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SPECIAL ISSUE

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Editorial – Welfare State Reform

Reform of the welfare state is currently one of the most pressing issues in New Zealand policymaking. For as long as it has existed, the welfare state has been controversial. But the current calls for its reform seem to have extra urgency.

Its problems should not, of course, be exaggerated. The welfare state as defined broadly, so as to encompass health spending and all kinds of transfers, provides an array of services vital to citizens' well-being, often with reasonable efficiency. The more narrowly defined welfare state, in the sense of the core benefits delivered to those not in paid work, remains an essential backstop against poverty, misery and social exclusion.

Nonetheless, there is widespread dissatisfaction, right across the political spectrum, with the welfare state as currently constituted. The fact that levels of health and social problems remain high, as indeed do rates of poverty and economic inequality, seems to suggest that all is not well, even if it is not wholly within the compass of the welfare state to address those problems. In addition, and regardless of its continuing evolution, the welfare state has failed to keep pace with key modern trends such as the changing nature of work. Reflecting these concerns, the current government has convened a Welfare Expert Advisory Group, due to report early in 2019.

Accordingly, this special issue of *Policy Quarterly* is devoted to the subject of welfare reform. The contributions are necessarily broad-ranging, partly because so many different values are at play. Welfare states have to perform many roles, including promoting various kinds of equality, keeping total costs affordable, ensuring services are delivered efficiently, enhancing responsiveness to welfare recipients, smoothing out the interfaces between the tax and benefit systems, and dozens more.

For this reason, the contributions to this special issue take several forms. Some carry out a detailed examination of a relatively limited piece of the puzzle, while others propose more sweeping changes. The first contribution, by Jonathan Boston, begins with one of the most central (and under-studied) aspects of the welfare system, the adequacy of the benefits it delivers. Michael O'Brien then examines the ways in which the welfare state has – or indeed has not – adapted to two key modern trends, the rapid changes in the labour market and the profound shifts in household structure. Similar issues are picked up in Patrick Nolan's contribution on the tax–benefit

interface, which models the effective marginal tax rates that are such a troubling feature of the current system.

The next contributions stay close to the theme of the basic adequacy and fitness of the welfare state, but are concerned with much larger reforms. Robert Stephens examines the case for a universal basic income, a relatively radical reform with supporters across the political spectrum. Stephens finds the basic income to be an interesting but flawed proposal. In contrast, Robert MacCulloch makes the case for the creation of mandatory savings accounts, into which governments would direct tax revenues and from which individuals would purchase out-of-work, health and retirement services from public and private providers.

Taking a wider definition of the welfare state, the following two contributions discuss the current interest in well-being economics, especially as embodied in the Treasury's evolving Living Standards Framework. David Hall examines the extent to which the framework reflects the arguments of Amartya Sen, perhaps the most influential figure in the philosophy of well-being, while Jess Berentson-Shaw highlights the continuing neglect of unpaid labour in discussions of well-being specifically and policymaking more generally.

Dawn Duncan's contribution also raises issues with a gender dimension, although here the subject of interest is the Accident Compensation Corporation (ACC) scheme and the gaps in its coverage of occupational injuries. This is followed by an article from Chris McIntyre in which he uses interviews with senior public sector workers to examine the introduction of digital decision-making tools.

The special issue is rounded off with two contributions focused on healthcare. Sandra Moore discusses recent innovations in the delivery of healthcare services, while a multi-author contribution, by Russell Wills, Bernice Gabriel and Kay Morris Matthews, reports on an innovative attempt to increase the competencies of the children's workforce.

As is evident from the depth and breadth of these articles, the potential for reform of the welfare state is enormous. Given its equally enormous importance to the well-being of citizens and the good functioning of society, it can only be hoped that policymakers are ready to take up the challenge.

Max Rashbrooke – Guest Editor

Redesigning the Welfare State

rethinking the indexation of cash and non-cash assistance

Abstract

Since the beginnings of the welfare state, Aotearoa New Zealand has lacked a principled, comprehensive and consistent system for indexing social assistance to movements in consumer prices and/or wages. This deficiency applies not only to cash transfers but also to in-kind benefits. The absence of a robust and durable indexation regime is no accident. It reflects, among other things, an unwillingness of governments to determine an acceptable minimum standard of living for citizens and then protect, if not enhance, this standard over time. No doubt, the fiscal implications of a more consistent approach to indexation have loomed large in the political calculus. Yet if the current and future governments are to meet ambitious child poverty reduction targets and ensure greater distributional fairness, a new framework for indexation is essential. This article discusses the nature and purpose of indexation, the principles and other considerations that should inform the design of an indexation regime, the policy options available, and how a durable and defensible policy framework might be secured.

Keywords: social assistance, indexation, adequacy, relative poverty, fairness, fiscal costs

Among the many issues that must be addressed in designing a welfare state, two are crucial: adequacy and indexation. Adequacy is about determining an acceptable minimum standard of living for citizens and then designing a package of social assistance with the aim of meeting this standard or benchmark.

Indexation is about linking rates of social assistance to various indices of prices and/or incomes (e.g. average wages or median household incomes), ideally to ensure that any agreed standard of adequacy is maintained over time. Even in an environment of low inflation, without a comprehensive and effective indexation regime, the *real* value of any package of cash and non-cash assistance will fall, leaving some or all of those who are reliant on such assistance increasingly worse off. Similarly, in a context of rising average real wages, if there is no formal linkage between wages and social assistance, then the value of any package of social assistance will fall in *relative* terms. In short, a poorly designed indexation regime is almost certain to result in extended periods of time during which citizens who are partially or fully dependent on social assistance become

progressively worse off, both in *real* and *relative* terms. Unfortunately, this has been the pattern in New Zealand since the foundations of the welfare state more than a century ago.

Both adequacy and indexation are complex and controversial. They raise fundamental issues about the nature of social justice, what it means for citizens to live in dignity, and how adjustments in social assistance should be made over time to reflect evolving economic circumstances, such as improvements in productivity or changes in the overall level and/or structure of consumer prices. Equally, they pose questions about the role of economic incentives, ensuring prudent fiscal management in the face of inevitable

rigorous analysis and an informed public debate. Fourth, to be durable over multiple governments, any new framework for indexing social assistance will need a measure of cross-party support and a mechanism to enable adjustments to accommodate major economic shocks. Creating an independent body to undertake authoritative reviews of the framework and recommend periodic changes is likely to enhance the credibility and durability of any new regime.

The current indexation regime

New Zealand's welfare state is complicated, multifaceted and evolving (see, for instance, Berentson-Shaw and Morgan, 2017; Cheyne, O'Brien and Belgrave, 2009;

to indexation is ad hoc, inconsistent and unfair (Boston and Chapple, 2014; St John and So, 2018). Moreover, this has been the case since the early days of the welfare state.

Take, for instance, the main form of family assistance during the mid-20th century, the universal family benefit: this was never indexed, whether to prices or incomes. Instead it was adjusted occasionally, typically by Labour governments. The lack of indexation meant that the family benefit gradually lost much of its value, all the more so during the rapid price inflation of the 1970s and 1980s. This helped seal its eventual demise in 1991. Had the family benefit retained its value (as originally set in the mid-1940s), or, indeed, had its real value been increased regularly in line with the rise in average living standards (as reflected in changes in real wages or household incomes), it would have been much harder to abolish, at least politically.

The unsatisfactory nature of the current approach to indexation is highlighted by the inconsistent treatment of different forms of social assistance (see Boston, Dalziel and St John, 1999) and the implications of this for the distribution of incomes (see Perry, 2018). Compare, for instance, New Zealand Superannuation (NZS) and first-tier welfare benefits (i.e. jobseeker support, sole parent support and the supported living payment) or family assistance, such as the family tax credit and the in-work tax credit. NZS is indexed to both consumer prices and average wages. Under the provisions of the New Zealand Superannuation and Retirement Income Act 2001, the rate of assistance (after tax) to those aged 65 years and older must be adjusted annually to reflect movements in both prices¹ and wages (i.e. average ordinary time weekly earnings, for males and females combined, after tax). The Act requires that the rate of assistance for married couples or those in equivalent circumstances must not fall below 65%, or exceed 72.5%, of average ordinary time weekly earnings. These arrangements ensure that the incomes of elderly citizens are tied to the average earnings of those in paid employment. If average real wages increase from year to year, as has been the usual pattern for more than a century, then so do the real incomes of those receiving NZS.

The unsatisfactory nature of the current approach to indexation is highlighted by the inconsistent treatment of different forms of social assistance ... and the implications of this for the distribution of incomes...

economic shocks, and determining how much social assistance (and of what kind) is fiscally affordable and/or politically feasible.

The focus of this article is on indexation rather than adequacy. While the two are closely connected, it is not possible to do justice to both in a brief contribution of this nature. Four main arguments are advanced in what follows. First, New Zealand lacks a principled and comprehensive system for the indexation of social assistance (in its many and varied forms). This constitutes one of the core weaknesses of our welfare state. On various grounds, not least fairness, reform is essential. Second, to achieve the primary goal of the Child Poverty Reduction Act – namely, a 'significant and sustained reduction in child poverty' – a more comprehensive and effective indexation regime will be essential. Third, designing a new indexation framework raises a multiplicity of issues. It will require

McClure, 1998; Rashbrooke, 2013; St John and So, 2018). It includes numerous forms of cash and non-cash assistance. Among these are dozens of separate welfare benefits (covering first-tier, second-tier and third-tier assistance), several types of tax credits for low- to middle-income families, various forms of housing assistance (both cash and in-kind), a range of subsidies for childcare and early childhood education, several forms of assistance for tertiary students, and numerous different subsidies for primary healthcare, dental care, education costs, transport costs and energy costs. Altogether, across the many domains of social policy there are literally hundreds of distinct policy instruments. Describing how and to what extent these varied instruments are indexed, let alone how such indexation has changed over time, would be a major undertaking. Such an exercise is not possible here. Nevertheless, one observation can be offered with high confidence: the current approach

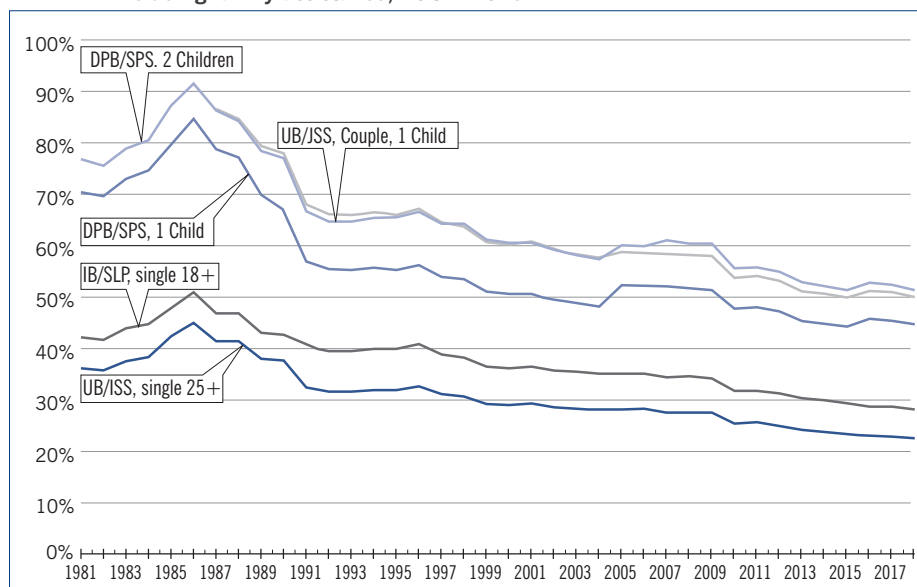
The situation facing welfare beneficiaries and families with low market incomes is markedly different. First, welfare benefits and family assistance have never been indexed to wages. As a result, the value of welfare benefits and family assistance has typically fallen relative to average real wages over long periods of time – sometimes decades. Hence, many of those who are dependent on public assistance have become gradually worse off relative to the average living standards of those in paid employment. For instance, as highlighted in Figure 1, net benefit rates as a percentage of net average wage rates (including family assistance) have fallen almost continuously since 1986. During the same period, those on low market incomes with children have witnessed extended periods when the value of their child-related assistance has fallen in real terms.

Second, many forms of social assistance are not *fully* linked to movements in the consumers price index (CPI). To be sure, in the case of most welfare benefits the basic rates of assistance are linked to the CPI (or, in recent times, the CPI excluding cigarettes and other tobacco products).² But the same linkage often does not apply to the income thresholds beyond which financial assistance is abated; nor does it apply to the value of assets (i.e. where asset tests apply). This means that over time some people will become ineligible for assistance, or the amount to which they are entitled declines. To compound matters, some important forms of social assistance are not indexed at all (e.g. the accommodation supplement), some have been only partially indexed for extended periods of time (e.g. the family tax credit), and some are only adjusted periodically when a particular trigger point is reached (e.g. price movements beyond a certain amount). Accordingly, other things being equal, those dependent on such assistance become worse off, not just in *relative* terms, but also in *real* terms (i.e. they experience a fall in their absolute standard of living over several or more years).

To illustrate, consider the following:

- The regime of tax credits for low-income families is not fully indexed to prices. The largest single tax credit, the family tax credit, is currently indexed,

Figure 1: Net benefit rates as a percentage of net average wage rates, including family assistance, 1981–2017



Source: Fletcher, 2018 – also with acknowledgement to the work of Kay Goodger and David Rea in the Ministry of Social Development

Notes: 1. Family assistance includes the Family Tax Credit, Family Support, and the Family Benefit over the relevant years. It does not include the In-Work Tax Credit or any partial entitlement to the Family Tax Credit that a person/couple on the average wage might have.

2. The average wage refers to the all industries, all persons, average ordinary time earnings on a full-time equivalent basis.

3. DPB = Domestic Purposes Benefit; JSS = Jobseeker Support; SPS = Sole Parent Support; SLP = Supported Living Payment; UB = Unemployment Benefit.

but during 2011–18 the top rate was not indexed. The next largest tax credit, the in-work tax credit, is not indexed at all, although it was adjusted as part of the Child Hardship Package which took effect in April 2016.

- The accommodation supplement has never been indexed since its introduction in the early 1990s, whether to the CPI or a specific index of housing costs. It was adjusted in 2005 (based on 2003 data), but then the nominal rate of assistance remained unchanged until April 2018, notwithstanding large increases in house prices and rents during the intervening period. Inevitably, many of those dependent on the accommodation supplement to help pay their housing costs gradually became worse off.
- Many income thresholds for various forms of social assistance have remained unadjusted for decades. The amount of income that jobseeker support recipients can earn before their benefit payments are reduced was last increased in 1996, while the cash asset limits for accessing the accommodation supplement have remained unchanged since 1988 (Ministry of Social Development, 2017, p.19). The failure to adjust the parental income threshold

for accessing student allowances resulted in 20% fewer students being eligible for such assistance between 2011 and 2015.

- Many other forms of social assistance, including primary healthcare, disability assistance, early childhood education, tertiary education and legal aid, have never been fully or automatically indexed to prices – or the form of indexation has been altered on an ad hoc basis.
- Income tax thresholds are not indexed to prices. Hence, as incomes rise, the average tax burden gradually increases.

