would significantly reduce their likelihood of being long-term benefit recipients in the future. Which is preferable goes back to the question of whether it matters if a person is deemed ‘benefit dependent’ in the Work and Income system (as against being a student in the StudyLink system). The flow-on effects for other groups of students currently only entitled to accommodation benefit would also need to be addressed.

Supporting sole parents to balance paid work and care responsibilities

The above discussion of ECEC services concentrated on the impact of child care costs. However there are two other issues policy makers will need to address.

The first is implications of work-search obligations for sole parents. In order to enforce work obligations and to require sole parents to take jobs that are offered to them, Work and Income (or any other employment agency) needs to be able to resolve the sole parent’s child care needs. Clearly, where financial incentives to work are good this will be less of a problem, but where they are not the sole parent will be less willing to take work. Ultimately, to enforce obligations the agency needs to be able to say ‘here is a place in a safe, approved childcare service that is suitable for your child – you are required to take the job offer and either use this child care place or find your own alternative’. The other option of offering x dollars per week for a sole parent to pay a relative or friend to care for her/his child will not work for work-test purposes for the obvious reason that the sole parent can always say she/he has

no one who is willing to provide the care. In effect, Work and Income will need to buy a supply of child care (and OSCAR) places across the country to be used to enforce work-test obligations.¹⁴

A second issue relates to the relationship between early childhood education, formal child care and informal care provided by family, friends or paid informal carers. Many parents use informal care, either because it is convenient or because it allows contact between grandparents or other family members and their children. For many it is an important part of family life and the upbringing they want for their children. For policy makers focused on sole parents’ labour force participation (albeit also concerned more broadly with children’s well-being), the central question is whether the state should financially support such care. On the one hand, the deadweight costs would be high; on the other, care provided by others, especially grandparents, is an important factor in allowing sole parents to take work and move off a benefit.

Within the formal sector there is a long-standing tension between the provision of child care for parental labour supply purposes and the provision of ECE for child development and education purposes.¹⁵ The 20 Hours ECE policy can be seen as a useful building block towards reducing this tension. By universalising near-free education (on a voluntary basis) from age three it makes part-time parental employment more achievable once the youngest child reaches that age. The WWG’s proposal to extend it to 25 hours would help align

it with 20 hours paid work, although logic suggests moving towards a 9am–2.30pm or 3.00pm structure aligned with school hours, coupled with a ‘care and recreation’ focus outside those hours to accommodate parents working longer or different hours.

A final observation about measures to support sole parents to balance caring with paid work is about the role of the employer. With (usually) only one adult to manage the occasional and often unpredictable problems that arise – children’s illnesses, doctors and other appointments, school events, school holidays and so on – a sole parent’s ability to sustain her employment is often dependent on her employer’s flexibility and co-operation. There is potentially value in ongoing government-subsidised support for additional leave for sole parents whose employment arrangements would otherwise break down.

Conclusion

The WWG has put forward an argument and proposals for a strongly ‘work-focused’ welfare system. The purpose of this article is to draw out some of the issues of integrating this approach with other policies affecting the financial implications for sole parents moving off benefit and into work. Imposing stronger work obligations on sole parent beneficiaries may have some effect on the numbers recorded on benefit. However, the effect is likely to be limited and the risks of negative impacts on the sole-parent families themselves high unless work obligations are coupled with a package of policies that make it practical and financially beneficial for sole parents to balance paid work and caring responsibilities. This includes policies to raise sole parents’ wages, coherent integration of benefits, tax credits and abatement regimes and extended ECEC provision.

1 The ACC earner levy has also not been included, but this does not substantially alter the analysis. Benefit rates and rules are available at <http://www.workandincome.govt.nz/manuals-and-procedures.html>.

2 Unless there are exceptional circumstances, all beneficiaries’ earnings are taxed at secondary rates. In the case of sole parents who are on benefit full-year, this is also likely to be the ‘right’ end-of-year tax rate, as their gross benefit exceeds the \$14,000 lowest tax threshold. There will be some situations of part-year benefit receipt however where the final annual tax payable is different.

3 This MFTC rate applies from 1 April 2011; for the year prior the amount was \$408pw. Note that for many people

effective marginal tax rates (EMTRs) would be high (62.5% to 75% in most cases) even in the absence of the MFTC because of the 20% abatement of family tax credits on earnings above \$708.21pw (\$36,827pa) and 25% on AS on earnings above \$478pw on top of income tax. Third-tier assistance such as temporary assistance grants can also raise EMTRs.

- 4 Some other groups also have the same abatement regime. The abatement regime for unemployment benefit is 70 cents per dollar earned over \$80 per week.
- 5 Although until last year the thresholds were set at \$80.00 and \$180pw.
- 6 June 2010 New Zealand Income Survey.
- 7 The full-time work test refers to 30 hours or more per week

and persons working 30 hours or more cannot register as unemployed.

- 8 Ministry of Social Development *Benefit Factsheet*, December 2010.
- 9 At the time of writing the Early Childhood Education Task Force had not reported. It is likely that its recommendations will address issues of cost.
- 10 Centres may charge for certain items and activities.
- 11 Although it is possible that the Early Childhood Education Task Force may be able to obtain estimates as part of its work, none are available at time of writing.
- 12 This also assumes that child care costs for the first 20 hours are covered by the 20 Hours ECE provisions. If not, net income after child care is lower at 20 hours but the gap

between 20 and 40 hours is correspondingly larger.

- 13 Assuming the current MFTC.
- 14 The alternative, for the state to have no consideration for the child's care arrangements, would (I assume) be socially unacceptable and would in any case run counter to the legal requirement for parents and guardians to ensure adequate care.
- 15 See Baker (2011) for a discussion of these issues in relation to New Zealand and Canada.

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THE IRON CAGE RECREATED

The Performance Management of State Organisations in New Zealand

Edited by Derek Gill

Wouter Van Dooren, a highly respected international academic, suggested that "politicians don't use performance information; citizens don't understand it and don't bother with it; and public managers don't trust it or don't take it seriously". A former New Zealand Controller and Auditor-General, Kevin Brady, has described the quality of non-financial performance information produced by public sector agencies in New Zealand in highly derogatory terms. In a similar vein a former Cabinet minister observed that "no one in their right mind" would rely on New Zealand government management reporting.

This book explores the results of a major three-year research project by a team of academic researchers and public officials on the use of performance information in the New Zealand state sector. It examines the formal design of the performance management system and how this system has evolved, then uses survey and case study evidence to show how performance information has been used in state sector organisations.

The New Zealand public sector pioneered comprehensive and rigorous systems for planning, managing, and reporting government performance in the 1990s. Twenty years on, we ask whether performance information has fallen into disrepute, and whether the production of such information has degenerated into an exercise in compliance. Do managers in the New Zealand state sector actively use

performance information in decision-making?

The research finds decision-makers at all levels of executive government actively using performance information for control purposes, rather than solely as an exercise in compliance (which in part it is). What emerged within public agencies was the picture of an iron cage of control based on performance measurement. This was not how the designers of the formal system envisaged performance information would be used. The book concludes with proposals for the ongoing development of organisational performance management in New Zealand.

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Philip S. Morrison¹

Residential Sorting and Social Mobility in New Zealand

This article argues that the residential sorting process which confers advantages on those who can choose their residential environments may also deny such advantages to others. The policy question therefore is the degree to which residing in neighbourhoods with relatively high levels of deprivation lowers people's prospects of social mobility.

The geography of social mobility

Remarkably for a country which has experienced such a marked increase in income inequality over the last three decades, we still have no comprehensive study of social mobility – the movement of individuals between different positions within the system of social stratification. This has been highlighted by the release of the Treasury working paper on social mobility in New Zealand (Gibbons, 2010) in what appears to be the first policy-focused study of social mobility in over 40 years (Robb and Cloud, 1970).

As a research community we have been quite aware of the potential for income inequality to slow social mobility, and a number of these concerns were

discussed over a decade ago in the Institute of Policy Studies volume *Cycles of Disadvantage?* (Boggers, Corcoran et al., 1999). Since then movements in and out of poverty and income dynamics more generally have been investigated (Ballantyne, Chapple, et al., 2003; Maloney and Barker, 2000), along with intergenerational welfare participation (Maloney, Maani and Pacheco, 2003). The Treasury also held a more recent discussion on social mobility at the 13th Conference on Labour, Employment and Work (Treasury, 2008) and the Institute's recent symposium on income inequality touched on some of the same issues.² The potential policy value of such enquiry is well illustrated by the lessons learned in the United Kingdom (Smith and Middleton, 2007).

The focus of this article is on the way inequalities become translated into separate residential geographies of the rich and poor. Where one lives in a city, the characteristics of the neighbourhood, matters a great deal to those who can and do exercise choice (Benabou, 1996) and environmental and social externalities of residential locations are often selected with an eye on the generational transmission of privilege (Thorns, 1989). The uneven distribution of positive externalities which results from residential sorting confers a class of advantages known as neighbourhood effects (Lupton, 2003; Durlauf, 2004).³

One of the reasons residential sorting has attracted the attention of policy analysts overseas is that the positive tail of the income distribution in many countries has become longer. New Zealand is no exception (Atkinson and Leigh, 2005), and income inequality increased markedly in this country between the mid-1980s and the turn of the century to become one of the highest in the OECD (Gleisner, 2010). Our social geography has become more distinct spatially as a result (White, Gunston et al., 2008; Maré and Mawson, 2001). Increasing spatial separation of socio-economic groups

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is a phenomenon we now share with Australia (Badcock, 1997; Baum, 1997; Biddle, Kennedy et al., 2001; Forster 2006; Randolph, Murray et al., 2007), Canada (Hatfield, 1997; Hulchanski, 2007), the UK (Dorling and Rees, 2003) and, of course, the USA (Abramson, Tobin et al., 1995; Massey, 1996).

The underlying concern with these spatial trends is that access to the positive externalities which accompany spatial clustering of the educated and those with high incomes are denied to the relatively disadvantaged (Frank, 2005). The response in New Zealand has been a number of redistribution mechanisms based on the attributes both of individuals (e.g. progression taxation) and families (e.g. Working for Families) and of the areas in which they live (e.g. differential grants channelled through local health and school boards).

In the discussion to follow, I draw on recent research to consider the impact that residence in neighbourhoods with relatively high levels of deprivation has on the direction and magnitude of social mobility (see Morrison and Nissen, 2010 and Clark and Morrison, 2011). In doing so I connect three dimensions which have remained largely separate in the New Zealand debate: income inequality, residential sorting and social mobility.

Over time, most people adjust to their changing needs and circumstances

by changing their residence. These moves can be upwards or downwards in terms of neighbourhood quality and socio-economic composition. The approach taken by the two studies summarised here involves defining upward social mobility not as an intergenerational change in occupational rank but as a change of address resulting in moves to neighbourhoods with lower levels of socio-economic deprivation.

Some empirical findings

The neighbourhood change measure of social mobility we use relies on the New Zealand Index of Deprivation, NZDep06, the fourth iteration of an index originally developed for health researchers from the 1991 census (Salmond and Crampton, 2001, 2002).⁴ The deprivation index itself is constructed from nine variables reflecting eight dimensions of deprivation: two income measures, housing tenure, single-parent families, unemployment, lack of qualifications, crowding, and lack of access to a telephone and/or a car. Each variable is measured as the proportion of people in a Statistics New Zealand area unit and is standardised using eight age-gender groups to match the New Zealand population structure (White, Gunston et al. 2008, pp.9, 10).⁵ In our two studies area units are used as proxies for 'neighbourhoods'.