The failure to index social assistance on a consistent and principled basis has contributed to large (and increasing) income gaps between those in paid employment and those dependent on welfare benefits (see Raven, 2015; Perry, 2018). This gap was exacerbated in the early 1990s when the real value of most welfare benefits was cut and then again in the mid-2000s with the introduction of the in-work tax credit. Many families with one or both parents in paid employment have also been negatively affected by the absence of a robust system of price and wage indexation for the assistance they receive for their children (i.e. via the Working for Families tax credits), housing

costs, and the costs of childcare and early childhood education.

Such problems are not, of course, unique to New Zealand (Adema, 2006; Barr, 1998; Social Welfare Benchmarking and Indexation Group, 2001; Weaver, 1988). But our heavy reliance on means-tested assistance rather than social insurance exacerbates the impact. Where citizens are covered by social insurance (as in the case of accident compensation in New Zealand), they typically receive earnings-related compensation (albeit with a monetary cap) if they are unable to undertake paid employment. Because such compensation is earnings related, there is an automatic link in the system to market incomes. Typically, too, the level of compensation is more generous in social insurance schemes than in means-tested systems.

benefits is modest (at best), with only a minority supporting more generous levels of assistance (see Rashbrooke, 2016).

Importantly, too, a lack of proper indexation constitutes a classic ‘creeping problem’.³ During times of low inflation, the fall in real and/or relative incomes experienced by those receiving social assistance is gradual. It thus attracts relatively little notice. To be sure, the cumulative effect over time may be large. But the process of gradual decline fails to generate specific ‘focusing events’ which spark the public’s attention and concern (see Kingdon, 2014). Experienced politicians understand such matters and know that they will probably not be held to account – or at least not for many years. Equally, they know that a properly indexed regime generates few, if any,

fiscal cost will be cumulative, not simply a one-off increase. For instance, if average real wages increased by, say, 10% over the next five years, the additional annual fiscal cost of a similar increase in the main welfare benefits would be around \$450 million in 2024. (This would be on top of the extra cost arising from the current system of price indexation.) Moreover, if the main welfare benefits were linked to median household incomes, and if such incomes rose even faster than real wages, then the fiscal cost would be yet higher.

While fiscal considerations are very important, they should not have overriding priority. The current indexation framework is unfair. It has a negative impact on many of New Zealand’s most deprived and vulnerable citizens. It needs reform.

The failure to index social assistance on a consistent and principled basis has contributed to large ... income gaps between those in paid employment and those dependent on welfare benefits...

Explaining the current flawed indexation regime

Why have governments, including those of the centre-left, failed over at least three generations to develop a fairer and more consistent approach? Plainly, two factors are critical, one political, the other fiscal. In brief, indexation attracts remarkably little interest, whether academic, political or otherwise. There are very few academic papers on the topic and media coverage is limited (for a rare exception see Stock, 2016). Partly for this reason, the impact of indexation (or a lack thereof) on both *real* and *relative* incomes is often poorly understood. Equally, there are few votes at stake. Most of those negatively affected by an inadequate indexation regime are poor. They tend to be politically inactive and/or lack the means to protect their long-term interests. Similarly, survey evidence suggests that public sympathy in New Zealand for those receiving welfare

opportunities for positive, vote-catching announcements. By contrast, the absence of a fully indexed system enables governments to make periodic upward adjustments to the value of particular forms of social assistance, thereby giving voters a sense that the government cares and is doing something to assist those who have become worse off.

The fiscal cost of indexation is the other critical factor explaining the current ad hoc and inconsistent policy regime in New Zealand. For instance, fully indexing each and every form of cash assistance to an appropriate price index would be costly – probably over \$100 million annually. Extending the current indexation system for NZS to first-tier welfare benefits and other important forms of income support (e.g. the family tax credit) would increase the fiscal cost further. And assuming that average wages continue to increase gradually in real terms, then the additional

Indexation and reducing child poverty

Currently, there is another factor of high relevance to any discussion of indexation in New Zealand. In December 2018, Parliament enacted the Child Poverty Reduction Act. Significantly, the legislation passed with cross-party support. The new Act requires governments to set child poverty reduction targets for four primary measures. One of these is a relative (or moving-line) poverty measure. The threshold in question is 50% of median disposable household incomes before adjusting for housing costs. As a relative measure, it is adjusted annually to reflect movements in median disposable household incomes; these, in turn, are affected by changes in wages.

The current government has set a long-term target for this primary poverty measure, namely a reduction of two thirds – from around 15% in recent years to 5% by 2028. This is consistent with a promise made during the 2017 election campaign by Sir William (Bill) English (the then prime minister and leader of the National Party). By any standards, this child poverty reduction target is ambitious. In order to achieve it, the incomes of the country’s poorest families will need to be raised relative to median disposable household incomes. Moreover, if such median incomes continue to rise, as is likely, it will also be necessary to ensure that the incomes of poor families increase at the same rate. Otherwise, the proportion of children

living in households with disposable incomes below the 50% threshold will rise.

But here is a crucial point: in order to achieve a significant and *sustainable* reduction in child poverty on this particular measure, it will not be enough simply to link social assistance to movements in the CPI (or a similar index); it will also be essential to link some of the most important forms of social assistance to movements in median or average wages, if not median disposable household incomes. This conclusion applies especially to those forms of income support which deliver the largest amount of cash assistance to our poorest families, namely first-tier welfare benefits and the family tax credit. Indeed, even if a government were to set a less ambitious long-term reduction target for the 50% poverty measure (before housing costs), the same basic logic would apply. If average wages (or median disposable household incomes) rise slightly faster than the CPI (as has generally been the case for many generations), then without linking major forms of income support – like first-tier benefits and the family tax credit – to wages (or median disposable household incomes), those families at the bottom of the income distribution (especially those largely or wholly dependent on welfare benefits) will gradually fall behind those in the middle of the distribution. As a result, relative rates of income poverty will increase. In short, if governments are serious about reducing child poverty on all four primary measures, they will have no choice but to revise the current system of indexation, especially for core areas of income support.

Designing a new indexation framework – issues and options

It is unclear whether the Welfare Expert Advisory Group will tackle the problem of indexation in a comprehensive manner. But if it does not, a further independent review may well be required. Arguably, such a review should consider the full range of cash and non-cash social assistance currently provided by the government and then assess what type of indexation is most applicable in each case.

Any such exercise should also consider overseas models. But it is not clear what lessons New Zealand might glean from

experience elsewhere in the OECD, particularly in relation to wage indexation (see Adema, 2006). As noted earlier, most developed economies rely more heavily on social insurance than New Zealand. To the extent that such arrangements include earnings-related benefits, there are automatic linkages to wages. Aside from social insurance, the use of formal wage indexation is relatively uncommon. Equally, many other OECD countries, like New Zealand, have struggled to develop consistent and durable systems of price indexation.

If New Zealand's current system for indexing social assistance were to be redesigned, numerous policy issues would require detailed attention. These include:

- Which forms of cash and non-cash assistance should be indexed?

(e.g. the rates of financial assistance, abatement thresholds, etc.)?

- Should all adjustments be mandatory (via appropriate legislation) and thus automatic in nature or should some be subject to annual budget decisions or other review processes?
- Should all adjustments be annual or should some be subject to numerical triggers (e.g. an increase in the CPI or average wages beyond a specified amount)?
- Should provision be made for independent periodic reviews of the indexation regime and, if so, how should such reviews be conducted? Equally, what provision should be made for adjustments to the regime in response to major economic shocks?

...if governments are serious about reducing child poverty on all four primary measures, they will have no choice but to revise the current system of indexation, especially for core areas of income support.

- What is the purpose of the various forms of social assistance? For instance, is it to cover part or all of the cost of a particular good or service, provide income replacement, or fulfil some other goal?
- Is the overall policy goal simply to maintain purchasing power over time or is it to ensure that social assistance is linked to changes in average living standards? If the latter, what is the appropriate measure of living standards and what are the appropriate benchmarks?
- What particular form (or forms) of indexation should be applied to each of the different forms of assistance? For instance, which particular indices of prices, wages or household incomes should be used? If there is a formal link to wages, should this be to median or to average wages and should a gross or net measure be used?
- Should all or only some aspects of a particular policy instrument be indexed

Any serious analysis of such matters will need to consider a range of principles. These include: (1) practicality (e.g. is there an accurate and timely index available?); (2) simplicity; (3) fiscal affordability; (4) the role of indexation as an instrument for enhancing macroeconomic stability; (5) political acceptability; and (6) the wider policy implications (e.g. the indexation of income tax thresholds).

Several matters need stressing. First, a principled and consistent approach to indexation does not imply that every form of social assistance should be treated in the same way. For instance, there is a good case for housing assistance – most notably the accommodation supplement – being adjusted on the basis of an index of housing costs rather than the CPI (let alone average wages). For instance, Statistics New Zealand has developed the household living-costs price indexes, which could be used for adjusting the accommodation supplement.

Second, any systematic review of indexation would be challenging. There are many complex matters to address and many policy options. The accommodation supplement is a case in point. Currently, for the purposes of determining subsidy rates, various parts of the country have been assigned to four areas, each with a different maximum level of financial assistance. To the extent that housing costs change at different rates across the country, there may well be a case for a disaggregated system of indexation. But costs will also be rising at different rates within each of the four areas, which implies the need for a regular review of area designations as well as maximum rates.

New Zealand's lack of a principled, consistent and comprehensive regime for indexing social assistance constitutes a serious and enduring policy weakness.

Third, any additional indexation to *wages* (or household incomes) is likely to be controversial, not least because of the extra fiscal cost. Realistically, therefore, such indexation may need to be limited to several core forms of social assistance where the justifications are strongest. As noted above, first-tier benefits and the family tax credit are obvious candidates. If such an approach were to be pursued, at least two issues would need to be addressed. What particular index should be used (e.g. average wages (as for NZS), median wages or median disposable household incomes)? Next, should there be a designated range within which the value of first-tier benefits and the family tax credit must remain (as for NZS) or should there be a fixed ratio? Other things being equal, linking to median wages would be fiscally cheaper than linking to average wages or median disposable household incomes, but this would raise the politically sensitive question of whether to alter the current indexation regime for NZS.

Fourth, any new comprehensive indexation regime should ideally be embodied in legislation, thus providing

clarity and a reasonable measure of certainty. Having said this, policymakers may be reluctant to support a more comprehensive and mandatory system because of the long-term fiscal implications and the risk of greater policy rigidity. How might these concerns be addressed? Or, to put it differently, how might a durable policy framework be constructed?

Securing a durable indexation framework

For durability at least two conditions must be satisfied: an adequate level of cross-party support and fiscal affordability over time. Both conditions are likely to necessitate an agreed process for responding effectively to significant economic shocks, together

with a mechanism to enable periodic adjustments to the indexation regime – for instance, to reflect changing societal norms regarding adequacy. In other words, a well-designed ‘flexibility mechanism’ is needed.

Securing even a modest level of cross-party agreement for a more principled and consistent indexation regime will almost certainly be difficult. To be sure, a consensus on the indexation of NZS was reached in 1993. But this reflected a distinctive and fraught political context: both major parties had made politically unsustainable policy decisions on retirement incomes during the preceding decade, and both were thus keen to depoliticise the topic and rebuild trust. In short, the two major parties shared a common political interest in securing a negotiated settlement on the level of, and annual adjustments to, retirement incomes. The same situation does not apply currently to the indexation of other forms of social assistance. To be sure, National’s support for the Child Poverty Reduction Act provides a possible political ‘hook’. But otherwise there are few cross-party drivers for a fairer and more

consistent indexation regime, especially given the added fiscal cost.

With respect to the design of a ‘flexibility mechanism’, one approach would be to establish, via legislation, an independent advisory committee on indexation. Such a committee would be comprised of people with relevant expertise and required to operate in accordance with clear statutory criteria. It would have two main responsibilities. The first would be to undertake periodic reviews (e.g. every five years) of the overall system of indexation, together with the indexation of each specific form of social assistance, and make recommendations to the government for reform. The second task would be to respond to governmental requests to undertake ad hoc reviews – for instance, following a major economic shock. Under such a policy framework, the government would be obliged to receive advice from the indexation committee before making any changes to the indexation regime. The government would retain the right to reject the committee’s recommendations but could be obliged (via the relevant legislation) to provide explicit reasons if it did so.

There are various options regarding the form and composition of an indexation committee. One of these would be to establish a new stand-alone entity comprised of independent experts. But this would entail extra costs and may not be justified if the committee’s inquiries were infrequent. An alternative approach would be to mandate the proposed Independent Fiscal Institution (IFI) with the task of providing expert advice on indexation as one of its statutory responsibilities. This would entail the IFI employing staff with the requisite expertise to undertake such analyses, but this is highly likely given the IFI’s anticipated roles.

Conclusion

New Zealand’s lack of a principled, consistent and comprehensive regime for indexing social assistance constitutes a serious and enduring policy weakness. It has been among the major factors contributing to higher rates of relative poverty and income inequality over recent decades. The country’s poorest and most vulnerable citizens deserve

better. Accordingly, the current indexation framework requires urgent review. Whether the Welfare Expert Advisory Group addresses the matter adequately remains to be seen. If not, other opportunities to

tackle the problem will need to be pursued.

1. In recent years, NZS (along with many other forms of income support) has been linked to a modified version of the Consumer Price Index (CPI) (all index groups) which excludes the price of cigarettes and other tobacco products. The use of the modified CPI reflects the desire of recent

governments to ensure that large increases in the tobacco excise (designed to reduce smoking) are not reflected in adjustments to income support.

2. See the Social Security Act, S61HA(3). Note that some rates and thresholds are adjusted on the basis of legislative mandates, some are adjusted by successive governments by convention, and others are adjusted on an ad hoc basis.
3. For a discussion of 'creeping problems' see Boston (2017), pp.39-46.

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Social Security that Works for Families

Abstract

There have been significant changes in employment and in family structure over the last half century. This article explores some of the social security changes required to develop a welfare system that is both responsive to and reflective of those broader changes and more effective in providing support that is timely, and effective in providing relief from poverty. A range of quite specific changes are proposed.

Keywords employment, family, social security, sole parents, benefit reform

The 1938 Social Security Act reflected and built what McClure (1998) has characterised as 'a civilised community'. Inherent in the Act, reflecting the approach of the times, was the idea that wages should be sufficient to support 'a man, his wife and their children'. It is important to note too that, coming at the end of the Depression, full employment (understood as 'full male employment') was a core pillar of the social security system.¹ Employment was primarily full-time, often with a large degree of security and continuity. 'Family' consisted of a man, his (financially dependent) wife and their children, and family life was considered to be based on permanent heterosexual relationships. Statutory support for

sole parents was not added until 1974, following the 1972 Royal Commission to Inquire into and Report on Social Security.