When ordered by their index score, all area units within the country can be assigned to a decile: from 1 as the least deprived to 10 the most deprived. Such an assignment is based on rank and therefore is based on relative rather than absolute differences between neighbourhoods. It is also worth remembering that as an ecological measure, the NZDep06 refers only to the area in which people live, and not any one or every individual there (Blakely and Pearce, 2002).

By attaching the deprivation characteristics of the person's area unit to the attributes of the individual mover we can operationalise a neighbourhood-based conceptualisation of social mobility.⁶ The focus therefore is on mobility in neighbourhood deprivation terms rather than geographic mobility *per se*. Mobility in neighbourhood deprivation terms therefore can subsume any number of geographic configurations, from short moves next door to long moves the length of the country.

The first set of empirical results draws on those people who changed residence between the census of 2001 and the census of 2006. The second draws on the Survey of Dynamics and Motivation for Migration in New Zealand, which covers a sample of over 5,000 movers over the two-year period 2005–2006. Both data sets were assembled by Statistics New Zealand. The focus in each case is on

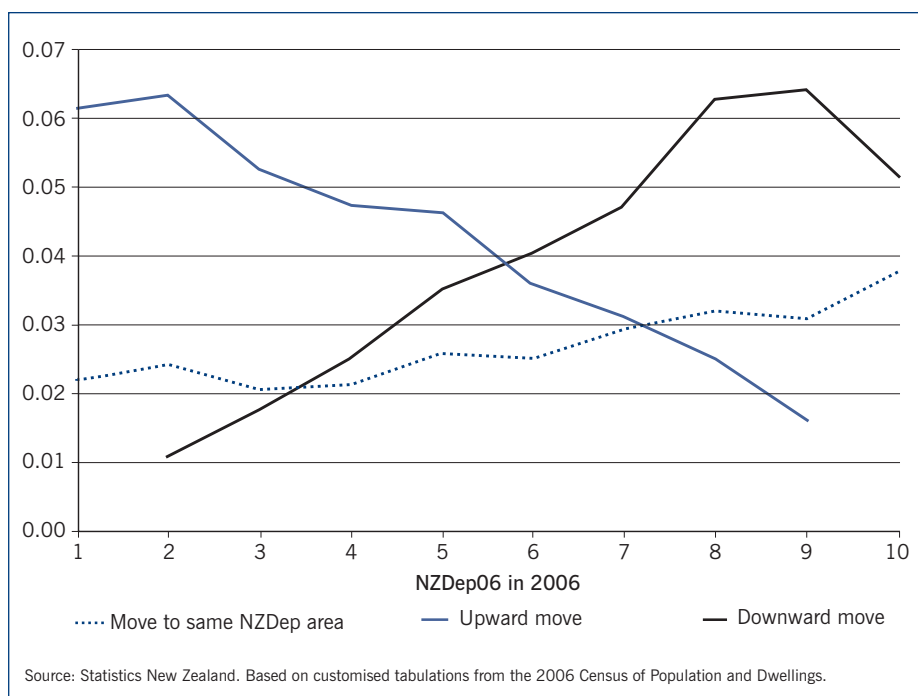
Table 1: NZDep2006 classification of residents aged 15+ at the 2006 census who lived elsewhere in New Zealand five years earlier

NZ Dep 2006 at origin 2001	NZ DEP 2006 index at destination 2006										Total
	1	2	3	4	5	6	7	8	9	10	
1	27,840	14,076	9,726	8,823	9,342	7,641	6,939	6,174	5,478	3,153	99,192
2	14,196	30,636	12,693	11,571	11,700	9,687	8,235	8,103	7,251	4,104	118,176
3	11,253	13,476	26,022	11,181	11,724	10,980	9,939	10,176	7,353	4,080	116,184
4	10,281	12,291	10,821	27,150	12,108	10,206	9,672	11,136	8,976	5,043	117,684
5	10,812	13,176	12,486	12,756	32,742	13,278	12,687	13,230	11,088	6,195	138,450
6	7,845	9,747	11,268	10,689	12,996	31,716	12,420	13,377	10,758	7,095	127,911
7	8,451	9,090	10,398	10,137	13,269	12,936	37,071	17,811	12,393	8,169	139,725
8	7,035	9,789	10,335	11,976	14,151	13,635	17,892	40,647	18,321	11,610	155,391
9	5,532	8,334	7,140	9,741	12,141	10,887	13,077	18,615	39,063	16,812	141,342
10	2,958	5,076	4,263	5,463	7,422	8,418	8,997	13,587	20,286	47,700	124,170
Total	106,203	125,691	115,152	119,487	137,595	129,384	136,929	152,856	140,967	113,961	1,278,225

Source: Statistics New Zealand. Customised Tabulations from the 2006 Census of Population and Dwellings

Note: Figures in this table represent those who moved between 2001 and 2006 and where NZDep2006 was identified for each of the two specified addresses.

Figure 1: Social mobility in neighbourhood terms: the probability of moving to area units in the same, higher or lower deprivation deciles between 2001 and 2006.



those who change residence over the five- and two-year time spans respectively.

Census-based mobility patterns

The origin-by-destination matrix in Table 1 shows the mobility experience of 1.27 million people who changed their residential address within New Zealand over the five-year period 2001–2006.⁷ The cells in the table count the number of respondents in 2006 who declared that they lived at another address within New Zealand at the previous census five years earlier. Their addresses at the beginning and end of the period have been sorted according to the deprivation scores of their neighbourhood in 2006. For example, 27,840 people moved from an address in 2001 that was classified as being in a decile 1 neighbourhood to another address in a neighbourhood also classified as decile 1 (the top left cell of the table).⁸ Many more people move to area units with a different decile ranking from the one they leave. Flows in and out of deprivation deciles tend to be symmetrical, as some people move up and others move down. For example, a total of 14,196 moved from decile 2 areas to those classified as decile 1 and a very similar total of 14,076 moved in the other direction, from decile 1 to decile 2.

The value of decile-of-origin by decile-of-destination matrices such as

Table 1 is that they allows us to identify three types of mobility. Upward social mobility involves moving to a lower decile – those cells below the diagonal. Downward mobility involves moving to a higher decile – the cells above the diagonal. Those changing residence but making no change to the decile rating of their neighbourhood appear in the diagonal itself and are classified as stable in social mobility terms.

If we calculate the unconditional probabilities corresponding to the counts in Table 1 (by dividing each cell frequency by the grand total) we learn that just over one quarter (27%) of all those changing address within New Zealand between 2001 and 2006 were not socially mobile in neighbourhood terms; they remained in the diagonal. The probability that a person changing their residence would move upwards in decile terms was 38% and move downwards was 35%. There was, therefore, a net aggregate change of residential addresses that was slightly positive in social mobility terms over this period.

Social mobility in neighbourhood terms can be represented graphically through Figure 1, which indicates the probability a person will move to an area unit in the same, higher or lower deprivation decile over the 2001–2006

period. The dotted line refers to those moving neighbourhoods within the same deprivation decile. The fact that the line is upward sloping means that those moving from the more deprived neighbourhood are more likely to remain within their decile of origin rather than moving up or down.⁹

Among those who change neighbourhood deciles when they move, those who move to more deprived areas are more likely to have moved down to an even more deprived (higher decile) neighbourhood than the one they came from – as shown by the black solid line in Figure 1. In contrast, those who moved to least deprived areas were more likely to have improved the decile ranking of their residence, as shown by the blue solid line (i.e. they moved to a lower decile). By virtue of the bounded nature of decile classification, those moving to a different decile who originate in decile 1 and decile 10 neighbourhoods could only move downwards and upwards respectively. However, the chances of residents moving downwards to decile 10 were actually lower than of moving downwards to slightly lower deciles 9 or 8. As we confirm later using survey data, residing in the most deprived neighbourhoods does appear to be associated with constrained upward mobility.

While residents who moved to the least deprived areas were more likely to have improved the decile ranking of their residence, as shown by the blue solid line in Figure 1, the chances were actually highest for those who are in decile 2. For those who are in deciles 3 to 9, the probabilities of having moved to a less deprived neighbourhood diminished.

In summary, the residential mobility we observe in New Zealand over the most recent inter-censal period available shows that the adjustments people make when they change neighbourhoods tend to reinforce or perpetuate the pre-existing distribution of people across neighbourhoods. Of all people who move within the period, those who start in the most deprived areas are the least likely to leave them (for locations elsewhere in New Zealand).¹⁰ However, when people do move out of their decile of origin their chances of moving upwards are

slightly greater than their chances of moving downwards. The result, therefore, is a slight net gain in social mobility experienced by all those who change address.

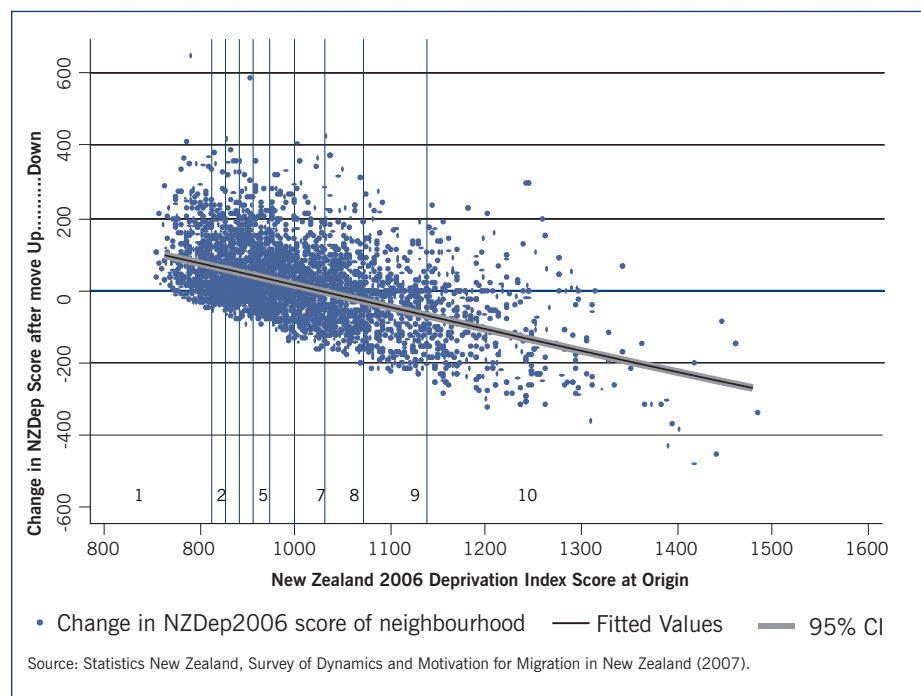
Observing who upgrades and downgrades their neighbourhood is one thing; knowing who these people are is another. All we have shown from the census evidence above is that those who do leave the poorest 10% or 20% of neighbourhoods are more likely to move to a less deprived neighbourhood, however slight the difference may be. Without any knowledge of their demographic or socio-economic characteristics, however, we are unable to say how important or influential the neighbourhood of origin itself might be in constraining mobility as we have defined it. In order to estimate the relative effect of the neighbourhoods on the social mobility of individuals it is necessary not only to establish the kind of neighbourhood they leave and enter but to identify the characteristics of the movers themselves.¹¹ Taking this step requires access to unit records, which we have accessed in this instance through the Survey of Dynamics and Motivation for Migration in New Zealand (Clark and Morrison, 2011).