This very brief characterisation of legislation which celebrated its 80th anniversary last year highlights some key issues which are integral to the reshaping of our social security system. This article concentrates on two related issues which the Welfare Expert Advisory Group and subsequent policy and legislation will need to address if we are to create a social security system fit for families in the 21st century: the changed nature, experience and significance of contemporary work life, and the changed pattern of family life, with a particular focus on the changing nature of relationships. (While outside the scope of this article, significant increases in core benefits are also required if the social security system is to meet one of its primary objectives of reducing poverty: for a fuller discussion of this, see St John and So, 2018.) A contemporary social security system needs to work with these changes – changes which have been quite extensive in the last four decades –

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while fulfilling its core purpose of ensuring that citizens are able to belong to and participate in the life of contemporary society, to paraphrase the approach of the 1972 commission.

Changing employment

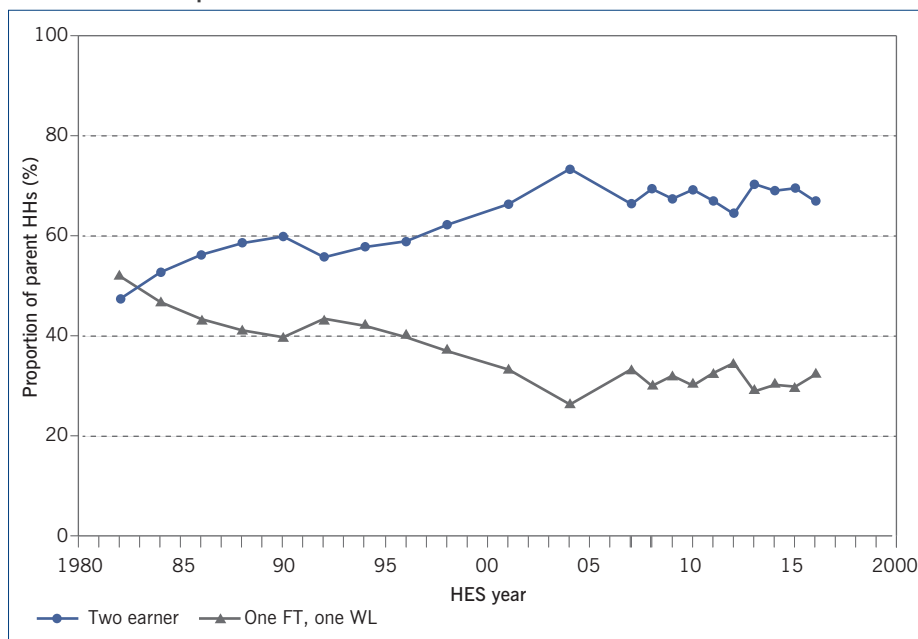
A range of commentators have described the ways in which work has changed over recent decades (Callister, 2010; Maré, 2018; Carey, 2017). Among the changes that are significant here are the increasing proportion of part-time jobs, the precarious nature of many jobs, reflected in their short-term and temporary nature, the frequent changes in jobs which many employees face, the increasing use of multiple jobs (as distinct from a single job as the source of income), and the growing number of women in the labour market over the last half century.

Three features of those changes are of particular significance. First, for many workers employment is temporary or short-term, with regular changes of employer and/or industry. Many workers find themselves with multiple jobs in order to earn sufficient income – a pattern often referred to as the ‘gig economy’. The New Zealand Council of Trade Unions, for example, reports that around one third of New Zealanders are in insecure work (New Zealand Council of Trade Unions, 2013). This work is often low paid, and Cochrane et al. (2018) note that the low paid are more likely to move between work and benefit receipt and to have multiple jobs. The significance of this for social security is reflected in Carey’s observation that disabled people and sole parents are likely to be at a significant disadvantage in a changing labour market (Carey, 2017).

The current labour market is, then, marked by frequent job changes, significant part-time work, fixed-term contracts, common experiences of redundancy and/or unemployment, underemployment, and periods of time in and out of the labour market – features often encompassed by the term ‘precarious work’.

The second feature with particular implications for social security is reflected in Figure 1, which shows the changes in households with two incomes from work: these are often referred to as ‘work rich’ households, in contrast to households

Figure 1: Increasing proportion of two-earner, two-parent households (with dependent children)



Source: Perry, 2017, p.147

where there is one or no adult in paid work. As Perry notes:

The most common arrangement in HES 2016² was for both parents to be working full-time (45%), with another 22% with one adult working full-time and the other part-time. In contrast, in 1982 the dominant pattern (52%) was one adult in full-time work and the other ‘workless’ (WL), with only 20% having both adults in full-time work’ (Perry, 2017, p.147)

However, being in employment does not guarantee an adequate family income. With the precarious nature of the labour market and the low wages experienced by many workers, there is significant poverty experienced by those in paid work. 45% of children living below a 50% after housing costs income poverty line are in households where the main source of income is paid work (Perry, 2018, p.63). Furthermore, and not surprisingly, those households without an adult in paid work are significantly over-represented among households with children living below the poverty line, irrespective of how that line is calculated (ibid., p.40).

Third, there is significantly more movement now between work and benefit as the major source of income than at the time of both the Social Security Act 1938

and the 1972 Royal Commission. Changes to social security regulations, legislation and policy introduced under the fifth National government prioritised moving beneficiaries into paid work, but the limited available evidence indicates that many of those subject to this approach returned comparatively quickly to a benefit: there was significant churn. For example, the Ministry of Social Development found that 45.7% of the 133,000 who moved off a benefit in 2013–14 returned to a benefit within 18 months (Ministry of Social Development, 2018a). Treasury reported in 2015 that ‘[i]n any given month, 70 percent of people who sign up for a benefit have been on a benefit before’ (Treasury, 2015). What does this mean for how we might develop social security law, policy and regulations?

These necessarily very briefly discussed changes have two important implications for the development of the social security system: the intersection between work and social security as income sources, and financial support for those in paid work. There are a series of critical issues in relation to credits for families and the intersections between those credits and social security benefit law and policy. As Perry notes, irrespective of the definitional and measurement issues, the issue of the ‘working poor’ is evident – this is an OECD-wide issue and all countries now use tax

credits or similar top-ups to help address poverty and material hardship in low-income working families (Perry, 2018, p.40). The precarious nature of contemporary labour markets means that there needs to be an effective intersection between Working for Families assistance and social security benefits. It is not possible or sensible to discuss support for low-paid workers without also discussing the framework, structure and adequacy of beneficiary support.

So, in a broad sense, what form might changes in social security and tax credits take? Before developing this in more detail, it is important to note the complicated impact of abatements. In brief, for beneficiaries, an increase in income beyond

paid work and benefit receipt. It would reduce the extent of income losses when moving between the two and provide encouragement for beneficiaries to take up, even brief, paid work opportunities.

What might be core components of such an approach? First, there would be an increase in allowable earnings before abatements started to occur. Currently, a single beneficiary can earn \$80 per week and a sole parent \$100 per week before their respective benefits are reduced. A sole parent earning \$200 per week faces a 70 cents in the dollar reduction on any earnings above that figure. Other assistance, such as the accommodation supplement and childcare support, may also be affected. The allowable level of earnings could, for

secondary tax on their earnings.⁵ This can require significant adjustment of taxation at the end of the fiscal year because of the complex ways in which the income tax, tax credit, benefit and benefit support payments interact. Secondary tax could be eliminated so that assessment of taxation liability simply covered all income at the appropriate rate. (This would not lead to higher tax bills at year end, the problem secondary tax is designed to avoid, unless the second source of income moved recipients into a higher tax bracket.) A further significant step forward would be the creation of a tax-free area – for the sake of discussion, say up to \$14,000, the income level at which the lowest taxation rate is currently applied – meaning that there was no taxation on income below this figure. While this would also benefit higher income earners, as their initial \$14,000 earned would not be taxed, this could be offset by increasing tax rates at higher incomes. (Precise calculations of the extent of a compensating increase requires assessment of both lost net revenue and changes in tax credit eligibility, which is not possible here.) Doing so would improve incomes for those on benefits and low wages and would also reduce after-tax income inequalities.

In sum, given the precarious nature of current work experiences, a more flexible linkage between benefit income and earned income would reflect the changed nature of employment, creating a better integration between the two. It would give some flexibility for beneficiaries, particularly those in precarious work, sole parents and those whose health and/or disability means that they are unable to commit themselves to regular employment. (Issues relating to those with a disability and their carers are discussed further below, and in Murray, 2018.) A more flexible linkage between social security benefits and paid work would also reduce the complexities in the benefit reapplication process, a process which sometimes acts to discourage beneficiaries from seeking paid work and/or applying for assistance to which they are entitled.

As noted above, while poverty among beneficiaries is significant, poverty has also become an increasingly significant feature of the lives of families whose main source

In sum, given the precarious nature of current work experiences, a more flexible linkage between benefit income and earned income would reflect the changed nature of employment, creating a better integration between the two.

the current allowable amounts³ (for example, from paid work) can result in cuts in the range of available assistance, such as social security benefits, hardship grants and childcare subsidies. For those in paid work, assistance such as the accommodation supplement and tax credits can be affected by increased income from, for example, an increase in the weekly income. There is a complex interaction between these income supports and the tax system, with the result that the combined impact of these reductions can produce quite high effective marginal tax rates.⁴

At the core of any changes would be the treatment of social security support and income from paid work in a more integrated fashion, acknowledging and working with the changed employment environment, the changes in family structures, and also the increased paid work participation of people with disabilities. A more integrated approach would enable easier movement between

example, be doubled, creating a stronger incentive for moving into paid work. (The cost of such a change is difficult to assess without access to government tax-benefit models.)

Second, stand-down periods between moving from paid work and onto a benefit would be reduced or abolished. Currently, after being approved for a benefit a beneficiary faces a minimum of a one- or two-week stand-down period (depending on their and/or their partner's income) before being paid a benefit; no benefit is then received for a further week because benefits are paid in arrears. Reducing or abolishing the stand-down period would ease transition between paid work and benefits, reflecting the realities of the current employment environment.

Third, there would be significant changes in the tax system as it affects beneficiaries and low-paid workers. Currently, because benefits are taxed, beneficiaries are faced with paying

of income is paid work. Partly reflecting that development, one of the major social security developments of the last 30 years has been the growth of tax credit programmes providing support for those in paid work (as well as for beneficiaries). In the current employment environment, the simple distinction between being in work and being reliant on social security support that has been the hallmark of much of the thinking and decision making about social security is completely inappropriate. This is clearly demonstrated by the numbers in work receiving some assistance through Working for Families and/or the accommodation supplement. For example, Ministry of Social Development data shows that of the 292,006 receiving the accommodation supplement in September 2018, 57,587 (19.7%) were not receiving a benefit.⁶

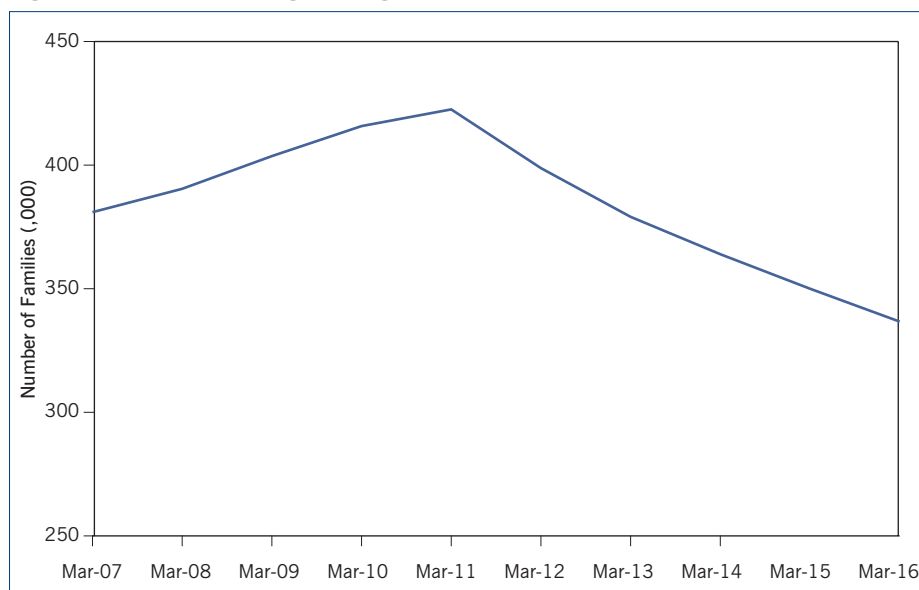
The current tax credit system is incredibly complex. The interrelationship between these credits and their impact on family and child poverty is considerably more complicated than can be reviewed here; nor is a detailed discussion of necessary changes to the structure and organisation of these credits possible. Many of the issues – and necessary changes – are more fully examined in Dale, O'Brien and St John (2014) and Child Poverty Action Group (2018). Some core changes are canvassed here.

The period between 2012 and 2016 saw a significant decline in the number of people assisted by Working for Families tax credits, as shown in Figure 2. The reasons for this are clearly set out by Inland Revenue:

The number of families claiming Working for Families tax credits increased from 380,300 in March 2006 to 421,200 in March 2011. As at March 2016 [the latest date for which there are official figures], it had decreased to 335,900 families – due in part to the amount at which the entitlement starts to decrease remaining static since 2012. (Inland Revenue, 2018)

(The Families Package which took effect in July 2018 made 26,000 more families eligible for Working for Families; the government estimated that 384,000

Figure 2: Numbers receiving Working for Families



Source: Inland Revenue, 2018

families would be better off as a result of the package overall (Treasury, 2017).)

Changes to Working for Families are a critical part of efforts to reduce child poverty. Working for Families provides significant support to families with children, both families in paid work and beneficiary families. Yet despite this support, child poverty levels remain excessively high, irrespective of the approach to and/or definition of child poverty used. From the most recently available data, the 2016 household incomes report identified that there were 290,000 children living in poverty, using the 60% of median, after housing costs moving income line (Perry, 2017).

There are four core changes which need to be made, reflecting both the changing nature of work and the need to provide better support for families and so reduce poverty. First, removing the discrimination against beneficiary families reflected in the work requirements of the in-work tax credit⁷ would make a substantial difference to families – \$72.50 week. The cost of such a change has been estimated at \$500 million (Child Poverty Action Group, 2017). It would reflect and support the more fluid approach to the interface between benefits and work as discussed above. It would also provide crucial support for those non-beneficiaries who, in a world of casualised and temporary work, do not meet the requirement for a given number of hours of paid work in

order to qualify for the in-work tax credit for their children.

Second, the threshold needs to be further increased in order to maintain the real value of Working for Families. There were important changes to the Families Package in 2017, with the threshold being increased to \$42,700, but the abatement rate was increased from 22.5% to 25%. Reducing the abatement rate to 22.5% or 20% and further increasing the threshold would make a significant difference for many low-income households. An increase in the threshold, to, say, \$45,000 or \$50,000, would mean that reductions in tax credits would not occur until these higher income levels were reached. Third, levels of support need to be increased annually and indexed, reflecting changes in living costs and living standards. Recent work by the Child Poverty Action Group (2018a) suggests that \$700 million is needed to meet these and other related changes. This would both help to reduce child poverty and ensure that poorer households do not fall behind the rest of the community. (For further discussion of indexation, see Boston in this issue of *Policy Quarterly*.) Fourth, abatement rate changes are needed so that recipients are not penalised with high effective marginal tax rates for additional earnings (see Child Poverty Action Group, 2017). Indeed, the whole framework of abatements needs to be reviewed so that they are better integrated and less punitive in their effects. This review needs to extend to tax credits and the various benefit

supports and supplements, such as the accommodation supplement, childcare assistance and temporary additional support. While the costs of such changes are significant, this reflects the depth to which poverty has become established in New Zealand and what is required if we are to develop a social security system which has a significant impact on poverty.

Thus far, this section of the article has focused on paid work, the changes therein and their implications for social security. However, much of the discussion around work and social security has ignored the unpaid work of caring, in relation to both children and people with disabilities, work which is increasingly devalued as not being

humane so that those seeking assistance do not face the hurdles described by the Child Poverty Action Group and Action Station (2018) and Murray (2018).

Changing families

Just as the connection between paid work and social security has changed substantially over the last 80 years, so too has the connection between family support and social security. As noted above, the assumption that a family (however defined) will be supported by the earnings of a male breadwinner is no longer sustainable; nor indeed is it the preferred arrangement in families. Sole parents (almost 90% of whom are women)

two-parent family as the norm. This assumption is regularly articulated and reinforced by critical and judgemental media, and by public commentary and elements of public policy which treat sole parents as secondary citizens or, to use Lister's expression, as 'others', as outsiders (Lister, 2004). In her recent report, Jess Berentson-Shaw draws attention to the process and effects of othering in the poverty debates in the New Zealand context (Berentson-Shaw, 2018).

One of the most persistent of these assumptions is around dependence in partnering relationships: in brief, that a woman receiving sole parent support⁸ (or, indeed, any benefit) should not be financially supported by the state if there is any indication of a relationship. If she is in any form of relationship, it is assumed – and that assumption is legally supported – that she should be dependent on that (male) partner for financial support. This approach places a woman in a highly conflicted position. Her interest in developing a new relationship leaves her facing the possibility that she might be vulnerable to her social security support being subject to scrutiny, and indeed termination. The risks in establishing the new relationship – which in the long term might be positive for her and her children – are, then, tightly linked with the risks of losing sole parent support. Moreover, her partner may be open to prosecution if she receives a benefit while living in a 'relationship in the nature of marriage'. This places an unreasonable burden on her. By contrast, the partners of those who avoid their obligations to pay tax are not subject to prosecution.

In many areas of current social policy, the individual applicant or beneficiary has their entitlement decided without reference to their relationship status. Tax assessment and liability, accident compensation payments and superannuation entitlement are all assessed on the basis of the individual applicant. With social security the position of the partner is taken into consideration in deciding eligibility for a benefit, the rate of payment of that benefit and the length of stand-down periods. Moving towards individual assessment of a beneficiary in her or his own right would put a beneficiary in a similar position to other citizens.

In many areas of current social policy, the individual applicant or beneficiary has their entitlement decided without reference to their relationship status.

'real work'. It is no accident that most of this unpaid caring work is undertaken by women. Any meaningful changes in the social security system will need to challenge the current direction around caring and assert the need for adequate financial support for those providing care, so that they are not forced into poverty when they undertake this work.

Three simple changes will go a significant way towards that goal. First, benefit levels need to be increased: currently there is a significant gap between benefit rates and various poverty lines (on this see St John and So, 2018). Second, abolishing the current in-work tax credit discrimination against beneficiaries, as discussed above, would move the work of caring towards being put on a similar footing to paid work; and, equally significantly, would make an important contribution to reducing child poverty and to supporting disability carers. Third, caring at home for a person with a chronic disability needs to be recognised as work and appropriately remunerated. The process facing those providing that care needs to be simplified and made more

with dependent children represent the largest single group receiving what is now called sole parent support. As noted above, other than for widows, support for this group was not a part of the 1938 Social Security Act, the statutory domestic purposes benefit only being introduced in 1974 (there had been a highly discretionary payment prior to that).

As of September 2018, there are 58,620 people receiving sole parent support; they are responsible for the care of 114,740 children. In addition, there are 58,872 children in other benefit-recipient households, such as those receiving job seeker support and supported living payments (Ministry of Social Development, 2018b). Changes in the last half century, such as the reduction in the number of adoptions, increased parental separations, public acceptance of sole parenthood, and increased numbers of women in the paid workforce all mean that the assumption of two-parent families supporting their children no longer holds. However, the social security system still operates implicitly in many respects on the assumption of female dependence and the

Equally importantly, it would reduce the need for the invidious intrusions that arise from the current legislation and investigations in relation to what constitutes a relationship 'in the nature of marriage'. As St John et al. note in their extensive review of the operation of the current legislation:

a serious confusion about relationships in our system needs to be acknowledged. There are so many combinations and permutations of co-habitation, financial interdependence, emotional commitment, forward plans, and sexual/family patterns, it is no wonder that no one simple clear definition can be found'. (St John et al., 2014, p.37)

Also arising from this assumption of dependence is the requirement for a sole parent to name the father of her dependent children. This requirement is accompanied by quite strong sanctions by which the benefit can be suspended for a period of time. In the September 2018 quarter a total of 9,504 sanctions were issued, and 1,437 were in place at that date. Data is not available on the number of children affected by these sanctions; in response to a parliamentary question in November 2017, the minister for social development stated that 18,000 children were affected by the sanctions regime. The sanctions are both punitive and contribute significantly to greater poverty among families that are subject to them. The reasons for not meeting benefit requirements are many and varied and the sanctions regime fails to recognise this. An immediate change that could be made would be to remove sanctions related to the requirement to name the father of the child. Failure or refusal to name the father results from a mix of factors, including the need to

protect children. It is both unnecessary and inappropriate in these circumstances to subject these families to increased poverty.

There is a third quite specific change which would make an important difference for children and families. Currently, child support payments are made directly to the state and offset against the costs of state support for families; none of the payment goes directly to a beneficiary family, unless the payment is higher than the amount of sole parent support (or other benefit), a comparatively rare occurrence. In some countries, a portion of the child support payment is transferred by the state to the carer. Introduction of a similar measure here would be an important change in the social security system. It would need to be accompanied by changes which meant that this was not simply offset against benefit payment eligibility. Without this adjustment, transfer of financial support would not result in financial improvement for the beneficiary family. Passing on at least a portion of the child support payment would mean that the person responsible for child support (usually the father) would have a stronger motivation to meet obligations because the monies would be supporting his children's lives, circumstances and opportunities. (For a fuller discussion of issues surrounding child support and possible changes, see Boston and Chapple, 2012.)

Conclusion

In summary, the following changes to the social security system are recommended:

- significantly increase basic benefits;
- develop a tax-free area for beneficiaries and low-income earners and increase income taxes to reflect the impact of this development for middle- and higher-income earners;

- change stand-down requirements and allowable earnings in order to better reflect current employment and family structures;
- remove the in-work tax credit discrimination so that payment is not related to work status;
- move caring towards being remunerated on a comparable basis to paid work;
- remove benefit sanctions for failure to name the father of the child;
- move towards individual entitlement for benefits so that there is a closer consistency with what happens elsewhere in the social support structures;
- pass on child support to the parent with responsibility for care;
- lower the rate of abatement;
- index Working for Families annually to reflect wage and living cost changes; and
- increase the Working for Families threshold and adjust the threshold annually.

-
- 1 I will use the term 'social security system' throughout rather than the current terminology; despite its limitations, 'social security system' reflects much more clearly its nature and purpose.
 - 2 HES is the Household Economic Survey carried out annually and used, inter alia, as the basis for the annual report by the Ministry of Social Development on changes in patterns of income.
 - 3 Schedule 2 of the Social Security Act 2018 sets out four different income tests which can be applied to a beneficiary's earnings and those of their partner.
 - 4 For a fuller discussion of this see Dale et al., 2014.
 - 5 Secondary tax is the tax paid on your second and any subsequent sources of income and takes into account all income, not just that source of income, so is charged at a higher rate: see <https://www.ird.govt.nz/how-to/taxrates-codes/codes/secondary-tax-codes.html>.
 - 6 Figures supplied by the Ministry of Social Development under the Official Information Act, 12 December 2018.
 - 7 Currently recipients of state assistance such as sole parent support are not eligible for the in-work tax credit. Eligibility requires a sole parent to work for 20 hours per week and a couple to work for 30 hours per week. Receipt of state assistance means that the applicant is not eligible for this tax credit.
 - 8 While the assumption applies to all recipients of sole parent support, as almost 90% of those receiving sole parent support are women 'she' is used here and in the subsequent discussion.

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Institute for Governance and Policy Studies

Sea Level Rise & New Zealand's Future: an IGPS public lecture

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LGNZ's report is intended to result in stakeholders working together to ensure the long-term resilience of critical infrastructure. At its core, this analysis is about turning a challenge into an opportunity. Study co-author **Thomas Simonson** will present these findings in detail at a lunch time lecture, and take questions from the audience.

When:

Thursday April 18th
12:30pm – 1:30pm

Where:

Rutherford House
lecture theatre 2 (RHLT2),
Pipitea campus

Register:

email igps@vuw.co.nz,
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"RSVP for Sea Level Rise
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The Tax-benefit Interface

Abstract

This article discusses the interaction of the tax and benefit systems (the tax–benefit interface). It shows profiles of combined taxation and benefit abatement (effective marginal tax rate profiles) for two families, before discussing lessons that could be drawn from these profiles for policy. One theme that emerges is the need for simplification. Yet rather than pursuing simplification through *grands projets*, such as a universal basic income, what is needed is a focus on detailed design issues, such as how tightly programmes respond to fluctuations in hours of work and incomes.

Keywords tax–benefit interface, abatement rates, effective marginal tax rates, work incentives, income taxes, family assistance

The challenge of reform: *plus ça change?*

Tax–benefit reform has always required hard choices. Take the Beveridge report (published in Britain in 1942), which shaped the development of family allowances in liberal welfare states just after the Second World War. In his report Beveridge faced a challenge in ensuring income adequacy for families with children within a competitive labour market where wages are paid to individuals. This meant that:

when wages were low and family sizes large the income from work could fail

to provide an adequate family income and be less than the income from government transfers when not working. The design of family allowances therefore needed to balance the goals of ensuring adequate family incomes and encouraging labour supply. This balance had to be found within the constraint of limited government funds. (Nolan, P., 2006)

Partly reflecting the challenge above – along with ideas of fairness of reward and socially acceptable incomes – governments have not simply relied on competitive

labour markets to set wages. Indeed, New Zealand has a long history with national minimum wages (since the Industrial Conciliation and Arbitration Act 1894), and in recent years there has been interest in concepts like living wages, pre-distribution (e.g., reducing inequality in the distribution of gross incomes), and the share of national income going to labour (the labour income share (Conway, Meehan and Parham, 2015; Rosenberg, 2017; Fraser, 2018)).

But even with the help of wage policies governments cannot avoid hard choices when undertaking tax–benefit reform. Not only are wage policies themselves subject to trade-offs (e.g., potentially having an impact on employment), but the interaction between wage changes and tax–benefit policies is a constraint on outcomes. Take the example of an increase in the minimum wage. As Table 1 shows, increases in the minimum wage may raise a worker’s gross wage income (assuming no change in their employment or hours of work), but the change in their take-home pay (net income) is less clear, due to taxation and the abatement of transfers. Indeed, in some cases (e.g., where workers face the dollar-for-dollar abatement of the minimum family tax credit and ACC levy), income in the hand may fall. However, this should not be read as suggesting that there is no point to increasing wages; it simply highlights that it is not possible to say that an increase in a

Table 1: Changes in weekly income in the hand when gross hourly wages change (sole parent with two young children)

	20 hours of work		30 hours of work		40 hours of work	
	Change in gross income	Change in net income	Change in gross income	Change in net income	Change in gross income	Change in net income
Wage increase from \$16.50 to \$17.50	\$20.00	-\$0.28	\$30.00	-\$0.42	\$40.00	\$32.44
Wage increase from \$16.50 to \$20.00	\$70.00	-\$0.98	\$105.00	\$9.39	\$140.00	\$113.55

Source: Author's calculations

Note: Further detail on the assumptions employed in this table can be found in the discussion of the sole-parent scenario (scenario one) below. These calculations do not account for the effect of a number of key programmes (including accommodation assistance, childcare subsidies, child support, student support/loans and paid parental leave).

minimum wage (or introduction of a living wage) will always translate into proportionately higher incomes in the hand.

In some ways the challenge of reform is getting harder. Like many countries over the last half-century, New Zealand has seen a shift from the breadwinner model of social arrangements, with more sole-parent and dual-income families (reflecting increasing participation rates of female workers) and increasing participation rates of older workers (Nolan, P., 2006). Further, while the income tax and benefit systems were largely devised as separate systems, large proportions of the population are now affected by both simultaneously

(Stephens, 1997), given the taxation of main benefits and the provision of supplementary assistance, like Working for Families, to non-benefit families. These changes have increased the complexity of designing and implementing reform to tax-benefit programmes.

What effective marginal tax rates tell us about the tax-benefit interface

One way to illustrate the interaction of tax and benefit programmes is to model effective marginal tax rates (EMTRs). EMTRs show how gross wages interact with the personal income tax scale, main welfare benefits and supplementary assistance (e.g.,

tax credits). They show the combination of taxation and abatement of benefits and are usually measured over the next dollar of income. They require detailed modelling of both the interaction of a number of tax-benefit programmes and the income distribution. This can be a difficult exercise and can be subject to controversy. Nolan (2018), for example, required five pages and close to 50 variables to provide a basic algebraic description of how to calculate EMTRs in New Zealand, even with a number of important programmes (including accommodation assistance, childcare subsidies, child support, student support/loans, paid parental leave, etc.) excluded from the calculations.

EMTR profiles and budget constraints are produced for this article with a spreadsheet model based on the approach in Nolan (2018). This model shows the interaction of key tax-benefit programmes only (e.g., it does not model the interaction of these programmes with the income distribution). The analysis is static and several important tax-benefit programmes are not included. However, limiting coverage to main benefits, income and social security taxes (e.g., the ACC earners' levy) and tax credits can provide a more general picture. Including accommodation assistance would, for example, mean that results would vary depending on where families live and whether they own or rent their accommodation. In contrast, the approach taken in this article allows a wide range of scenarios to be easily compared. The only parameters needed are the family's civil status, wage rate (or rates if a dual-income couple) and number and ages of children, and key policy features. Future work could build on this general picture by considering the interaction of a fuller set of tax-benefit programmes. Identifying the appropriate scenarios for this fuller assessment would require a detailed assessment of factors such as the distributions of wage rates and hours of work (see the discussion on EMTRs in their labour market context below).