Survey evidence

The Survey of Dynamics and Motivation for Migration was run as a supplement to the March 2007 quarter of the New Zealand Household Labour Force Survey (HLFS) between 7 January and 7 April 2007. The HLFS routinely collects basic demographic and employment information from around 30,000 individuals in 15,000 private households on a statistically representative basis from rural and urban areas throughout the country. In the March 2007 quarter the HLFS received a sample of 26,756 responses from individuals and all of those individuals were given the opportunity to take part in the supplement. This resulted in a total of 23,465 responses to the additional questions.¹²

Among the advantages of this survey is that it has allowed us to use the continuous form of the deprivation index, the scores. These scores are the weighted sums of the nine variables that

Figure 2: The change in neighbourhood deprivation scores of movers (S_{ij}) over the 2005–2006 period in relation to the deprivation score of their neighbourhood of origin (S_i)



account for most of the variation in socio-economic deprivation levels across the country and have been attached to addresses of the surveyed movers. Whereas about half of all individuals change their residential address over the five-year period between censuses, in the case of the survey just under a quarter (24.8%) changed residence, over its two year migration period.

Figure 2 plots the change in the neighbourhood deprivation score experienced by the sample of movers against the score of their neighbourhood of origin. Each point on the scatter refers to someone who changed addresses over the time period. The cloud of points summarises the direction and magnitude of social mobility (in NZDep06 score terms) experienced by movers starting from neighbourhoods with different deprivation scores. The horizontal line crossing the Y axis $Y=0$ separates those moving up and down in deprivation terms. Superimposed on Figure 2 as vertical lines are the boundaries delimiting the deciles of the deprivation index of the neighbourhood they left. The line running downwards through the scatter itself is the OLS regression fitted through the points: $\Delta S_{ij} = a + b_1 S_i$, where ΔS_{ij} is the change in score resulting from the

move from the deprivation index score of origin i to the score of destination j .

Our estimate of the slope coefficient depicts the average reduction in neighbourhood deprivation experienced by movers starting in successively more deprived neighbourhoods. The maximum decrease in deprivation one can experience for every unit increase in S_i is $\Delta S_{ij} = 0 - 1 \cdot S_i$, a limit which is reflected in the bottom edge of points in the scatter. The slope of the estimated β is -0.6 which is less than -1 , which suggests that upward social mobility as we are defining it decreases the more deprived the neighbourhood of origin.

There are many reasons why social mobility, as measured here, might decline with the deprivation level of the starting neighbourhood. The most important of these are the characteristics of the movers themselves and the way they are sorted by neighbourhood. Highly deprived areas will contain poorer individuals who are likely to exhibit lower levels of education, and who may be younger and therefore at different stages in their life course, and also experiencing higher levels of employment instability. There may also be constraints particular to those identifying with particular ethnicities and the relationships which bind communities spatially. If we want to identify the influence

of the starting neighbourhood on social mobility, therefore, we need to try and control for most of these people-specific influences. Therefore we include in our regression models a range of personal attributes, including age, sex, type of family, the presence of school qualifications and post-graduate qualifications, being employed, level of reported income, and whether the respondent was born in New Zealand together with reported ethnicity (see Clark and Morrison, 2011).

Upon estimation we find that it is the young movers who are most likely to move to neighbourhoods with higher

of deprivation change, ethnicity still exhibits a depressing effect on upward mobility; that is, towards less deprived neighbourhoods.

What we go on to show in the source paper is that while people's characteristics play a central role in redistributing them among neighbourhoods, the deprivation level of the neighbourhood of origin continues to depress upward mobility. Even after we control for the age, sex, household type, education, employment and income of movers, as well as whether they were born in New Zealand and their ethnicity, the deprivation level of

find that high levels of neighbourhood deprivation lowers the average degree of improvement. The chance of Māori upgrading appears particularly sensitive to their neighbourhood, especially in the most deprived areas of the country.

Conclusions and policy implications

Local housing and educational markets are closely aligned and the positive externalities which the socio-economic segregation of households confers on those who can exercise choice means that people are not randomly distributed across neighbourhoods. The most highly clustered are the affluent, because they have most to gain from the benefits of clustering. By that very process, however, the poor, who end up in residual neighbourhoods, are denied such advantages. The resulting sorting patterns, we argue, result in reduced chances of upward mobility for those living in more deprived neighbourhoods regardless of the demographic and socio-economic characteristics of the individuals involved.

These conclusions serve to highlight the importance of *place* in, and raise important questions about the role the spatial clustering of socio-economic groups might be playing in, social mobility. The policy implications are potentially significant because they suggest that focusing attention solely on individuals and families may not be sufficient to address uneven chances of social mobility in New Zealand. While spatial clustering may benefit those who have the means to select where they want to live and have the human capital to build on the advantages of their proximity to each other, those whose choice is considerably more limited may be unable to exploit such advantages and may be faced with conditions and interactions which actually retard their mobility, over and above any specific characteristics individuals and families might bring to the process.

'Place' policy in modern public policy agendas, international commentator Professor Duncan Maclennan wrote for an Auckland planning audience recently, is not primarily about 'where are the poor, where are the problems'

Local housing and educational markets are closely aligned and the positive externalities which the socio-economic segregation of households confers on those who can exercise choice means that people are not randomly distributed across neighbourhoods.

levels of deprivation. This is particularly the case if they head a one-parent or one-person household and have relatively lower levels of education. Much of this downward adjustment in the neighbourhood is due, of course, to their lower probabilities of employment and lower incomes. Not being employed is strongly associated with moving to areas with higher levels of deprivation, while income has a major positive effect in permitting moves from neighbourhoods with high to neighbourhoods with lower levels of deprivation. Being born in New Zealand amplifies the chances of upward mobility as measured.

The single most important attribute of the mover associated with the degree of improvement in deprivation terms is ethnicity - identifying not only with Māori or Pacific but also Chinese and Indian. Members of each of these ethnicities show a lower level of upward neighbourhood mobility relative to Europeans. Even with the above socio-economic variables included in the model

the neighbourhood of origin decreases the likelihood that people will move to a better neighbourhood.

The estimated slope coefficient in the fully controlled model of neighbourhood deprivation of -0.723 suggests that on average a mover experienced only a 72% chance of social mobility (as defined) for every increase in the deprivation score of their origin.¹⁴ Other things being equal, the likelihood of Māori (n=768) moving to better neighbourhoods not only falls the more deprived their origin but the effect becomes more marked the more deprived their original neighbourhood.¹⁵

In summary, when it comes to social mobility as represented by movement up and down a scale of neighbourhood deprivation, *where* one begins matters. The chances of people changing residence may not be affected by how deprived their neighbourhood is, but their degree of upward mobility most certainly is. After controlling for those characteristics of movers which normally influence upward mobility we

but about 'how can we use place as a medium to manage better for the bigger objectives.' Place policy is about creative, effective public management and not distortionary, problem palliatives. It is as much concerned with managing growth and prosperity as decline and poverty. (Maclennan, 2008, p.6)

Maclennan's focus on place notwithstanding, the policy debate as it relates to place of residence in New Zealand, on neighbourhoods, has hardly begun even though we have long had programmes designed to spatially redistribute government revenue. The central message of the research reported here, however, is that the degree of redistribution and possibly the specific mix may not yet be sufficient to redress the negative effect of living in highly deprived neighbourhoods as measured by the ability to move to better neighbourhoods.

As Maré and Mawson (2001) suggested a decade ago, any policy initiative designed to address the negative influences of place *per se* would have to be preceded by a careful examination of the particular dimensions of deprivation that are associated with the places involved, as well as the access and labour market characteristics of their geographic location. This is good advice, for we still know too little about how people and places interact for the benefit of both. We still know too little about thresholds and specific mixes of people and place characteristics to recommend ways of increasing social mobility among those who live in deprived communities. We do know that neighbourhoods matter, but still know little about exactly how

they matter and what we can do about making them work positively, especially for individuals and families on low incomes. Hopefully, this latest research on the possible negative social mobility consequences of the way we distribute ourselves spatially will kindle a debate on the relationship between place of residence and social assistance in general in New Zealand.

- 1 This paper was written while Philip Morrison held the Henry Lang Fellowship at the Institute of Policy Studies. A number of the issues discussed here were introduced at the IPS workshop on residential sorting, neighbourhood effects and employment held as part of the 14th Conference on Labour, Employment and Work at Victoria University of Wellington, 30 Nov–1 Dec 2010.
- 2 Institute of Policy Studies, 'Does Inequality Matter? A policy forum', Wellington, 16 November 2010.
- 3 The dominant focus of those who write about social differentiation in the city is deprivation, the location of the poor. Yet, as Jane Jacobs has argued, in her prescient way, "To seek the "causes" of poverty is to enter an intellectual dead end because poverty has no causes. Only prosperity has causes' (Jacobs, 1961, p.118, cited in Piachaud, 2002, p.1).
- 4 The following paragraph draws heavily on the description offered by White, Gunston et al. (2008), p.9. For references to the history and development of area-based indices see the references in White, Gunston et al. (2008), p.7.
- 5 Technically speaking, the index is the first principal component extracted from the eight measures, which is then scaled to have a mean score of 1,000 index points and standard deviation of 100 index points.
- 6 By the same argument it is possible for the deprivation decile of the area unit to change from one census to the next as a result of differential flows of individuals into and out of the area, as detailed in Morrison and Nissen (2010). The majority of area units do not change, however, and those that do move up or down one decile only. In other words, on a deprivation scale neighbourhoods (area units) are relatively stable over time and it is people who move.
- 7 Not included here are those individuals who could not provide their previous address in sufficient detail to allow a deprivation score to be attached. This inability is positively related to the respondents' deprivation score in 2006 leading to their systematic under enumeration in the above tables.
- 8 Technically this could be the same neighbourhood but such instances are relatively rare in this matrix.
- 9 This result is partly a function of decile 10 being an end state. While those originating in decile 10 can move to a lower decile, they cannot move any further 'downwards' in socio-economic terms. It is important in evaluating Figure 1, however, to recognise that the range of scores within decile 10 is actually wider than the range over all the other deciles combined and therefore that there is considerable scope for movement within decile 10.
- 10 We recognise the possibility that another origin-by-destination matrix exists documenting the behaviour of those who emigrate and immigrate. Although potentially discoverable, we do not yet know who leaves deprived neighbourhoods in New Zealand for better neighbourhoods in Australia, for example, or what the reverse pattern might look like when Australians settle in New Zealand. It is not impossible to imagine, for example, that by confining our analysis to New Zealand we may in fact be underestimating social mobility in neighbourhood mobility terms among those

- originating in New Zealand's more deprived neighbourhoods simply because we do not track their international mobility.
- 11 We show in the source research that the probability of moving *per se* is largely independent of the neighbourhood deprivation level.
 - 12 A full set of tabulated results from this survey are downloadable from the Statistics New Zealand web site: <http://www.stats.govt.nz/>. Search on: Survey of Dynamics and Motivations for Migration in New Zealand. Also see the complementary paper that also uses the unit records from this survey: Morrison and Clark (2011).
 - 13 A comparison of the averages of movers with movers and stayers combined shows that movers are typically younger (37 < 46.6 years), less likely to be couples or one-person households but correspondingly more likely to be one-parent households and other households. They are more likely to have left school with at least one qualification and have post-school qualifications; however, they are less likely to be among the higher-income groups. They are also less likely to be New Zealand-born or identify as European and are correspondingly more likely to identify as an ethnic minority. Finally, most variables are measured at the point of interview (hence Xj) but because dates of moves are scattered randomly over the two-year window there is unlikely to be a systematic bias resulting from this timing.
 - 14 The results are almost completely independent of the physical distance people move when they change neighbourhoods.
 - 15 Technically, when we enter Si as a quadratic in the Māori-only regression we find that Sij declines at a diminishing rate with increases in Si. Both coefficients are statistically significant. Interestingly, such non-linearity could not be identified in the case of Pacific movers, raising the possibility that the more deprived neighbourhoods affecting M ori mobility are those located outside the major cities.

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Matthew Gibbons

Intergenerational Economic Mobility in New Zealand

Introduction

Intergenerational mobility is about the relationship between people's outcomes and their childhood family circumstances. Researchers have sometimes defined intergenerational economic mobility as being about the extent to which an adult's income and occupation are determined by their own talents and ambition, irrespective of their family background (Blanden, Gregg and Machin, 2005, p.2). This type of intergenerational mobility differs from the structural mobility that happens when average incomes and job quality improve over time, and is sometimes also different from the intragenerational mobility that occurs when individuals change jobs or advance in their career (Aldridge, 2005). Because of social and political interest in equality of opportunity and economic efficiency, intergenerational economic mobility has been of increasing interest to researchers. Intergenerational economic mobility research is a subset of the expanding literature on relationships between childhood and adult outcomes in areas such as education, health and behavioural traits.¹

Intergenerational mobility is of interest to policy makers because large family background effects could imply that some people are unable to fully develop and use their skills and reach their potential. High levels of opportunity are usually considered intrinsically desirable, especially when outcomes are unequal (Black and Devereux, 2010, p.3). Low levels of opportunity can also reflect barriers to individual development and skill utilisation that result in an inefficient use of human capital. In addition, lack of equal opportunity may reduce the motivation, effort and productivity of citizens and increase pressure on governments for economic redistribution (OECD, 2010b, pp.181-2). Mobility researchers have therefore frequently attempted to identify the most efficient ways of giving more children a better start in life (Delorenzi, Reed and Robinson, 2005, p.2).

Obviously, some policies to promote intergenerational mobility could compromise the achievement of other policy objectives, such as skills development, economic growth and individual freedom (Roemer, 2004, p.51). For instance, increases in tertiary education expenditure have boosted aggregate education levels, but the

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greatest growth in participation rates has sometimes been among those from higher income families (Blanden and Machin, 2004, p.247). Similarly, children and a country's economy benefit when parents invest time, emotional commitment and money in their children. Parental investments, including the imparting of values, can mean that some children have better economic prospects than

β = the intergenerational income elasticity (marginal effect of a 1% change in parental lifetime income)
 $\beta \ln(Y_i^{parents})$ = a natural log of parents' lifetime income (usually just of fathers and a proxy) when their children were growing up
 Z_i = control variables (e.g. parents' ages)
 ϵ_i = random error term.

... eliminating all intergenerational economic effects might come at a heavy cost in terms of economic efficiency, incentives and the resources available for other social policy objectives ...

their peers. Indeed, eliminating all intergenerational economic effects might come at a heavy cost in terms of economic efficiency, incentives and the resources available for other social policy objectives (Delorenzi, Reed and Robinson, 2005, p.9; Swift, 2004).

This article quantifies intergenerational economic mobility in New Zealand by testing the relationship between the economic circumstances of parents and of their children as adults. Policy implications drawn by researchers about how mobility can be increased are then discussed. This article summarises a recent Treasury working paper, *Income and Occupational Intergenerational Mobility in New Zealand*, which is available on Treasury's website.

Calculating intergenerational mobility

The following model is commonly used to estimate intergenerational income mobility (Björklund and Jäntti, 2009, p.408; Blanden et al., 2004, p.125):

$$\ln(Y_i^{child}) = \alpha + \beta \ln(Y_i^{parents}) + \gamma Z_i + \epsilon_i$$

where:

$\ln(Y_i^{child})$ = a natural log of individual's adult lifetime income (or a proxy).

α = the constant

The intergenerational income elasticity (β value) quantifies intergenerational mobility by estimating the effect of a 1% change in the lifetime income (or a proxy) of a person's parents on that person's own income as an adult. A higher intergenerational income elasticity implies larger parental income effects and lower intergenerational mobility. Researchers have sometimes augmented this model by adding controls for variables such as educational qualifications (Blanden et al., 2004, p.139).

Accurately calculating intergenerational economic mobility is often challenging. Intergenerational income data is scarce in most countries, while measuring people's long-term economic situation is difficult. Higher and more accurate intergenerational mobility results usually occur when a large number of income measurements from peak earning years are available (Haider and Solon, 2006). Sample selection rules and the comprehensiveness of the data set can also affect the results (Couch and Lillard, 1998, p.320).

The New Zealand data

Data to test intergenerational economic mobility in New Zealand is limited. This study used data from two internationally recognised studies: the Dunedin Multidis-

ciplinary Health and Development Study and the New Zealand Election Study. These data sets have different samples, use different units of measurement and include people of different ages. Using both data sets improves our knowledge of intergenerational mobility in New Zealand and allows cross-validation of the results.

The Dunedin Study is a cohort study of 1,037 children born between April 1972 and March 1973 in Dunedin, which was then New Zealand's fourth largest urban centre. The results can be cautiously extrapolated to other New Zealanders born in the early 1970s because the study included children from a full range of backgrounds (Silva and McCann, 1996, pp.11-13) and because, irrespective of where in New Zealand they live, all New Zealanders have the same entitlements to social services. Health outcomes for the participants at age 26 were usually not statistically different to those of other New Zealanders. However, because of Dunedin's ethnic composition the study is under-representative of Māori and Pacific peoples compared to New Zealand's population (Poulton, Hancox et al., 2006, pp.1, 9). Although by age 32 only 38% of participants were still living in Dunedin, the study collects data on participants who have moved within New Zealand or overseas.

Lifetime income was proxied by data on parents' incomes when the participants were aged 13 and 15, and by data on the incomes of participants from their most recent assessment at age 32. When data on the incomes of participants' parents was collected the average age of mothers was 40 and the average age of fathers was 42. At age 32, 94% of those assessed by the study at age three were still participating, although there was some non-reporting of fathers' incomes.

Intergenerational economic mobility was also measured using occupation data from the large 1996 New Zealand Election Study data set. This data set includes people born in all regions of New Zealand and immigrants. While the Election Study collects income data only on respondents, the 1996 post-election survey asked respondents what their occupation was and what their parents' occupations had been when the respondent was aged about

14. The postal response rate was 55.7% (4,118 respondents). Groups that are less likely to be on the electoral roll, vote and answer surveys include those who move frequently, young people, Māori, and some ethnic groups (Vowles, 2002, pp.99-103). The data has been weighted to match voting behaviour, but does not always perfectly mirror the characteristics of New Zealand's population.

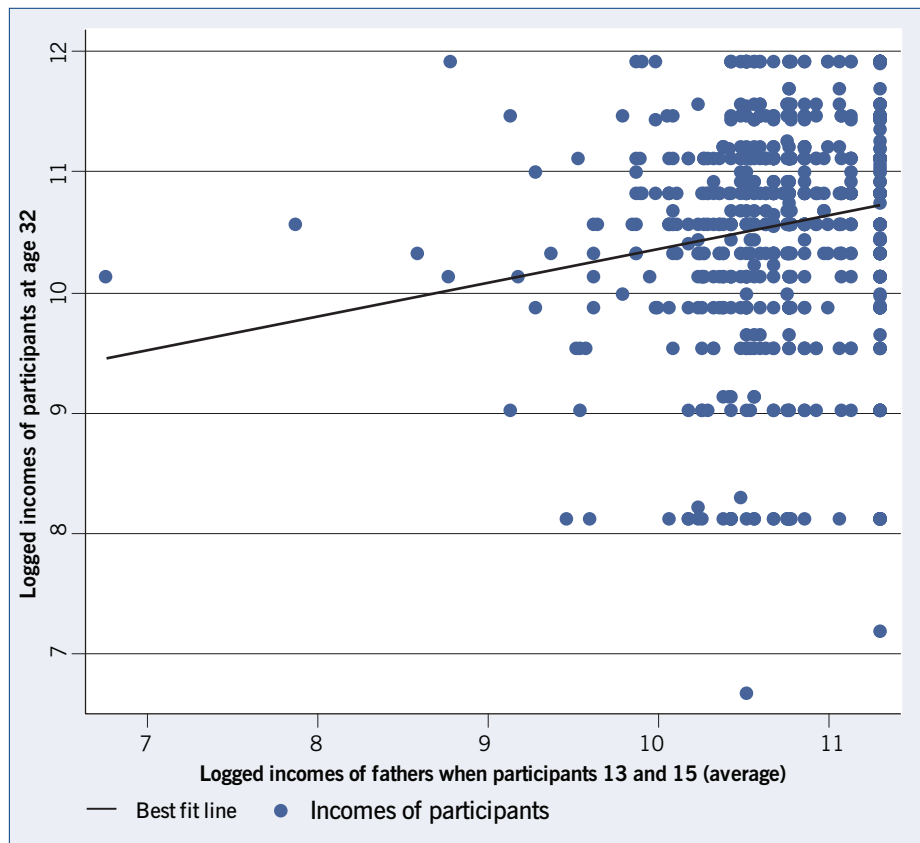
People's occupation determined their socio-economic status (SES) score. The SES scores run from 10 (textile workers) to 90 (senior managers). The average income of people in different occupations in the 1996 census, together with their educational qualifications and survey data on consumption levels, was used to calculate the SES of occupations (Davis, Jenkin and Coope, 2003, pp.12-16). Since occupation is an excellent indicator of lifetime income, data on SES has frequently been used to calculate intergenerational mobility (Blanden, 2008, p.16). While a person's SES is not the same as their income, the SES scores correlate with health and economic outcomes (Davis, Jenkin and Coope, 2003, p.11).²

The Dunedin Study income mobility results

Figure 1 shows the incomes of Dunedin fathers and of their children as adults with no control variables included. The x axis measures the average incomes of the fathers of Dunedin Study participants when the participants were 13 and 15. They axis measures the incomes of participants at age 32. All the income results are in logs. Each dot shows the income of a participant at age 32, and their father's income when that participant was growing up. The black best-fit line shows the estimated relationship between the incomes of fathers and the incomes of their grown-up children.

The results suggest a positive, but weak, intergenerational income effect. When a gender control was added, to control for the tendency of men to earn more than women, the intergenerational income elasticity was 0.26 (95% confidence interval: 0.14 to 0.39). This indicates that a 1% increase in the lifetime income of a person's father would result in a 0.26% increase in their own income as an adult.

Figure 1: The incomes of Dunedin fathers and of their children as adults



The wide scatter of dots confirms that a broad range of factors affect people's incomes as adults, with fathers' incomes explaining only 1.4% of the variance in the incomes of their grown-up children. In contrast, adding variables for a person's gender and educational qualifications explained about 22% of variance in adult income.