For illustrative purposes, the modelling in this article is undertaken for two scenario families:

- the first family is a sole parent earning an hourly gross wage rate of \$16.50 (minimum wage as at 1 April 2018) and with two children aged two and five;

Box 1 The government's Families Package

- The government's Families Package largely took effect from the 1 April 2018 tax year. This package contained changes to the Working for Families tax credits, the introduction of a Best Start Tax Credit, changes to the Accommodation Supplement, and the introduction of a Winter Energy Payment. From 1 April 2018 the adult minimum wage also increased to \$16.50 from \$15.75.
- The changes to Working for Families included no longer varying the family tax credit rates by age of child (different rates for the eldest and additional children remain), increasing the Minimum Family Tax Credit, and increasing the Working for Families abatement threshold and abatement rate.
- The Best Start Tax Credit was introduced to replace the parental tax credit. For children up to the age of one this provides a universal transfer and for children older than one and younger than three this provides a targeted transfer. Payments will only be made for children born after 1 July 2018, but in the modelling in this article it is assumed this programme is now fully in place.
- The Independent Earner Tax Credit was retained in the Families Package (the previous government had planned to remove this programme).
- Changes to the Accommodation Supplement and the introduction of the Winter Energy Payment are not included in the modelling in this article.

- the second family is a partnered person earning an hourly gross wage rate of \$25.00 and with a working spouse and two children aged two and five. The working spouse is assumed to earn a fixed income of \$1,000 gross per week (at a wage rate of \$25.00 per hour and 40 hours of work per week).

Families are assumed to have two children as this is a relatively common structure for partnered families and, although sole parents tend to be in single-child families, the incidence of poverty and significance of poverty traps can be expected to increase with the number of children in the family. Assistance is modelled over a range of hours of work for a family type at a fixed wage rate. These wage rates were chosen as they illustrate the current minimum wage and the median hourly earnings for men. It is assumed that wage rates, hours of work and family structures do not vary during the year.

Scenarios

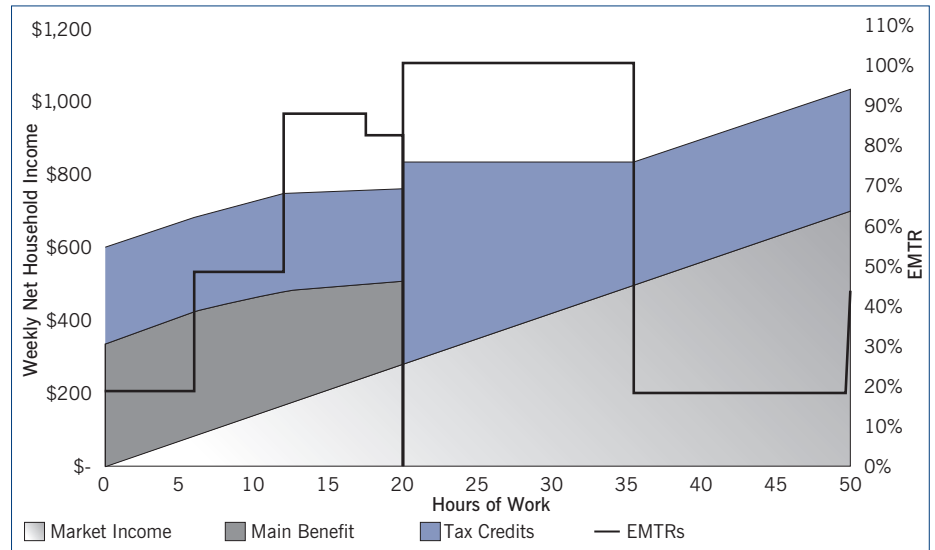
Sole parent on minimum wage

The first scenario is a sole parent on minimum wage. The programmes modelled include aspects of the government's recent Families Package (see Box 1), and to simplify the presentation of the results it is assumed the Best Start programme is fully in operation.¹

Figure 1 shows the sources of income received by the sole parent. Based on current benefit rates at zero hours of work this person is estimated to receive (after tax) an unabated main benefit of \$334.05 and family tax credit and Best Start payments of \$264.29. The result is an income in the hand of \$598.34 a week. Note that this net income does not include accommodation support and several other transfers and it is assumed that the Best Start programme is fully in operation.

There is an earnings disregard of \$100 per week and so for the first few hours of work this person's gross earnings are reduced by the second rate of income tax (17.5%) and the ACC earner levy (1.39%) only.² The person faces the second rate of income tax (and not the lower rate) as the main benefit is included in taxable income. This leads to an EMTR of 18.9% (note: all EMTRs are rounded to one decimal place in this article). At just over six hours of work

Figure 1: EMTR profile and budget constraint for a minimum wage sole parent with two children



Source: Author's calculations

the main benefit starts abating at a rate of 30%. As noted above, the net main benefit abates against increases in gross income. The result is an increase in the EMTR to 48.9%.³

Once gross non-benefit earnings increase to \$200 per week the main benefit starts to abate at a rate of 70%. This takes place at just over 12 hours of work and leads to an EMTR of 88.9%. At this point the sole parent's net income is around \$730.60. Note that at just over 17 hours of work the value of the abated main benefit has fallen to a level that means that the income tax rate applying to this benefit is now the lower rate (of 10.5%), not the second rate, and so the EMTR falls to 83.4%. At this point the net income is around \$740.80.

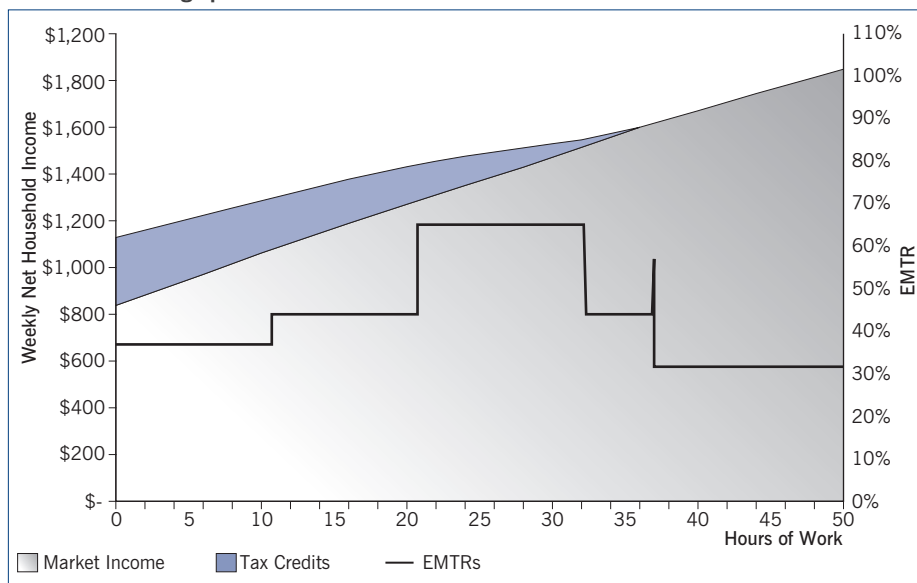
At 20 hours of work the sole parent becomes eligible for the work-based components of Working for Families, particularly the minimum family tax credit and the in-work tax credit. It is not possible to receive these work-based components and the main benefit simultaneously. This leads to a boost in net income of \$87.51 (from \$747.19 to \$834.69). There is thus a relatively strong incentive to satisfy the statutory hours-based work threshold. The minimum family tax credit provides a guaranteed minimum family income and so abates at a rate of 100% against any increases in earnings until it is fully exhausted. The combination of this abatement and the ACC levy results in an EMTR of 101.4%. Net income thus

decreases very slightly against increases in earnings until around 36 hours of work.

Once the sole parent has exited the minimum family tax credit the EMTR falls to 18.9%, and it remains at this level until their earned income is sufficient for them to face abatement of their Working for Families tax credits and (later) put them into higher income tax brackets. Abatement of the Best Start programme begins at \$79,000, but with a \$16.50 gross wage it is highly unlikely that the family would face this abatement (note that if the youngest child was under one then no abatement of this programme takes place). In this scenario the abatement of Working for Families begins at around 50 hours of work a week.

An additional perspective on the tax-benefit interface can be provided by comparing the net income at zero hours of work with the net income when in work (the net replacement rate). Replacement rates can be calculated based on the same information as above, although it is important to note that they will vary depending on the number of hours at which it is assumed that the person is in work. They are thus calculated for a range of hours of work: with a net income at zero hours of work of \$598.34, the income when out of work is equivalent to (replaces) 84% of the income at 10 hours of work, 80% at 20 hours of work, 72% at 30 hours, and 67% at 40 hours. Note that these calculations do not account for the effect of a number of key programmes and

Figure 2: EMTR profile and budget constraint for a median earner with working spouse and two children



Source: Author's calculations

various in-work costs (such as childcare and transport costs).

Median earner with working spouse and children

The second scenario is the case of a partnered parent earning around median hourly earnings (\$25 per hour) and a working spouse (assumed to work 40 hours at \$25 per hour). As with the earlier scenario, the family has two young children. Again, the programmes modelled include key features of the government's Families Package and it is assumed the Best Start programme is fully in operation.

As the parent in Figure 2 is assumed to have a spouse who is already in work, the EMTR they face immediately upon entering the workforce is 36.9%. This EMTR is a combination of the lowest (10.5%) personal tax rate and (1.39%) ACC levy (both based on individual income) and (25%) Working for Families abatement (based on family income). At around 11 hours of work the person moves onto a higher income tax rate of 17.5% and so the EMTR increases to 43.9%.

At 20 hours of work the abatement of the Best Start programme begins, leading to a more significant increase in EMTRs (from 43.9% to 64.9%). EMTRs remain at this level until the Best Start payment is fully abated (at around 32 hours of work). As the generosity of the Working for Families tax credits has increased

under the Families Package, the abatement of these programmes takes place over a longer range of hours of work. Thus, abatement continues until around 37 hours of work.

The changes to Working for Families mean that this programme now interacts with the \$48,000 personal income tax threshold. At this income for this family the Working for Families tax credits are almost already fully exhausted (providing less than \$1) and so a higher EMTR is faced over only a very small range of earnings. This explains the spike in the EMTR profile at around 37 hours of work.

As with the earlier scenario, an additional perspective on the tax-benefit interface can be provided by comparing the income from zero hours of work with the income when in work (the net replacement rate). As one parent in this family is assumed to always be in work (earning \$1,000 gross per week), these replacement rates are calculated for the other (second) earner. Thus, with a net family income when the second earner is out of work of \$1,111.91, the family income with one worker is equivalent to (replaces) 88% of the family income when the second earner also works 10 hours, 79% at 20 hours of second-earner work, 74% at 30 hours, and 68% at 40 hours. Note that these calculations do not account for the effect of a number of key programmes and in-work costs (such as childcare and transport costs).

What can we learn from these profiles?

Although EMTRs are only a partial measure of the effect of the tax-benefit interface,⁴ scenarios like those above still illustrate several points (Nolan, P., 2018). For instance:

- Putting differences in wage rates between family types to the side, beneficiaries without children working for small numbers of hours face higher EMTRs than beneficiary parents. This reflects the higher earnings disregards (income that can be earned before abatement begins) facing beneficiary parents.
- However, as these disregards have changed little over the last decade and a half (Nolan, M., 2018a), their real value (and thus the difference between family types) has fallen.
- Nonetheless, for all beneficiaries, once full abatement of the main benefit begins there are few incentives to work until income is sufficient to exit the benefit.
- The disincentives for parents take place over a wider range of hours of work, reflecting the lower abatement at lower hours of work (for sole parents), higher levels of assistance, and abatement of the Working for Families tax credits.

Thus, not only are there trade-offs between different objectives of the tax-benefit interface but there are trade-offs within objectives too. Efforts to improve the incentives to work at one point can worsen the incentives elsewhere. An analogy can be drawn with a balloon. It is possible to squeeze a balloon downwards, but – unless the overall volume of air in the balloon reduces – this will lead to it expanding out sideways. To give a practical example, an increase in an earnings disregard may improve the financial returns from a very small number of hours of work but is likely to come at an economic cost of worsening incentives for longer hours of work or work at higher wage rates.

The only way this could be avoided (aside from moving away from targeting by income) is to provide less assistance overall, which may, of course, conflict with other objectives. This means that when evaluating EMTRs it is difficult to avoid becoming an archetypal 'two-handed economist'. As former US president Harry

Truman once said: ‘Give me a one-handed economist. All my economists say “on one hand”, then “but on the other”’. To avoid this trap of simply highlighting trade-offs it can be useful to consider the specific location of ‘notches’ (areas of high EMTRs) and how these interact with wage rates and the distribution of hours of work.

EMTRs in their labour market context

This article does not include primary analysis of the distribution of hours of work by wage rate and family type. While there has been some work undertaken on this topic in New Zealand at the Treasury and Victoria University of Wellington (see, for example, Mercante and Mok, 2014a, 2014b; Nolan, M., 2018b), this is an area where further research would be valuable. Nonetheless, as Mercante and Mok found:

- employment rates tend to be highest for partnered men and lowest for partnered women and single parents (who are mostly women);
- average working hours of workers are highest for partnered men and lowest for partnered women and single parents. This is primarily due to the higher prevalence of part-time working hours for the latter two groups, while partnered men work predominantly full-time at 40 hours or more; and
- single men tend to have lower employment rates than partnered men, and, of those who work, single men are more likely to work full-time than partnered women or single parents. (Mercante and Mok, 2014a, p.11)

The practical significance of these different distributions of hours of work can be illustrated with a finding in Creedy, Mercante and Mok (2018). They show that the requirement for couples to work at least 30 hours to qualify for in-work assistance is unlikely to have had much of an effect on labour supply given the fact that most married men are already working for at least 40 hours.

The messages emerging on these distributions of hours of work appear broadly consistent with the findings from international work. For example, Blundell (2012, pp.47–8) noted that over the last three decades in the UK, France and the United States:

- hours of work are often found to respond less than employment decisions;
- for men, variations in the extensive margin (e.g., whether to work) occur mainly at the beginning and end of their working lives (schooling–work and early retirement margins);
- hours differences, conditional on employment, also matter for men and they matter across the working life;
- for women, both employment itself and hours vary across working lives;
- the extensive margin is also relatively important for women in the early and later periods of working life; and

down from 23% in 2006 and 25% in 2001. Earlier research (Fursman, 2008, 2009) showed that the type of households that long-hours workers lived in were similar to those of the total workforce, and while workers with high incomes were most likely to work long hours, the majority of long-hours workers were in lower income brackets. It is likely that some families need to work longer hours because their wage rates are low. This can reflect the presence of poverty traps (periods of high EMTRs), as with lower wage rates more hours of work are needed to leap over areas of high EMTRs.

...maintaining a margin between the income from welfare and income from work is important to ensure work provides a route out of poverty.

- hours of work for women show more variation over the life cycle, especially around childbearing age. As they noted, for ‘women with younger children it is not usually just an employment decision that is important, it is also whether to work part-time or full-time’ (p.48).

One outstanding question in New Zealand is how EMTR profiles and the distribution of hours of work interact, and particularly whether these incentives encourage a ‘bimodal’ distribution of hours of work where low-wage families cluster at either low hours (and weak attachment to the labour market) or high hours of work.

There does not appear to be a simple relationship between low wages and hours of work. Recent work by the New Zealand Work Research Institute (Cochrane et al., n.d.) on low pay showed that workers with relatively low wage rates tended to have a weak attachment to the labour market and relatively short employment spells. Yet we also know that New Zealand has relatively high working hours by international standards. The 2013 Census showed that around one in five people worked for 50 hours or more a week, although this was

What does this mean for policy?

The discussion above raises a number of questions for policymakers, but given space limitations just one issue – the degree to which assistance is targeted according to work effort – is discussed below. In New Zealand the decision to target work effort has been the subject of debate. Some commentators have argued that the Working for Families tax credits should not be targeted on these grounds. Yet maintaining a margin between the income from welfare and income from work is important to ensure work provides a route out of poverty. Some have argued that the EMTRs created by the abatement of assistance weaken the effectiveness of this strategy, yet if this is of concern the logical reform would address any disincentives facing the working poor, not provide additional assistance to people out of work. To cite the working poor as a reason for extending in-work assistance to non-working households is a *non sequitur*.

Indeed, providing assistance targeted to the working poor is consistent with a view that families in work require additional assistance given the particular costs that working families face and that families out of work do not (such as

transport and childcare costs). It could be argued that it is, alternatively, possible to provide support to both people out of work and the working poor. However, given fiscal constraints, reducing the degree of targeting of particular programmes would increase expenditure (including to people not in poverty) and so require some combination of reductions in spending on other tax-benefit programmes, reductions in spending elsewhere, and/or an increase in tax burdens (Nolan, P., 2018). And there are trade-offs in the design of financial incentives within an EMTR schedule.

In a review of how Anglo-American countries have designed tax credits to support the working poor, Nolan (Nolan, P., 2006, 2018) showed that no one approach has been universally favoured. Countries have varied in the emphasis placed on work-related criteria relative to demographic criteria, particularly as work-related criteria are likely to be relatively responsive to the design of programmes themselves.⁵ Further, while New Zealand is not especially unusual in targeting work effort, the approach taken (e.g., with tax credits requiring both non-receipt of a main benefit and satisfying hours-based tests) appears relatively sensitive to fluctuations in families' incomes throughout the year.

There is thus scope for New Zealand to target work effort in a simpler way. Options include removing the hours-based work test for tax credits, which would in turn require re-evaluating the design and level of the minimum family tax credit and in-work tax credit. There are also administrative changes that could be considered, such as evaluating whether fluctuations in income throughout the year could be disregarded for abatement purposes (Inland Revenue, 2017). Proposals like these may appear 'incremental', particularly compared to *grands projets* such as a universal basic income (UBI) (see Stephens (forthcoming) for a fuller evaluation of UBI proposals),⁶ but they are the type of reform that would in practice make a real improvement to the outcomes of the tax-benefit interface and deserve consideration.

assessable income will increase by 63.6 cents (\$1.00 minus 36.4 cents), and the tax on this income is 11.1 cents (17.5% of 63.6 cents) and ACC levy is 1.39 cents. Net income thus increases by 51.1 cents, giving an EMTR of 48.9%.

- 4 Limitations of EMTRs include that they generally only measure change over the next dollar of income and do not account for factors like take-up rates, institutional features of welfare benefits, such as work tests and stand-down periods, characteristics of the labour market (such as labour market segmentation), and access to childcare (Nolan, P., 2018).
- 5 Note that some demographic criteria are more responsive to tax-benefit programmes than others. For instance, in contrast to age of children, criteria like civil status are more likely to respond to the incentives contained in the tax-benefit interface (Nolan, P., 2008).
- 6 While fiscal cost is often cited as the major barrier to introducing a universal basic income (UBI) the failure of this policy to adequately recognise population heterogeneity is potentially a much more serious problem. Current proposals for a UBI in New Zealand would, for example, represent a significant shift in the balance in the tax-benefit interface to particularly favour couples without children at the expense of sole-parent families. Sole-parent families with larger numbers of children would be especially disadvantaged.

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- 1 The Best Start programme can only be received for children born after 1 July 2018. Given the assumed ages of the children in these scenarios, the families would in practice be ineligible for this transfer. For illustrative purposes, however, the Best Start programme is assumed to be fully operational in this article.
- 2 It is also possible to receive an additional \$20 per week disregard for childcare costs. However, this additional disregard is not modelled in this article.
- 3 This figure can be derived in the following way. Assume the person's gross earnings increase by \$1.00 from \$100.00 per week to \$101.00. Their net benefit will abate against this increase in gross income, so will reduce by 30 cents (30% of \$1.00). Grossing this up means the gross benefit will reduce by 36.4 cents (30 cents divided by 82.5% (100% minus 17.5%)). The result will be that the gross

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Mandatory Savings the saviour of New Zealand's welfare state

Abstract

New Zealand faces an impending cost spiral of public spending on healthcare and pensions, as well as ongoing and substantial payments to those out of work. None of the solutions conventionally proffered, such as generating markedly higher productivity growth or levying significantly higher taxes, seems plausible. Mandatory savings accounts, however, offer more promise. Ending unnecessary transfer payments to businesses and wealthy individuals would allow health, out-of-work and retirement savings accounts to be set up and funded for all individuals. This policy change could secure the future welfare needs of low earners, enhancing opportunity, dignity, choice and fair treatment. It would also alleviate fiscal pressures, encourage efficiency gains and reduce wealth inequality.

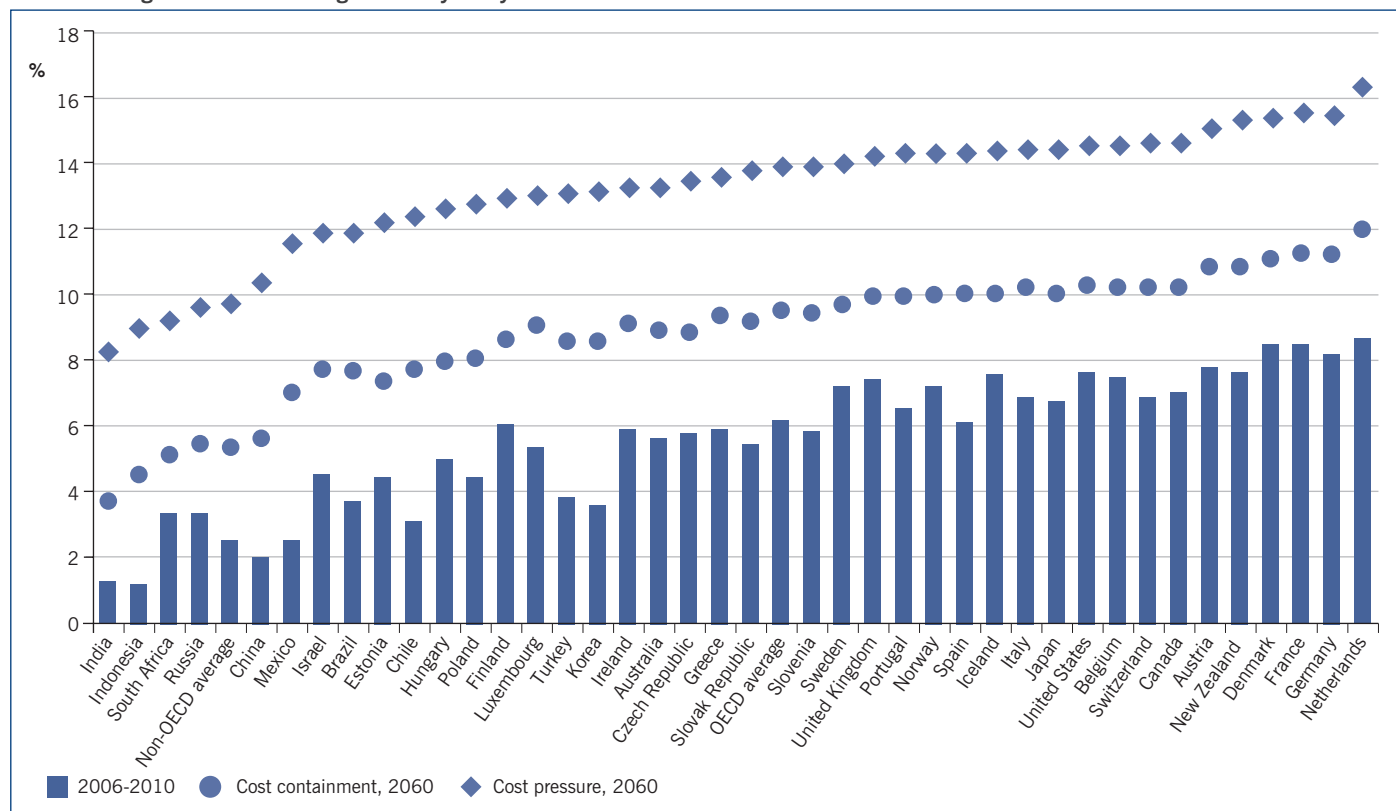
Keywords healthcare, unemployment, private savings, Singapore, retirement, KiwiSaver, ACC, public subsidies, inequality

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Almost 80 years since the establishment of New Zealand's welfare state, it faces an unprecedented crisis. There is widespread agreement that it is failing to deliver on its objectives. Welfare payments make up the single largest portion of public spending. Yet significant numbers of children grow up in poverty, most adults do not retire with enough capital to live in comfort, and homelessness is on the rise, among other social issues.

Future cost trends will only exacerbate these problems. Given current policy settings, future New Zealand governments will not have sufficient funds to ensure that their citizens can access high quality healthcare. In a 'cost-pressure' scenario, public health and long-term care spending in New Zealand is forecast to increase from 7.6% of GDP in 2015 to 15.3% by 2060. In addition, spending on government superannuation, equal to 5.1% of GDP in 2015, is forecast to rise to 8.1% by 2050.¹ In other words, these two areas alone will require an increase in funding of over ten percentage points of GDP over the next 30–40 years. This change is due to a forecast doubling of the retired population and, in the case of healthcare, to costs per person rising faster than GDP.

Figure 1: Total public health and long-term care spending ratio to GDP in 2006–10 and forecasts to 2060: range of estimates using sensitivity analyses for individual countries



Source: OECD, 2013

As well as these projected increases in public spending, New Zealand also suffers from low productivity growth. Yet the view that welfare costs can be met by relying on high future rates of economic growth has little merit. Higher productivity growth is notoriously hard to achieve, and far richer countries than New Zealand will struggle to afford their welfare states. Indeed, we already see moves, especially on the political right, to constrain health spending, leading to rationing and lower quality services. Lower income earners will bear the brunt of these changes, as they are least able to access private care. Such an outcome is unacceptable in an age when economic inequality is such a pressing issue (see, for example, Rashbrooke, 2017).

Some would argue for greater public funding of the welfare state via higher taxes. But to the extent that those taxes fall on capital, New Zealand's poor savings record is likely to be weakened further. Lower incentives to invest and build capital in a country already short on it will likely lead to lower wage growth and a reduced ability to fund welfare provision.

This article offers an alternative vision for not only the healthcare system, but also superannuation and out-of-work income

provision, based around the creation of mandatory individual savings accounts. First, to set the New Zealand debate in context, a brief discussion of the global debate on the future of the welfare state is given. Second, a proposed policy outline, using New Zealand as a case study, is provided. Third, the impacts of the reform on representative New Zealanders, the nation's fiscal position, inequality and economic incentives are discussed.

Since this article sketches how the reform works at a high level, the detail given is necessarily less than it would be in a more narrowly focused contribution. However, versions of the proposals herein have been elaborated elsewhere (see Douglas and MacCulloch, 2016).

Background

Large publicly funded welfare states are under pressure all over the world. The dependency ratio, which is the proportion of elderly to younger, economically active workers, is expected to rise in most nations. Severe pressures will be exerted on pensions and public health systems. The ratio of public health and long-term care expenditures to GDP has already been steadily rising. Under the OECD's 'cost-

pressure' projections, these expenditures will almost double, reaching 14% of GDP by 2060 (see Figure 1). Furthermore, public pension spending is forecast to grow from 9.5% of GDP in 2015 to 11.7% of GDP in 2050 (OECD, 2013).

One of the countries that has best managed these kinds of pressures is Singapore, which provides universal healthcare coverage at a lower cost than any other high-income nation. Total health spending, by both government and private sources, is 4.8% of GDP in Singapore (compared to 17.2% in the United States, 9.3% in the UK and 9.5% in New Zealand).² The cornerstone of Singapore's system is the mandatory MediSave medical savings account. Although MediSave funds belong to the contributing worker, the government has guidelines as to how the money can be spent and holds the accounts within its Central Provident Fund.

Efficiency gains have arisen from the use of MediSave accounts due to more transparent pricing of healthcare services, less third-party funding, and encouragement of personal responsibility. By most measures, excellent health outcomes have resulted (Haseltine, 2013). For large bills that could otherwise drain

an individual's MediSave funds, insurance schemes are available. The government offers a low-cost scheme, known as MediShield, under which individuals are automatically insured unless they choose to opt out. A multi-billion dollar endowment fund (the MediFund) also exists so that low-income people can receive a level of care they otherwise could not afford, even in the most highly subsidised wards of public hospitals. It is a safety net for those who have used up their MediSave money and MediShield coverage.

One feature of the reform proposed in this article is the establishment of mandatory savings accounts to help individuals fund the purchase of health services, similar to Singapore. While this system may lead to efficiency gains, our calculations for New Zealand do not rely on any being made. Note that the US, which has a high proportion of private spending on healthcare, has not successfully contained costs. This can be partly attributed to the subsidy which (third-party) employer-purchased health insurance plans receive. Martin Feldstein, for example, argues that 'because employer payments for health insurance are tax-deductible for employers but not taxed to the employee, current tax rules encourage most employees to want their compensation to include the very comprehensive "first dollar" insurance that pushes up health-care spending' (Feldstein, 2009).

Funding the new system

Finding the funds

Under our proposed reform, the government would fund mandatory savings accounts for all workers, from which people would then be able to pay for many of their welfare needs. (However, substantial provision of government welfare services – including New Zealand Superannuation – would remain in place.) Rather than increase taxation, the most sensible way to fund this spending is to seek savings elsewhere in the government budget.

Unnecessary subsidies

Existing public spending could be reduced by eliminating a range of subsidies that disproportionately benefit more

affluent New Zealanders. These include subsidies to the production of films that are internationally focused and produced in New Zealand; offshore market development assistance to business; the Provincial Growth Fund; accelerated depreciation tax allowances available to businesses in the forestry, farming, bloodstock and research industries; and favourable treatment of rental housing.³

While some of these schemes may be argued to create benefits in terms of promoting economic growth, a core proposition of this article is that social welfare would be enhanced if instead the

the subsidised fee system and introduces a means test to restrict interest-free loans and grants to students from low-income, low-capital families. The aim is to target assistance where it is needed and release funding for the savings accounts of all workers.

In addition, government subsidies would be eliminated for the KiwiSaver automatic enrolment scheme for employees, the biggest recipients of which are better off New Zealanders who tend to make the largest contributions. Working for Families tax credits and power subsidies would be limited to less affluent families. (Some

... a core proposition of this article is that social welfare would be enhanced if instead the money was used to fund health, out-of-work and retirement savings accounts for all workers.

money was used to fund health, out-of-work and retirement savings accounts for all workers. This alternative purpose would secure the long-term survival of a high-quality healthcare system and enable a transformation of the level of retirement wealth (see below). Put another way, there are many kinds of unnecessary subsidies which may appear small, yet add up to create a large opportunity cost. Part of the reason turns out to arise from the so-called miracle of compound interest, as the flow of funds into the individual savings accounts which would be released by ending these schemes compounds up over time.