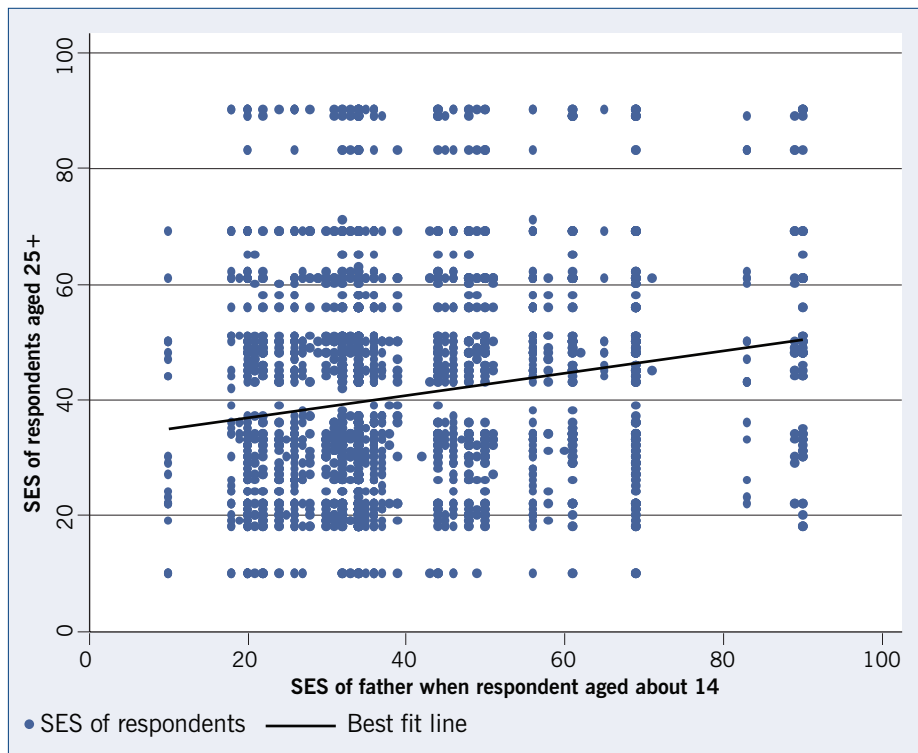
Other researchers have also found that individual background factors, such as child poverty and coming from a dysfunctional home environment, tend to have a modest effect on people's outcomes. Multiple disadvantages can have a larger effect, but even then many children overcome them (Ferguson and Horwood, 2003, pp.150-1; Melchior, Moffitt et al., 2007, p.972).

Separate results for men and women showed that the intergenerational income elasticity point estimates were moderately higher for men than for women. However, the differences were not statistically significant (see Figure 3). Age controls for the parents of participants have been omitted from the Figure 1 model but consistently had small and statistically insignificant effects on the results. Replacing fathers' income with

combined parental income produced similar results. This is not surprising: the data indicates that when the participants were teenagers their fathers earned 75% of total household income. There was a 0.20 correlation between the unlogged incomes of mothers and fathers, potentially indicating assortative coupling. Excluding participants whose parents reported very low incomes and whose own incomes had been distorted by currency conversions had only a small effect on the results.

This study's estimate of 0.26 for all participants is very similar to Andrews and Leigh's recent calculation of an intergenerational income elasticity of 0.25 (95% confidence interval: .04 to .46) for New Zealand men aged between 25 and 54. However, Andrews and Leigh used 1999 survey data on respondents' recall of their fathers' occupations to impute incomes (Andrews and Leigh, 2008, p.13). The Dunedin Study data is superior because it does not rely on people accurately recalling their father's occupation and only imputes an average income for each income bracket used in its questionnaire.

Figure 2: The SES of fathers and their children (1996 Election Study)



The Dunedin results are easier to understand by considering an example. When the participants were 13 and 15 the average income of fathers in the Dunedin Study was about \$48,000 in 2008 values, while the income for fathers in the top income category used by the Dunedin Study was approximately \$81,000. Suppose a man from Dunedin had grown up with a father who was in the top income group. The intergenerational income elasticity of 0.26 implies that this man would, on average, earn approximately \$8,000 more annually at age 32 than if his father had been in the average income group.³

Some of the effects of parents' incomes on the incomes of their children occur because children from higher income families tend to spend longer in the education system. This study followed overseas studies by adding variables for participants' educational qualifications (Blanden et al., 2004, p.139). The results indicated that on average about half of the effects of family background on income were mediated through effects on children's educational qualifications, and about half occurred through other channels. Researchers have suggested that parental income effects that are not mediated through educational qualifications probably result from family

dynamics and parenting, the formation of preferences and aspirations, social connections, investment in other aspects of their children's lives, and genetic factors (Björklund, Jäntti and Solon, 2007, p.13; Roemer, 2004, p.51).

The Election Study occupational mobility results

Intergenerational occupational mobility was tested using nationwide 1996 New Zealand Election Study data on the SES of respondents and of their fathers. Despite the different measurement units, the results are similar to those using Dunedin Study income data.

Figure 2 shows the SES of fathers on the x axis and the SES of their children on the y axis. To allow people time to finish their education and experiment with different jobs, the results are given only for respondents aged 25 or over. The results indicate that there is a positive, but weak, relationship between the SES of fathers and the SES of their grown-up children.

The estimate for the average effect of the SES of fathers on the SES of their children was 0.20 (95% confidence interval: .16 to .24). The results imply that, everything else being equal, a person whose father had an SES ten points higher than average would themselves have an

SES two points higher than average as an adult. Having a father who is a lawyer (SES of 83) rather than a labourer (SES of 20) is, on average, associated with a 12.6 unit difference in a person's adult SES. This is approximately the difference between being an insurance underwriter (SES of 48) and being a builder (SES of 36), or of being a nursing or midwifery professional (SES of 45) and being a secretary or keyboard operator (SES of 33) (Galbraith et al., 2003, pp.26-8). However, fathers' SES explains less than 5% of the variance in people's SES. This indicates that other variables, which have not been included in the model, had a larger effect than a father's SES on a person's own SES.

The 1996 Election Study had a large sample size and collected data on a similar proportion of Māori to the proportion of Māori in New Zealand's population. The results suggested that on average those who identified as Māori had SES scores that were 6.86 points lower on the 10 to 90 scale than for New Zealand's population as a whole. This difference occurred despite convergence over time in many outcomes for Māori and non-Māori (Gould, 2008; Treasury, 2001). However, there was insufficient evidence that fathers' SES had a different effect on Māori intergenerational mobility than for New Zealand's entire population.

Comparing the results with those for different countries

This article will now cautiously compare our rates of intergenerational mobility with those for the most similar overseas studies. Making international comparisons of intergenerational mobility is difficult. However, Figure 3 shows intergenerational income elasticity estimates from studies that used similar methods and data sets to those used in New Zealand. None of the results include controls except for age. With the exception of Germany, all the results measured fathers' incomes for one or two years only. The incomes of the children in Britain and Germany and for men in the United States and Canada were measured at similar ages to the Dunedin Study participants, but the results for the Nordic countries measure the incomes of child cohorts when they are in their late thirties or early forties.

The solid bars are point estimates for the intergenerational income elasticity. Results for men are in blue; those for women are in grey. Higher estimates imply lower mobility. For instance, the low point estimates for Denmark indicate that, on average, the income of a person's father has a very small effect on their own income as an adult. In contrast, the high point estimates for Britain indicate that the income of a person's father is more strongly associated with their own income as an adult.

The point estimates for people from Dunedin are above those for the Nordic countries, but below those for people in Britain and the United States. However, the black 95% confidence interval lines for people from Dunedin overlap with those for people born in most countries. Confidence intervals show the range of values that, in repeated sampling of a population, will in the long run contain the true population parameter. The large confidence intervals for people born in Dunedin reflect a relatively small sample size and a weak relationship between the incomes of parents and their adult children compared to other variables. In contrast, the confidence intervals are small for countries, such as Canada and Denmark, where census or tax data has been used and the sample is very large. At a 5% and 10% level, only men in Denmark were more mobile than men from Dunedin. Even at a 10% level, there were no statistically significant differences between rates of intergenerational mobility for women from Dunedin and women in other countries. Our results therefore suggest that rates of intergenerational income mobility for people from Dunedin appear to be in a similar range to rates for people born in other developed countries.

Other researchers have often also initially reported inconclusive findings. Greater certainty about the relative position of countries has usually resulted from applying the same methods and methodological assumptions to data sets from different countries, and by increasing the number of cases (Grawe, 2004, pp.65-6, 70; Jäntti, Bratsberg et al., 2006, p.1). Administrative unit-record data, including tax data, is increasingly

Figure 3: Intergenerational income elasticity results

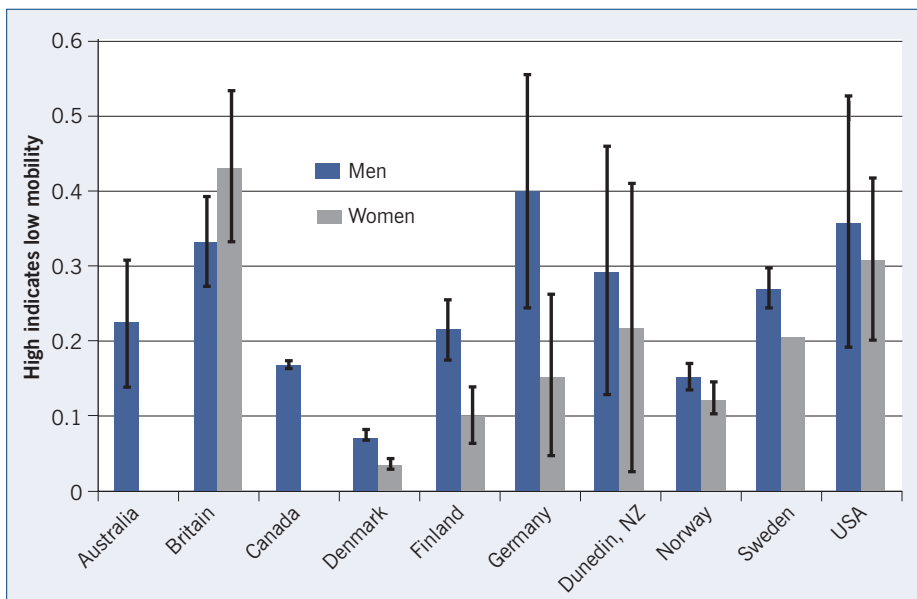
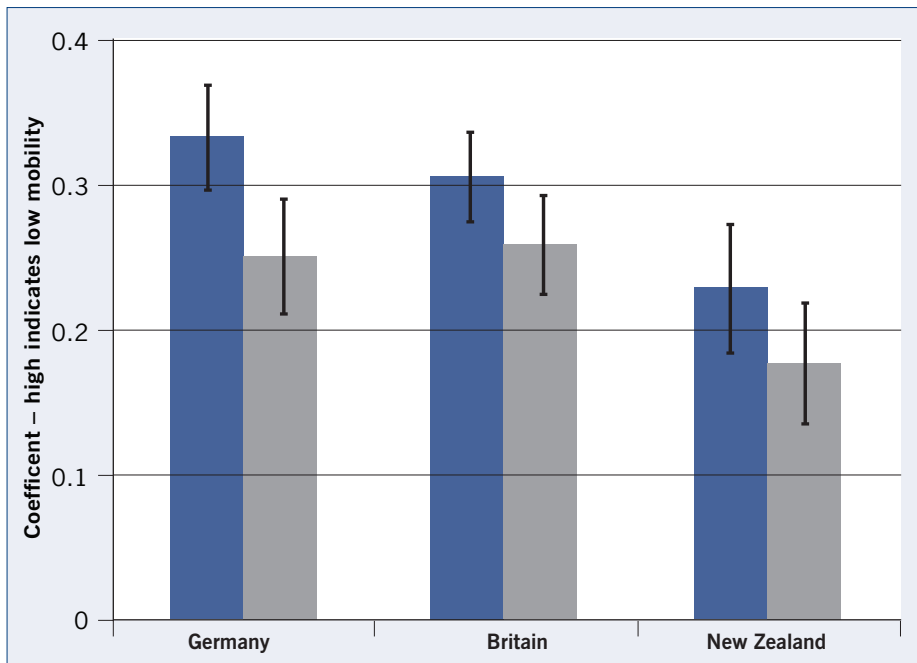


Figure 4: Intergenerational occupational mobility in Germany, Britain and New Zealand



being used for research purposes in New Zealand (Lane and Maloney, 2002). In the future, it might be possible to use tax data to study intergenerational income mobility in New Zealand, although a way of matching grown-up children with their parents would need to be found.