The reform proposed in this article also changes spending on tertiary students. In 1992 the Student Loan Scheme was introduced by the government to help pay for tuition fees, course costs and living expenses. In 2006, student loans were made interest-free (while students continued to pay a subsidised fee). Subsequently, the present Labour-led coalition announced a free-fees policy for one year of full-time study, ultimately intended to cover three years. The reform proposed here reverts to

more affluent families may therefore experience a fall in disposable income, though they would also enjoy the benefits of their mandatory saving accounts, as detailed below.) The government would also stop making contributions to the Cullen Superannuation Fund, freeing up around \$1 billion – the projected contribution in the present financial year – to be paid into the individual accounts. (The existing balance in the Cullen Fund could be retained for its current purpose of helping to pre-fund future government superannuation payments.)

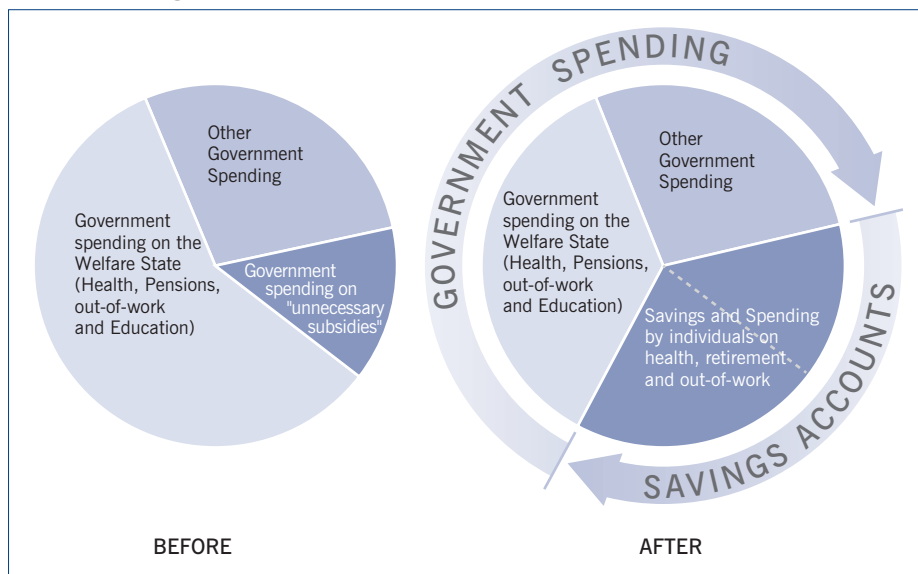
A total of around \$10 billion becomes available upon ending all of these kinds of payments.

Redirected spending

Several other forms of government spending would become unnecessary once individual savings accounts for health, out-of-work and retirement provision are introduced. Our reform instead gives priority to redirecting this funding into the individual accounts.

We can redirect a substantial amount of current welfare spending, including \$11

Figure 2: How government spending changes: before and after the 'savings-based' reform



billion of public health and out-of-work expenditure.⁴In addition, a total of around \$9 billion is currently paid by employers and employees to the Accident Compensation Corporation (ACC) and to KiwiSaver. Our mandatory accounts would replace the ACC scheme. Another \$1 billion of funds would be required from individuals as a personal contribution to the accounts. Taken altogether, these savings (and contributions) amount to \$31 billion (\$10 billion + \$11 billion + \$9 billion + \$1 billion).⁵

Allocating the funds

The allocation of the above funds to our new savings accounts is guided by a set of principles:

- medium-term quality decisions take precedence over quick-fix solutions;
- decisions relating to welfare should identify and exploit economic and social linkages, so that every action will improve the working of the system as a whole;
- only large-scale reform packages provide the flexibility needed to demonstrate that losses suffered by a group of people from one policy would be offset by gains for the same group in some other area.

Retirement provision

First, a fresh approach to retirement policy would take place. To ensure that individuals prepare properly for retirement, it is proposed that the government create new

retirement savings accounts for every New Zealand worker, which would replace the KiwiSaver scheme.⁶ Into these accounts the government would place an amount equal to 9 cents in every dollar of an individual's earned income up to \$54,000 (indexed), generating a maximum of \$4,860 per year.⁷ These savings could be accessed only at the legal age of retirement (currently 65). Note that the existing government pension remains and continues to be paid out at its current rate (with the same yearly adjustment).

Given that those in the bottom half of the income distribution have few savings, this reform would represent a major turnaround in their fortunes. Although the savings would be funded from existing general taxation and be paid into dedicated personal accounts over which their owners exercise responsibility, it has some aspects in common with the contributions-based national insurance levies used in other nations. A key feature of the present proposal is that the new contributions to the savings accounts have little effect on most workers' disposable incomes.

The cost to government of the new policy would be around \$9 billion, which would come from the \$31 billion pool of funds detailed above, leaving \$22 billion available.

Health and out-of-work provision (sickness, unemployment and accident)

Second, a fresh approach to healthcare and out-of-work policy could be implemented.

Benefit levels and other assistance for the out-of-work would stay at present levels and be adjusted on the same basis as currently. But parallel to the above, the government would create mandatory accounts dedicated to supporting an individual's health and out-of-work costs. Into these accounts it would place an amount equivalent to 24 cents in every dollar of an individual's earned income up to \$54,000 (indexed). This would generate a maximum of \$12,960 per year. In the case of healthcare, in particular, rules would be set governing how the funds are spent. Annual payments into these accounts would total \$22 billion. Individuals could then use them to meet the following costs:

- insurance to cover healthcare costs of over \$20,000 (indexed) per year;
- insurance to cover the costs associated with falling out of work;
- a chronically-ill fund contribution; and
- direct payments for smaller healthcare and out-of-work bills.

These estimated withdrawals would add up to \$13 billion annually, of which \$10 billion would be for healthcare and \$3 billion for out-of-work costs. This would leave \$9 billion annually as savings (\$22 billion – \$13 billion), a sum which would accrue interest and could be spent on future healthcare and out-of-work costs. Within that \$9 billion, around \$2 billion would be secured as savings dedicated for spending on healthcare costs in retirement.

For those people who cannot afford to pay for their healthcare, which include the long-term unemployed, the government acts as 'insurer of last resort'. Our proposed budgets retain ample public funds for this purpose (which is served by the MediFund in Singapore).⁸ Note that this safety net may come at a cost of undermining work incentives, due to increasing marginal effective tax rates. On the other hand, the new funding paid into the health, out-of-work and retirement savings accounts of workers leads to a large build-up of wealth and provides a greater incentive to become employed (see below).

Due to these offsetting effects, the number unable to support themselves from their savings accounts and entirely dependent on the state may be about 5–6% of the population, although firm estimates are hard to make.

How the reform works: some diagrams

Figure 2 shows how the reform affects spending by the government. Public expenditure on ‘unnecessary subsidies’ is ended. Instead these funds are put into the savings accounts. In addition, these accounts receive a part of the funds that were previously spent by the government on welfare, which now become available for spending directly by individuals.

Strikingly, the flow of funds into the health and out-of-work accounts enabled by the ending of ‘unnecessary subsidies’, and the subsequent accumulation of interest, would be sufficient to absorb the increases in healthcare spending forecast over the next decades. This result is based on assuming that the capital in the accounts accumulates at a compound rate of about 4%, which matches the rate of increase of per capita public health spending since 1980.⁹ The flow of funds into the retirement accounts also provides a rapidly compounding balance, available at 65.

Figure 3 shows financial flows under the new system. Detailed full government budget forecasts to 2035 are presented in Douglas and MacCulloch (2016), which shows the transition to the new scheme.

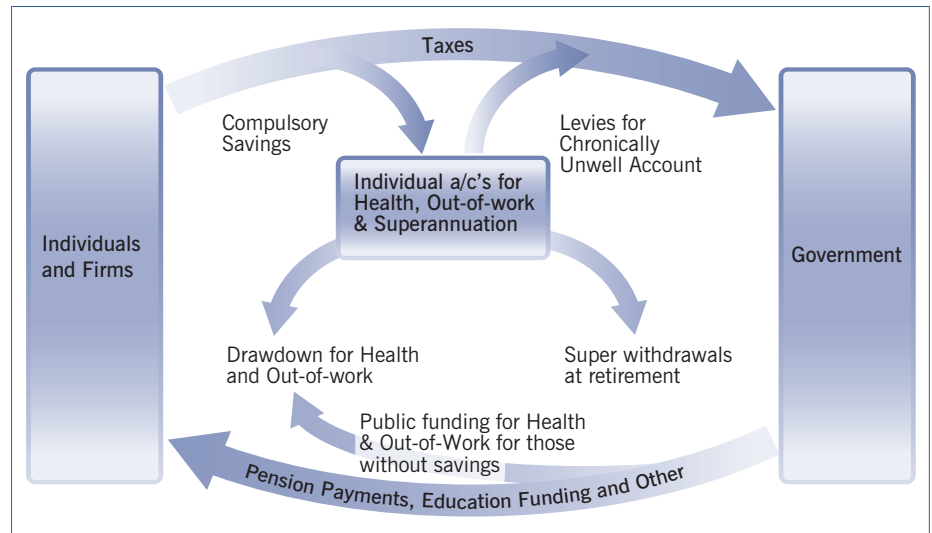
Outcomes of the reform

Individual outcomes and wealth inequality

This reform enables most workers, but especially low- and middle-income earners, to acquire their own savings accounts, without much affecting disposable incomes. Current levels of total healthcare spending would be retained, and could be increased more in the future, compared to the existing system. Payment for services can now be made out of the individual accounts.

More specifically, a 20-year-old may expect to retire after 45 years with between \$500,000 and \$1 million in their retirement savings account (or between \$1 and \$2 million for a couple) in 2018 dollars.¹⁰ New Zealanders not falling within the chronically ill category would retire with about \$150,000 in their health and out-of-work account after 25 years in the workforce (as well as holding a healthcare insurance policy). A greater level of security would result. The system should also work more fairly in a broader sense. Around 70% of those in the workforce would be able to accumulate

Figure 3: Financial flows in the new ‘savings-based’ system



savings of \$17,820 per year (\$4,860 in the retirement account plus \$12,960 in the health and out-of-work account) to help meet their current and future welfare needs (and the other 30% a little less).

Since the build-up in savings enabled by this reform can be achieved by low- to middle-income earners (who previously had little or no savings), the potential exists for more equitable outcomes. For example,

Exhibit A: Outcomes of the ‘savings-based’ policy on representative New Zealanders

1. Existing retired

The current retired will see little change in their income under the new system.

- a. The government pension remains (with the same yearly adjustment).
- b. Low-income, low-capital retirees receive a yearly grant into their health a/c which enables them to buy a catastrophic health insurance policy and have funds to supplement their normal health expenditures.

2. Impact on working New Zealanders

- a. The government pension equal to what is paid today and on the same terms will continue.
- b. Individuals will also hold capital in their health/out-of-work and retirement savings accounts. The level of capital depends on the number of years to retirement and earnings.
- c. An increase in retirement income.

3. Impact on out-of-work New Zealanders

- a. Benefit levels and other assistance remain at present levels and are adjusted on the same basis.
- b. Increased support by way of specialist training with the aim of improving life skills, putting jobless New Zealanders in a position where they have the skills to get a job, together with one-on-one support systems.
- c. Responsibility of those who are out-of-work (where required) to attend practical training sessions.

Table 1: New Zealand's existing government budget, plus ACC and KiwiSaver, compared to a savings-based budget: 2019 forecast

	(1) Existing budget (\$ billions)	(2) Savings-based budget (\$ billions)
Revenues		
Taxation (personal, corporate, GST) – <i>government</i>	86.7	
Taxation and contributions to health, out-of- work and retirement savings accounts		96.7
Contributions to fund mainly ACC and KiwiSaver accounts by employees and employers	9.0	
Total	95.7	96.7
Expenditures		
Health, pensions, out-of-work, education and other – <i>government</i>	76.7	65.7
'Unnecessary subsidies' to high earners – <i>government</i>	10.0	
Healthcare and out-of-work savings accounts		13.0
Payments from ACC fund	4.0	2.0
Total	90.7	80.7
• Government cash balance	0	0
• Health, out-of-work and retirement savings accounts balances		18

Notes: In column (1) the change in government cash balance is 0 (= \$86.7bn – \$76.7bn – \$10bn). In column (2), total contributions to health, out-of-work and retirement savings accounts equal \$31bn (out of \$96.7bn revenues). Hence the change in the government cash balance is 0 (= \$96.7bn – \$31bn – \$65.7bn) and the change in the savings accounts balances is \$31bn – \$13bn = \$18bn. The \$1 billion difference in revenues between the Existing and the Savings-based budgets reflects the additional funds, outlined above, which are required from individuals as contributions to their savings accounts.

Source: Treasury, 2018

a young household of two working adults, sitting in the bottom quintile of the distribution of net household wealth, would likely see their new level of wealth upon retirement lift them into the top quintile.¹¹ Much of the explanation as to how this outcome is achieved arises from the compounding returns on the capital in the savings accounts.

Note that rising inequality in nations like the US and UK (led by the 'top 1%') has recently been blamed on the return to capital exceeding the economic growth rate, together with a high concentration of capital among the rich. It has consequently been suggested that capital taxes should be raised (see Piketty, 2014). The present article offers an alternative: namely, the removal of unnecessary subsidies to release a flow of funds into savings accounts over the lifetime of all workers, enabling them to establish their own compounding source of wealth.

Furthermore, individuals would gain more power to decide when, where and by whom they get medical help and how

much capital and income they have in retirement, instead of those decisions being made by politicians. These choices would be constrained by rules governing the workings of the savings accounts (one would expect people to be given full freedom to draw down their retirement account once they reached 65). In this way the reform should bring a greater level of choice, and with it more independence, opportunity and fair treatment, compared to the present system.

Since individuals would now purchase their own services it becomes harder for institutions (e.g., hospitals) to capture resources, since different providers would need to compete harder. The income of providers, whether public or private, would depend more on their services than on meeting third-party reimbursement formulas. Price information and negotiation become a vital part of the healthcare and insurance marketplaces. To help facilitate this outcome, there necessarily would be strong regulations governing the healthcare insurance market

place (to avoid the problems prevalent in the US system). The present article does not, however, assume that private provision leads to more efficiencies. In Singapore, public and private hospitals coexist, although most healthcare is directed by the government to the public side. The public hospitals are dominant in the sense of offering an extremely high quality of care at affordable prices and setting the ethos for the entire system, though the private system is seen as necessary to challenge it. The public system, in turn, serves to keep private costs in check.¹²

Funding the shift in New Zealand to the new system would create winners and losers. Losers comprise special interest groups that presently benefit from the 'unnecessary subsidies' (as listed above). These include the beneficiaries of film subsidies and high-income/high net wealth families in receipt of interest-free student loans and free tertiary fees. Winners are the recipients of the savings accounts, which are set up for every New Zealand worker. If efficiencies result from the new system, and are sufficiently large, then of course the number of losers would be reduced. Exhibit A provides more details of how the reform affects different types of people.