Looking now at intergenerational occupational mobility, Figure 4 compares results for New Zealand, using Election Study data, with the results for Germany and Britain in a similar overseas study (Ermisch, Francesconi and Siedler, 2006, pp.666-9). The results show 90% confidence intervals and suggest that men and women in New Zealand had slightly

higher intergenerational occupational mobility than people 25 years or older in Britain. However, this difference was barely significant at a 10% level. Men in New Zealand also had higher occupational mobility than men in Germany, and this difference was statistically significant at a 5% level. Although our point estimate for New Zealand women is lower than the point estimate for German women, even 90% confidence intervals overlapped.

Our point estimate for New Zealand men is very similar to an unpublished intergenerational occupational mobility point estimate for New Zealand men. The results of that study suggested that

New Zealand had high intergenerational occupational mobility compared to other countries, with New Zealand placed third out of 32 countries (Blanden, 2008, p.34). However, because confidence intervals were not included the differences in rank order may not be statistically significant.

Explaining variations in intergenerational mobility and the policy implications

A number of factors affect a country's rate of intergenerational mobility. Some researchers have suggested that mobility is high in the Nordic countries (Denmark, Finland, Norway and Sweden) because the widespread availability of high-quality childcare and after-school care has resulted in academic achievement and

rates. Currently a government taskforce is reviewing the effectiveness of early childhood education expenditure and will recommend improvements to policy settings (Tolley, 2010).

By international standards, the relationship between student performance and socio-economic background is currently relatively high in New Zealand (OECD, 2010b, p.188). However, the probability that New Zealanders whose parents did not finish secondary school will receive a tertiary education has considerably increased since the mid-1990s. Indeed, in 2006 only half of adults who had undertaken tertiary education had a parent with a tertiary education. This indicates that New Zealand adults

occupation (Hobijn and Sahin, 2009, pp.108-10; OECD, 2010b, p.188). In contrast, all New Zealand secondary schools offer a similar range of subjects. People in New Zealand also seem to move more frequently between jobs than in Germany (Statistics New Zealand, 2008, pp.5-6). In addition, New Zealand has often been more successful than most European countries, including Germany, at keeping long-term unemployment rates low (Hobijn and Sahin, 2009, pp.109-10; OECD, 2010a, p.270). Low unemployment and a relatively flexible labour market probably help explain why parental background tends to have a modest effect on people's adult economic outcomes in New Zealand.

Parental characteristics also affect rates of intergenerational mobility. For instance, the United States' 'exceptionally high' teenage birth rate may be important in reducing intergenerational mobility. Also, fewer parents in the United States seem to spend time reading to their children than parents in countries such as Canada, and this reduces their children's life chances (Corak, Curtis and Phipps, 2010, pp.20, 24). New Zealand also has a high teenage birth rate and researchers have found evidence of intergenerational welfare-benefit dependency (Maloney, Maanin and Pacheco, 2003).

Conclusion

Intergenerational economic mobility research tests the relationship between a person's adult economic circumstances and their family background. Because people are interested in equality of opportunity and economic efficiency, in recent years intergenerational mobility has received growing attention from economists and from the OECD. Intergenerational economic mobility has been quantified by the author using income data from the Dunedin Study of children born in 1972-73, and occupation data from the 1996 New Zealand Election Study.

The results indicate that in New Zealand the income or SES of a person's parents when they are a teenager appears to have a modest effect on their subsequent economic outcomes. In contrast, a person's own educational qualifications have a strong effect on their

Intergenerational mobility appears to be higher when children from poorer families benefit from early childhood education expenditure, and when the relationship between family income and educational outcomes is weak.

cognitive and non-cognitive skills being high among children from low-income families. These services have also improved people's economic circumstances by making it easier for women to work (Esping-Andersen, 2004, pp.306-8). Research by the OECD into compulsory education has found that the quality of teachers is considerably more important than the level of education expenditure for promoting intergenerational mobility (OECD, 2010b, p.190).

Almost 93% of the Dunedin Study participants attended pre-school (Silva et al., 1982, pp.27, 29). However, currently New Zealand children growing up in the financially poorest areas and from Māori and Pacific backgrounds are less likely to participate in early childhood education than other children (Ministry of Education, 2010). Unpublished research by Treasury also shows that children from lower income households have relatively low early childhood education participation

'move reasonably readily into tertiary education' (Ministry of Education, 2008).

Researchers have increasingly argued that the ease with which people can break into the labour market also substantially affects a country's rate of intergenerational mobility (Corak and Piraino, 2010). In Britain, for instance, there has been growing interest in how policies that make establishing a business and employing people easier may promote intergenerational mobility, particularly for groups with high rates of unemployment (Cabinet Office Strategy Unit, 2008, p.49).

The relatively high intergenerational occupational mobility of New Zealand men compared to German men (Figure 4) probably partly reflects the way in which the German education system streams students at an early age into different career paths, and the low tendency for people in Germany to change jobs and

adult economic situation. The confidence intervals for the income mobility results are large. However, intergenerational income mobility rates for New Zealanders appear to be in a similar range to rates for people born in other developed countries. The results suggest that intergenerational occupational mobility rates in New Zealand are relatively high. Although the results improve our knowledge of intergenerational mobility in New Zealand, further research using larger data sets would be desirable.

Factors that affect a country's rate of intergenerational mobility include the characteristics of a country's education

system, of its labour market and of its people. Intergenerational mobility appears to be higher when children from poorer families benefit from early childhood education expenditure, and when the relationship between family income and educational outcomes is weak. Flexible labour markets that facilitate employment also promote intergenerational mobility. In addition, mobility tends to be higher when a high proportion of parents invest time and other resources in their children. There is obviously potential for New Zealand to improve its position in all these respects. However, since policies to promote intergenerational mobility can

compromise the achievement of other economic and social policy goals, policy makers need to carefully consider the cost of policy initiatives and the trade-offs involved.

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- 1 Researchers in Britain frequently refer to social mobility when studying income or educational mobility. This article uses the term economic mobility to collectively refer to income and occupational mobility.
- 2 The correlation between Election Study results and SES is only .32, although the eight income bands are not ideally designed for the comparison. For Dunedin Study participants the relationship between SES and income is .45.
- 3 To calculate estimated income it is necessary to multiply the log of fathers' income by the elasticity, add the intercept, then take an anti-log.

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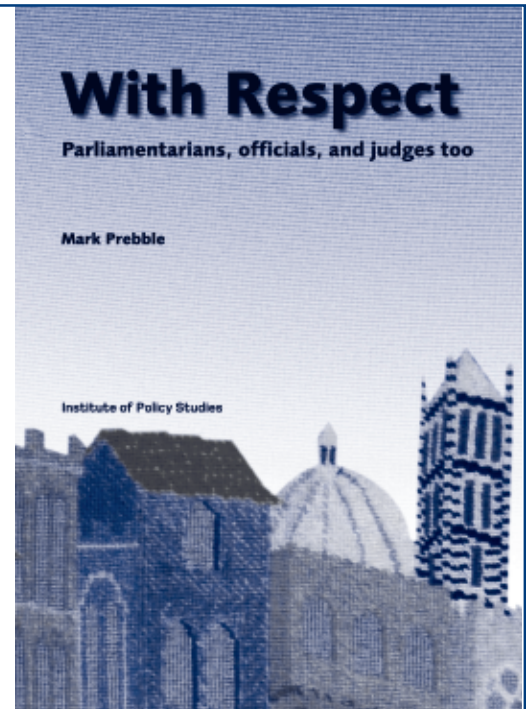
With Respect Parliamentarians, officials and judges too By Mark Prebble

With Respect is an important and practical book about the people involved at the heart of government in New Zealand. It covers history, constitutional principles and the law, but it is mostly about people and the roles they play. Recent events in New Zealand are used to illustrate the key issues. The examples include court cases, parliamentary inquiries and debates. Subjects range from the high drama of military deployments to the day-to-day business of parliamentary expenses. Events are brought to life with a combination of wisdom and wit, to give a clear picture of how government really works. *With Respect* is an invaluable resource for parliamentarians, public servants and

students of politics, public law, public policy and public management.

Mark Prebble is a Senior Associate at the Institute of Policy Studies. He was State Services Commissioner during 2004-2008. In the course of his distinguished public service career he was Chief Executive of the Department of Prime Minister and Cabinet and Deputy Secretary to the Treasury.

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Xavier Marquez

Is Income Inequality Unjust?

Perspectives from Political Philosophy

Richard Wilkinson and Kate Pickett have argued recently (Wilkinson and Pickett, 2010) that income inequality produces many kinds of social and health problems in rich countries.¹ High rates of infant mortality, teenage births, crime and obesity, educational under-achievement, low life expectancy, social mobility and many other social problems are worse, they claim, in more unequal societies. They further argue that these problems are caused not by *absolute* deprivation (poverty) but by *relative* deprivation, and that they are best addressed by compressing the income distribution, even if this means slowing or entirely stopping economic growth. Moreover, their argument has the further implication that more could be done for underprivileged groups in society by reducing the gap between the rich and the poor than by investing more resources in public services.

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Unsurprisingly, this thesis has become quite controversial, with responses dividing along familiar partisan lines. Many people on the political left were cheered by the apparently scientific evidence of the badness of inequality (Wilkinson and Pickett themselves wanted to call their book ‘Evidence-based politics’ (p.ix)), while many people on the political right attacked what they saw as the book’s misleading use of statistics (Saunders, 2010; Snowdon, 2010). The debate has become quite polarized, with attributions of bad faith on both sides (*The Spirit Level: Spooking the Right* 2010; see also the responses by Snowdon and Saunders in the letters section of the *Guardian*, 28 July 2010).

I do not aim to adjudicate this debate in this paper, though I should note that some critiques of Wilkinson and Pickett’s research do seem to raise valid points that at the very least would qualify their claims. Thus, for example, the associations they report are often not robust to the inclusion or exclusion of particular countries or to controls for per capita income, and cultural factors potentially underlying *both* income inequality and health and social outcomes are not properly explored (Saunders, 2010; O’Connell, 2010). And some recent

research on the relationship between inequality and health over time has not confirmed the Wilkinson and Pickett thesis (Leigh, Jencks and Smeeding, 2009). Nevertheless, I would not be surprised if something like the Wilkinson and Pickett thesis is reasonably close to the truth. Even if some of the particular studies or correlations they use overstate the effects of income inequality, it is the *cumulative* evidence that matters, and this cumulative picture does seem to suggest that high levels of income inequality are at the very least associated with bad social outcomes, though the exact effect of inequality in

by the concepts of justice, freedom and power. Yet Wilkinson and Pickett do not typically speak of income inequality as just or unjust. Their case against inequality is instead presented in straightforwardly consequentialist terms, and articulated without much reference to ideas of justice (the word only appears in their book in the context of the criminal justice system). Nevertheless, they clearly believe that the consequences of income inequality are unjust (see, for example, p.84), and it is clear that Wilkinson and Pickett would agree with the view that income inequality is unjust, not merely

relationship between income inequality and questions of justice, freedom and power. I stick closely to those views I consider significant and plausible, and point out some of their broad policy implications along the way, but I do not claim comprehensiveness. I nevertheless argue that the most plausible views of justice indicate that income inequality is not always unjust.

Is income equality always desirable?

In order to isolate what we think is valuable about income equality, it is worth looking at a negative example: the communist societies of Eastern Europe. These societies typically had a very low level of income inequality: the average of estimates of the Gini coefficient in a set of communist societies for which data exists in the period 1960–1993 is about 0.24, much lower than the average 0.34 for a set of rich capitalist societies throughout that same period, and the level of measured income inequality in communist societies is almost always below that of rich societies.² Moreover, although most of these communist societies were not as rich as Western European democracies (and the gap grew over time), some of them did achieve high levels of development measured both by GDP per capita and by other indicators.³ Evidence also indicates that citizens in these societies believed that high levels of income inequality were unjustified and preferred a low level of income inequality (Gijssberts, 2002). Yet most of us would agree that the mechanism through which income equality was achieved in these cases violated rights that we would consider to be fundamental. More importantly, these societies were not really *equal* in an important sense of the term: although income differentials didn't matter much for ordinary social life, inequalities of *political access* mattered enormously. Where money does not matter much for social life, other inequalities – of political access, class background and the like – can assume a tremendous importance. Indeed, although citizens in Eastern Europe thought income equality was generally a good thing, they did not think these other inequalities were legitimate or that income equality in any way compensated for these

I argue that in a democratic society which values individual freedom, there will be sometimes less reason to worry about income inequality and more reason to worry about other forms of inequality.

producing such outcomes, and the ways in which inequality interacts with other factors (including culture and economic growth), remain obscure. So in what follows I will simply assume that there is an *association* between income inequality and various bad social outcomes, though I remain agnostic on both its magnitude and the exact mechanism that may cause it, and in particular on whether, as Wilkinson and Pickett argue, increased stress caused by status competition in income unequal societies is to blame.

But even if Wilkinson and Pickett are correct that inequality (and not simply poverty) causes many sorts of social and health problems, there can still be reasonable debate about the appropriate level of income inequality in a society and about the permissibility of various means to achieve equality. In particular, I argue that in a democratic society which values individual freedom, there will be sometimes less reason to worry about income inequality and more reason to worry about other forms of inequality.

Political philosophy and political theory normally investigate issues of inequality through the lenses provided

deplorable (see, for example, pp.247–9, where they mention our natural intuitions about fairness), even if only on account of its consequences. But I shall argue that if the question concerns the justice of income inequality, then, contrary to Wilkinson and Pickett's hopes for an 'evidence-based politics', there can be no 'scientific' determination of the right level of inequality in a society. Though evidence of the deleterious effects of inequality should be incorporated into public debate, ultimately the appropriate level of income inequality in a society is a moral question on which citizens will reasonably disagree, not a scientific question that can be settled more or less objectively.

In what follows, I provide a 'map' of the different views one might have about the justice or injustice of income inequality from the perspective of political philosophy and political theory. The terrain that the conceptual lenses provided by the concepts of power, freedom and justice reveal is complex and highly contested, and I cannot do more than provide a small glimpse of the problems involved in thinking about the

other inequalities (for some evidence in the case of the GDR, see Pfaff, 2006).

The point of this example is not to ridicule any concern with income inequality, or to suggest that the only way of achieving equality is to turn the country into a communist dictatorship. After all, the levels of equality in Sweden or Japan – the countries that Wilkinson and Pickett single out as the most equal in their sample – can be achieved within the framework of a typical capitalist economy through taxes and transfers (within the limits given by the efficiency losses induced by high taxes, available technologies of tax evasion, the political resistance of the rich, and the malleability of cultural ideas about what constitutes ‘excessive’ taxation). Nevertheless, the example serves to indicate that we care about more than mere income inequality: we also care about both the processes through which income equality and inequality are generated, and about the pattern of *other* inequalities in society, especially inequalities that result in what we might call ‘unequal citizenship’. To the extent that the process that allocates incomes is perceived as fair, then the resulting distribution will be seen as less problematic (and vice versa). And, similarly, to the extent that inequalities in income are not seen to be implicated in inequalities of power and status which result in domination, they will also appear as less problematic (and vice versa).⁴

Stated positively though abstractly, we might say that an equal society is a society in which the process that results in the allocation of incomes to individuals is fair, i.e. it respects their equal moral worth, and this distribution is not implicated in hierarchies of domination which diminish the worth of their equal citizenship. It is *not* necessarily a society with a high level of income equality, though it may well be the case that high or rising levels of income inequality provide *evidence* (not necessarily decisive) that something has gone wrong with the process of allocation or the relationship between income and other social goods.

Three views

The key to the question of the justice of income equality or inequality, then, lies

both in what we mean by a ‘fair’ process for the allocation of incomes in a society, and in how we conceive of the relationship between income inequality and other forms of inequality in a given society. From this point of view, we can think of three kinds of reasons for claiming that income inequality is unjust.

- 1 First, we might think that income inequality is unjust because it is currently produced by an unfair system of allocation, *regardless* of any bad health or social problems inequality might cause (that is,

... the desired remedy is not for the wealthy to compensate the poor, ... something that might make other sorts of resources ‘dominant’, but to break the connection between income and other important goods ... and in general to prevent the emergence of dominant hierarchies.

whether or not Wilkinson and Pickett are correct in thinking that income inequality produces all sorts of health and social problems). This may be because of contingent features of the economic system (perhaps historical expropriation, or current corruption) or it may be, more radically, because (we may think) the sort of market system of allocation prevailing today rewards people ultimately for things they have no control over (like their good genes and talents, or their good upbringing, or the fact that they were born in a well-governed country, or even their propensity for hard work), above and beyond any other historical or current injustices that affect the distribution of income and wealth.

Though this latter position may appear remote from common beliefs, it should be noted that it has substantial philosophical support. For example, the philosopher John Rawls argued that ‘[t]here is no more reason to permit the distribution of income and wealth to be settled by

the distribution of natural assets than by historical and social fortune’ and that ‘[t]hose who have been favored by nature, whoever they are, may gain from their good fortune only on terms that improve the situation of those who have lost out’, since society is a system of co-operation set up for the benefit of all (Rawls, 1999, pp.64, 87). Later philosophers developed these observations into a more systematic theory of what has come to be called ‘luck egalitarianism’ (Cohen, 2000, 2008; Dworkin, 1981; Arneson, 1989;

Parijs, 1995; the term was invented by a critic, Anderson, 1999). If the rich man who inherits his money cannot be said to ‘deserve’ that money (he is just lucky), why should a person whose skills are suddenly in demand be said to deserve the income he or she earns on that basis, especially since our talents and skills themselves depend to a large degree on things we inherited and on the complementary skills of others? But, luck egalitarians say, a fair system of allocation cannot reward people differentially on the basis of morally irrelevant features; it can only reward or punish them for those acts for which they are fully responsible (perhaps only hard work after adulthood, though even this is doubtful if the propensity for hard work is inherited).

In practice, this means either that the rules of social interaction should be set up so that any inequalities are always to the advantage of the worst-off group in society (that is, if inequalities exist at all, they should be

such that getting rid of the inequality would make the worst-off group in society even worse off: this is Rawls' 'difference principle') or (assuming a market society) that the wealthy should compensate the poor for their ill fortune. The specific remedies proposed by people in this tradition vary, but they include such ideas as a 'universal basic income' (Parijs, 1995) and a significant degree of industrial reorganisation (including workers' control of enterprises, a solution

public provision of high-quality, universal education and healthcare, and the like. Income inequality might still exist in such a society, but it would not translate into other sorts of important inequalities (including the sorts of inequalities in health or education that Wilkinson and Pickett describe). Moreover, somebody who held this view would be wary of solutions which equalised income only to make other inequalities (in access to political power, for example)

produces the distribution of income, or about the connection between income and other social goods, or about the process through which income inequality produces bad outcomes. Can we, however, say something more about which of these views is most likely to be correct?

The first view – that inequality is bad so long as it is produced by an unfair set of rules for the allocation of the 'benefits and burdens of cooperation' (to use Rawls' terminology) – is unobjectionable when stated abstractly. In theory, we would all agree that if an inequality is the result of *injustice* (e.g., because the rich have stolen the property of the poor) then it should be rectified. The problem concerns precisely the determination of *which* conditions make a system of allocation unfair, and here we might expect reasonable and well-disposed citizens in a democratic society to disagree in ways that cannot always be eliminated simply by the provision of more information (e.g., information about the injustice of certain rules or laws). This is because in any genuinely free large-scale society, citizens' views of justice and the good life will be inescapably plural, even if they display some areas of agreement (what Rawls called an 'overlapping consensus'); specifically, they will differ in crucial respects regarding the specific conditions that make a system of allocation unjust. (Even highly trained philosophers disagree about this, after all.)

For example, the more radical view of the 'luck egalitarians', namely, that market systems of allocation ultimately reward people for things they are not responsible for and hence produce outcomes that are systematically unjust, relies on a controversial view of what sorts of things we can 'deserve' or 'be responsible' for. While most people would agree with luck egalitarian philosophers that we do not 'deserve' the good parents or natural talents that may enable us to succeed monetarily *ex ante* (we were not responsible for having such parents), some philosophers argue (Schmidtz, 2006) and many people would agree that we can *come to deserve* these opportunities *ex post* (by, for example, demonstrating a willingness to work hard and to make the best of our inherited talents and

We should thus care about income inequality to the extent that it prevents the establishment of a society of equals: a society of people who cannot dominate one another, and hence can respect each other's liberty.

3 favored by Rawls as well as Wilkinson and Pickett in *The Spirit Level*, pp.522-63).⁵

2 Second, we might think that even if current levels of income inequality are not produced by an unfair system of allocation, such inequality is nevertheless unjust to the degree to which money is transformed into social status, political power, educational achievement and the like: that is, to the degree to which income inequality produces other important inequalities and thus enables social and political domination (Walzer, 1983). But here the desired remedy is not for the wealthy to compensate the poor (that is, to simply equalise income), something that might make other sorts of resources 'dominant', but to break the connection between income and other important goods (including political power and social status) and in general to prevent the emergence of dominant hierarchies. Somebody concerned about the dominant role of income in social life might thus advocate for some degree of redistribution, but also for the regulation of money in politics,

more salient.

3 Finally, we might think (like Wilkinson and Pickett) that income inequality is unjust to the degree that it produces bad social outcomes for everyone, not just for the worst off in society (see especially chapters 1, 13 and 14), even if the process through which the inequality is generated can be generally considered fair and even if it is not particularly associated with other sorts of significant inequalities, like inequalities in political power (something which Wilkinson and Pickett do not necessarily believe: see chapter 15, especially pp.249-52). The argument here is straightforwardly consequentialist: inequality is unjust to the degree that it produces bad consequences, and should be reduced in order to decrease these bad consequences, but only to the extent that such inequality reductions actually decrease them without creating new bad consequences.

None of these views indicate that any given level of income inequality is bad in itself. To say that a *given* level of inequality is unjust always implies further judgments, either about the process that

resources). I do not mean to argue this one way or the other. My point is that moral judgments about which rules of allocation are fair are ultimately subject to reasonable disagreement among citizens, and hence cannot be settled scientifically but must be settled politically: that is, through open-ended debate in the public sphere.

Wilkinson and Pickett at times seem to flirt with the idea that all forms of market allocation are unfair (e.g., pp.254-72), but this is not their main argument. Instead, they sometimes suggest that income inequality is a proxy for objectionable forms of status inequality and domination (see chapter 3). In this they echo (not necessarily intentionally) some influential political theorists (e.g. Anderson, 1999; Walzer, 1983) who argue that we should be concerned with income inequality as a matter of justice (in contrast to charity or humanitarian concern) not because we are interested in fixing the great 'cosmic injustice' of individual differences (which, in market systems, often translate into income differences), but because we are interested in not being oppressed and dominated and treated contemptuously by others. We should thus care about income inequality to the extent that it prevents the establishment of a society of equals: a society of people who cannot dominate one another, and hence can respect each other's liberty. Such a society would have institutions that provide a 'decent minimum' to all citizens – enough to take full advantage of their rights and liberties – and would prevent income from turning into political and other forms of degrading social power, but not necessarily limit income inequality *per se*; for theorists like Anderson, envy is not a compelling reason to engage in redistribution, even if it produced stress and other bad health effects.⁶

This view was perhaps most clearly articulated by the philosopher Michael Walzer in his book *Spheres of Justice* (Walzer, 1983). Walzer argued that social life produces many goods (income, education, political power, social status, etc) in many spheres of life, each of which is distributed in culturally specific ways. We give political power to the persuasive, primary and secondary education to all,

university degrees to the academically qualified, and so on. The important point is that each of these goods has their own criteria for distribution, criteria that are themselves subject to discussion in a democratic society and cannot be simply imposed. Problems arise when the goods that should be distributed according to a particular criterion of distribution (e.g., academic merit or persuasiveness) are distributed according to another (e.g., income). This results in the *domination* of one good (income or political power,

transformed into unequal treatment by the law, for example. By the same token, we can be reasonably wary of interventions to limit income inequality, especially if they are designed in obscure and bureaucratic ways that enhance the discretionary power of government officials or push status competition into other spheres. If reducing the importance of income as a marker of status merely increases the importance of admission to a good university (as seems to be the case in Japan or France, where the

... increasing inequality might itself be evidence of an increasingly unfair system of distribution, or of increasing domination, but such judgments are ultimately dependent on moral intuitions about which citizens can and will reasonably disagree.

for example) over the rest, transforming a society which may contain multiple non-overlapping spheres of distribution, some hierarchical and some not, into a single hierarchy.

Genuine equality thus depends on preventing illegitimate 'border crossings' – preventing money from turning into political power, or political power into money, or education into social status, and so on – according to the current understanding of what the proper boundaries of each sphere are: in an equal society, the rich are not simultaneously always the most educated, the most healthy, the most powerful, and so on.⁷ To be sure, one can certainly imagine that, as income differentials increase, money is translated more easily into power and dominating social status, so that an egalitarian society will have a permanent interest in reducing income differentials. Yet we are often not actually interested in the specifics of income equality or inequality (at least to the extent that we are not simply motivated by envy), but in not being dominated by those with money and in retaining our self-respect as equal citizens: income inequality is especially resented when it is clearly

top political and business positions are monopolised by graduates of a handful of top universities), this is not necessarily a gain from the point of view of this sort of egalitarianism, even if it is accompanied by better outcomes for certain health and social problems.⁸

Wilkinson and Pickett nevertheless argue that freedom and equality are perfectly compatible (pp.263-4) and suggest that 'equality' is simply another name for democracy. Yet their understanding of freedom is itself one that reasonable and well-disposed citizens may disagree with. An alternative conception of what liberty requires is perhaps most clearly articulated by Robert Nozick in his book *Anarchy, State, and Utopia* (Nozick, 1974). Nozick argued, among other things, that it is a mistake to conceive of economic systems as places where we should get what we *deserve*; we instead should get what we choose, subject to the proviso that the choice is in fact genuine and not coerced. A fair distribution of income is not one that gives everyone what they deserve (as the luck egalitarians would argue), and certainly not one that preserves a particular *pattern* of distribution (e.g., a

certain level of inequality), but the one that would emerge from the (genuinely free) choices of individuals engaged in mutually beneficial exchanges with one another of things they can legitimately own, and that neither the state nor anyone else has a right to simply take from us, unless we have explicitly agreed to give them up. This idea can clearly be taken too far (for one thing, the ‘genuinely free’ proviso, as well as the question of what we can be said to own, are both difficult to specify and subject to reasonable disagreement), and there are many critiques of Nozick (Francis and Francis, 1976; Fried, 1995; Gregori, 1979; Nagel, 1975; Nock, 1992). My point is only that Nozick draws on a deep moral intuition about the importance of *choice* and *ownership* in a free society which resonates deeply with many citizens and cannot be simply attributed to their being ‘deceived’ about their true interests in a more equal distribution of income and wealth. To the extent that redistributive policies violate this intuition – that we are free people entitled to make choices about mutually beneficial exchanges and to keep what we have legitimately acquired – they will be subject to reasonable disagreement. From this point of view, again, the ‘appropriate’ level of inequality cannot be determined scientifically, but must result, in a democratic society, from the free play of arguments about the relative importance of free choice and ownership *vis-à-vis* other considerations.

Is there, finally, a purely consequentialist case for reducing inequality? Wilkinson and Pickett would argue that there is, in view of the health and social problems that inequality produces. It would certainly be good to be able to produce healthier and happier societies, and this sort of argument can potentially move the public conversation in more egalitarian directions. But the question of whether a more income-equal society is better cannot ultimately be settled by scientific evidence alone, even if it were irrefutable (which it is not, despite Wilkinson and Pickett’s rhetoric). One might be

reasonably wary of saying that we should engage in large-scale redistribution just because we might gain a little health and happiness without further evidence that current arrangements are in fact unfair or result in domination, and that measures to reduce inequality would not have a negative impact on other goods that we care about. To be sure, as I stressed above, increasing inequality might itself be evidence of an increasingly unfair system of distribution, or of increasing domination, but such judgments are ultimately dependent on moral intuitions about which citizens can and will reasonably disagree. Moreover, an excessive focus on *income* inequality obscures the complexity of the egalitarian ideal, as we have seen: other inequalities may often matter more than income inequality. And finally, an excessive focus on income inequality runs the risk of belittling other important goods that matter to us, like choice and ownership.⁹ The consequentialist frame is too thin to hang the argument for equality on.

Conclusion: income inequality and democracy

In a democratic society, views about the proper extent of inequality will necessarily differ, since they are based on contestable intuitions about what constitutes domination, what we ‘deserve’ and what kinds of exchanges we should be free to conduct. To be sure, some of these views can be influenced by the powerful; in societies like our own that are not ideally egalitarian this is always a possibility. But it is a mistake to think that the reason our society is not as egalitarian as (some of us) might like is simply that nefarious interests prevent the people from understanding their ‘true’ interests. Some of the frustration with earlier, perhaps more egalitarian, incarnations of the welfare state that is evident in the current political climate is attributable to less-than-noble feelings, but some of it is based on real intuitions about what it means to be an equal citizen. To argue for income equality is to enter a conversation

where there is much potential for disappointment: our arguments may fail to convince.

- 1 Wilkinson and Pickett focus on income inequality (rather than, for example, wealth inequality) in part due to data availability reasons, but also because they believe that income inequality is a good proxy for the forms of status hierarchy that determine the health and social outcomes they are interested in (Wilkinson and Pickett, 2010, pp.26-9).
- 2 Communist countries include Bulgaria, China, Cuba, Czechoslovakia, Hungary, Poland, Romania, the Soviet Union and Yugoslavia. Rich countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, The Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, the UK and USA. Data is from Deininger and Squire (1996). I have produced a scatterplot of these data here: <http://public.tableausoftware.com/workbooks/TrendsInIncomeInequality>.
- 3 Portugal and Hungary had roughly the same measured real GDP per capita until the late 1980s (somewhere between \$11,000 and \$10,000), according to the Penn World Table v.6.3 (Heston, Summers and Aten, 2009). Most communist societies also had relatively high life expectancies and literacy levels and low levels of ordinary violent crime.
- 4 This is complicated by the fact that people seem to underestimate the actual degree of income and wealth inequality in many societies (Osberg and Smeeding, 2006; Norton and Ariely, 2011), and even when they think inequality is excessive they may fail to connect these perceptions with public policy (Bartels, 2005). On the other hand, if people underestimate the actual degree of income and wealth inequality in society, perhaps because consumption inequality is actually lower than income inequality, as some evidence suggests at least in the case of the USA (Krueger and Perri, 2006; for a non-technical survey with further citations, see Wilkinson, 2009), this should tend to mitigate the kinds of status competition that Wilkinson and Pickett identify as causes of health and social problems.
- 5 It should be noted that even luck egalitarians are prepared to accept some degree of income inequality (even a very large degree, in fact) if it can be shown to be due to actions that the individual is truly responsible for (e.g., well-informed gambles, starting from a position of equality, may well have different results: the resulting inequality in income would thus be justified).
- 6 In a response to critics of her seminal 1999 article (‘What is the point of equality?’), Anderson notes that ‘although there is a spectacular wealth difference between my family and Bill Gates’ family, my family enjoys such a fully satisfactory level of prosperity that I think only considerations of envy could motivate resentment on my part of Gates’ superior wealth. I see no morally compelling reason to worry about wealth disparities between the prosperous middle class and the super-rich, provided the super-rich don’t use their wealth to undermine democracy – for example, by buying elections – or to oppress other people’ (Anderson, 1999).
- 7 There are some problems with Walzer’s proposals regarding the possibility of what he calls ‘complex equality,’ but discussing them would take us too far afield (Arneson, 1995; Hartogh, 1999; Mayer, 2001; van der Veen, 1999).
- 8 Saunders (2010) notes, rightly in my view, that Japanese society should be more of a puzzle for the Wilkinson and Pickett thesis: this is a society that is highly hierarchical and very status conscious, even though it is income-equal. But if status competition were the key driver of health and social problems in a society, we would expect Japan to have more of such problems. Saunders attributes good health outcomes in Japan to a ‘collectivist’ culture.
- 9 Wilkinson and Pickett often suggest that if we are concerned with inequality, we must give up on economic growth, caricaturing economic growth in advanced societies as if it merely produced environmental wastelands full of unhappy consumerists (e.g., pp.224-33). But economic growth may in fact produce ‘moral’ (Friedman, 2005) and even environmental benefits, and to the extent that there is a trade-off between growth and equality (which is unclear), it needs to be confronted, not assumed to work always in favour of equality.

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