Fiscal outcomes

Table 1 shows figures from the government budget, and adds in the KiwiSaver and ACC schemes. In the forecast 2019 financial year, the New Zealand government expects to receive \$86.7 billion in tax revenues. In addition, individuals and employers make \$9 billion of other payments (levied to support health costs, ACC and KiwiSaver), yielding a total of \$95.7 billion of available funds.

At present, \$76.7 billion is spent by the government on mainly welfare-related purposes (like health, out-of-work, education and superannuation), whereas \$10 billion is spent on purposes that are referred to as 'unnecessary subsidies' in this article. The total of (non-unnecessary subsidies-related) spending is \$80.7 billion (\$76.7 billion + \$4 billion of ACC payments). Under the new regime, funds are allocated differently. Of total revenues, \$31 billion is transferred into the savings accounts for health, out-of-work and retirement. Government spending reduces

to \$65.7 billion. However, \$13 billion is spent from the accounts, made up of \$11 billion to compensate for the drop in government funding of health and out-of-work costs, plus another \$2 billion previously spent from the ACC fund (which is phased out).

Under the new policy, a total of \$80.7 billion continues to be spent on (mainly) welfare-related activities (\$65.7 billion + \$13 billion, plus an additional \$2 billion from the old ACC fund). In all, \$18 billion becomes savings in the personal accounts, available for future spending on health/out-of-work and retirement.

Over time, the reform would lead to improvements in the government's fiscal position, due, in particular, to the build-up of interest earned on the savings accounts, which enables people to cover rising healthcare costs without putting pressure on the government's budget constraints.

Conclusion

Many nations are forecast to struggle to fund their welfare states over the coming decades. Although governments will be hard pressed to maintain present levels

of (per capita) welfare generosity, private savings rates have been falling. In this article, a reform is proposed that would enable the government to fund savings accounts of individuals with little effect on disposable incomes. We use a case study of New Zealand, although our reform could be applied to other places. It would especially help low- and medium-income earners to establish significant levels of (non-housing) capital. It may even lead to productivity gains, especially in healthcare. The fiscal viability of the welfare state would be secured, while ample public funds are retained to ensure universal coverage.

- 1 For a lower projected increase, calculated on a different basis, see Rosenberg, 2017.
- 2 The healthcare expenditure figure of 7.6% of GDP quoted for New Zealand in the Introduction refers to public spending. Once private expenditures are also included, the figure rises to 9.5%.
- 3 The 'favourable treatment' to the owners of rental housing arises from the tax deductibility of their expenses and mortgage interest payments.
- 4 Current public spending on health and out-of-work redirected into the accounts would focus on types of funding where individuals were better placed to spend the funds directly themselves, rather than the State doing so on their behalf.
- 5 These figures are based on Treasury (2018) forecasts for 2019.
- 6 The balances in existing KiwiSaver accounts would simply be added to the new mandatory retirement accounts.
- 7 This cut-off is chosen since it is close to average earnings.

The proposed reform in this article is designed to help all workers establish significant personal savings. However, such help stops at \$54,000. If higher income earners wish to spend additional funds on their welfare needs, above what is held in the mandatory accounts, then it would be out of their own pockets.

- 8 For the 2018/19 year, healthcare spending by the New Zealand Government is forecast to be about \$19 billion. Since \$10 billion of this budget now goes into health savings accounts, it still leaves \$9 billion of public spending, which would have a high redistributive component, for subsidising the health-care of those unable to pay out of their accounts.
- 9 See Ministry of Health, 2010. Public health spending increasing at a greater rate than GDP is associated with an increasing proportion of GDP spent on healthcare. Provided the return on our savings accounts is higher than the growth rate of GDP (and is close to the rate of increase of health spending), the present proposal is able to help resolve the potential future funding crisis in the health system. For evidence that the return on capital has typically exceeded the growth rate, see Piketty, 2014.
- 10 These figures depend on the rate of return of capital held in the savings accounts. For example, if it accrues at a real rate of 4% per annum, then the balance upon retirement at 65 years old for someone who is presently 20 would be \$612,000 (or \$1.2 million for a couple), given a retirement account which receives annual funding of \$4,860. If the rate of return is assumed to be 5% per annum then the amount is \$815,000.
- 11 As noted earlier, a working couple in their 20s would retire with \$1.2 million in their retirement account (assuming a 4% rate of return). At present, households in the bottom quintile of the net wealth distribution in New Zealand have less than \$43,000, with a median of \$9,000 (mostly held in mortgaged real estate). Since the cut-off point for the top wealth quintile is \$1.07 million, such a couple would retire with a net wealth that placed them in the top quintile given this reform (see Statistics New Zealand, 2018).
- 12 On whether health services should be publicly or privately provided see, for example, Besley and Coate, 1991.

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The Universal Basic Income should it replace the existing social security system?

Abstract

A universal basic income (UBI) would provide all citizens with a guaranteed income, irrespective of their earnings, age or household status. It would be financed from a flat-rate personal income tax. It would replace the existing work-based social security system with its plethora of benefit types, abatement rates and eligibility rules. However, when the trade-offs between the competing objectives of a tax/benefit scheme are considered, and the variety of individual and family circumstances that need to be addressed, the apparent simplicity of a UBI quickly disappears. The article shows that while the current tax/benefit system represents a ‘welfare mess’, and needs substantial restructuring, a UBI does not necessarily provide an adequate income for poverty relief, nor ensure labour force incentives, at an acceptable fiscal cost.

Keywords universal basic income, social security, fiscal costs, changing nature of work

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The question raised in this article is whether a universal basic income (UBI) should replace the existing social security system in New Zealand. A UBI would provide all citizens, on an individual basis, with a guaranteed income from the state, irrespective of income from the labour market and returns on assets. It would be very simple in concept and design compared to the existing targeted social security system with its emphasis on workforce obligations, plethora of benefit types, benefit levels and abatement rates on entering work, and link between the family-based social security system and the individual-based tax system.

To be a viable alternative to the existing system, the UBI would need to show that it would provide an adequate income for poverty relief; ensure labour force incentives; be at an acceptable fiscal cost; have greater political and social acceptance; give greater certainty of income; be easier to administer; be less stigmatising; and be flexible in relation to the changing patterns of work.

The article starts with an analysis of the UBI, followed by a brief discussion on the existing system of social security. The two approaches are then compared using the traditional trade-offs in any tax/benefit system between fiscal costs, benefit adequacy and labour force incentives. To this must be added the issues that underpin the UBI, such as the changing nature of work and societal relations, citizen's rights, human dignity and administration costs. Some rough costings are given for a UBI based on current benefit levels.

The universal basic income

A universal basic income is a type of social security (and tax) system where all individuals would receive a minimum income from the state, irrespective of any market income assets (BIEN, n.d.; Glazer, 2017; Standing, 2018). The pure version of a UBI is an unconditional flat-rate cash payment to all adults, and a lower flat-rate payment made to all dependent children. Neither of these payments would be added to taxable income. However, a UBI could be added to market earnings, so that those on higher incomes, possibly facing higher marginal income tax rates, would effectively receive less of the UBI.

In most proposals, the UBI is to be financed from personal income tax, often levied at a flat rate. Some proposals have used other forms of financing, such as a capital gains tax, inheritance tax, a tax on financial transactions or a tax on land, as well as the reduction in existing social security expenditure (Morgan and Guthrie, 2011). While the usual argument is that a UBI will be fiscally prohibitive, many evaluations of a UBI start from a revenue-neutral stance (OECD, 2017). A UBI may even have a lower net fiscal cost, depending on the level of the UBI compared to the existing system, the extent to which existing income-tested benefits are retained, and the rate of personal income tax levied on additional earnings.

An alternative approach, favoured by libertarians, is a negative income tax. While the mechanics of a negative income tax are the same as the taxed version of the UBI (Mendelson, 2016), it has a different philosophical pedigree, based on workforce participation. It would be paid selectively via a tax credit, through income testing, to

those with lower levels of market income. Several US states introduced well-evaluated trials of such schemes in the 1970s, with mixed results in terms of workforce participation, poverty relief, health status, quality of life, educational attainment and fiscal costs. Atkinson (1996) argued for a 'participation income', where 'the basic income would be paid conditional on participation'. Participation covers not just labour market activity, including active job search, but also voluntary work, child and elder care and education. This would be an extension of the social security system – a guaranteed minimum income.

work hours. Societal changes include sole parenting and reconstituted families, and the increased incidence, severity and intergenerational persistence of poverty, as well as greater income and asset inequality.

Critics of the UBI argue that it breaks the unwritten social contract on reciprocity and mutual obligations that underpins society. Paying a benefit for the voluntary leisure of Surfer Jill certainly breaks the immediacy of that reciprocity. However, the social contract can be intra- or intergenerational, with paid employment or unpaid childcare or voluntary work at

Most [UBI literature] start from a notion of citizenship, in that we all contribute to society from a variety of perspectives, and thus are entitled to the fruits of our participation in society.

A distinction is made between a full and a partial basic income. A full UBI would be financed from general tax revenue and would largely replace the existing social security system and other redistributive measures. A partial UBI is a demogrant paid to all in society, funded from a windfall source of revenue such as casinos, oil revenue or carbon tax. It is not a replacement for the existing social security system and is not considered further here (Piachaud, 2016).

Rationale for a UBI

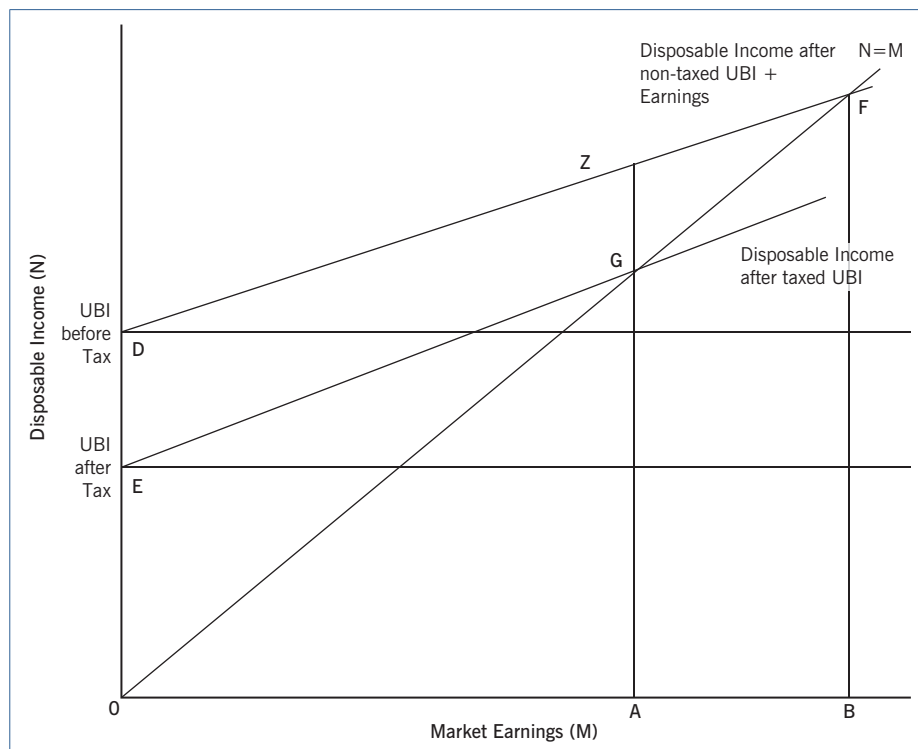
The literature provides many rationales for a UBI. Most start from a notion of citizenship, in that we all contribute to society from a variety of perspectives, and thus are entitled to the fruits of our participation in society. Most also note the change in the employment relationship since the development of social security: a shift to a service economy; the potential impact of changes in technology, especially robotics, on work; the casualisation of work from short-term contracts; increased part-time and part-year work; and irregular

one point in time and unconditional receipt of a benefit at another. New Zealand Superannuation is thus a form of UBI, with contributions during one's working life and receipt of a pension post the age of 65 (see Davey and Stephens, 2018). Equally, a universal child allowance, especially for children under age five, has a similar generational aspect: the majority of child development occurs in the early stages of life, and that development – and thus future outcomes – is affected by the level of family income.

The structure of a universal basic income

Figure 1 outlines the basic structure of a UBI and personal income tax system, and also a negative income tax. The horizontal axis covers all sources of market income before tax is levied – wages and salaries, and income from assets such as dividends and rental property. The vertical axis covers the UBI, and then adjusts only market income for personal income tax and any receipt of benefits or tax credits – i.e. disposable income after taxes and benefits. Tax is paid on the first dollar of market earnings, and in Figure 1 there is a single tax rate. $N=M$

Figure 1: Universal Basic Income, Tax and non-Taxed



represents the situation where no personal income tax is levied or benefit received. As market earnings increase, net disposable income rises along the line DZF (market earnings, less tax, plus the UBI). The fiscal cost of the UBI is DFO, suitably adjusted for the distribution of income. At F the tax on market earnings just equals receipt of the UBI.

A potentially less fiscally expensive approach would be to add the UBI to market earnings. While the gross UBI is still paid to all members of society, the net UBI would be OE, with the difference between OD and OE being based on the tax rate. Disposable income after tax is then EG, and net fiscal costs are EGO. At G, the tax-abated UBI just equals the tax paid. Positive tax payments start at G, or market earnings of OA. The net fiscal costs also require knowledge of the number of people at each point on the pre-tax earnings axis.

The same outcome as with the earnings-abated UBI is achieved by the negative income tax approach, with those below income OA receiving a tax credit, with the maximum tax credit, and thus minimum income level, being OE. The net fiscal cost to the government is again EGO. In both scenarios, the tax rate is progressive in that the average tax rate rises with income, even though the marginal tax rate is flat.

The above discussion indicates some of the issues that any UBI has to resolve:

- What should be the unit of assessment: the individual, the couple, or the family with dependent children?
- What eligibility criteria should be used, in particular residency requirements?
- Should the UBI be added to other income for tax purposes, or be unconditional and thus tax free?
- Should all those eligible receive the same amount, given differences in family circumstances?
- At what income level should the UBI be set? Should the UBI be designed to avoid poverty, or set at a lower level and rely on income-tested supplementary payments to recognise differences in need?
- To what extent will the UBI be a replacement for the existing social security system, or a supplement to it?
- Are incentives to work and save relevant considerations, or are the objectives just citizenship, dignity and human rights?
- How can the UBI be made flexible in relation to changing economic and social conditions, such as different family circumstances, especially in regard to care of dependent children, changing social attitudes and differences in the nature of work and employment?

The existing social security system

The current social security system is strongly work-contingent. There are two major benefit types: jobseeker support and supported living payment benefit, with benefit levels set related to workforce expectations rather than need. Those on jobseeker support have to be available for full-time work, with strict sanctions whereby benefit levels can be cut by half for non-compliance. Those on the supported living payment (temporary ill-health, sole parent, injury or disability) have a part-time work or work preparation obligation. There is also a family tax credit for families on benefits or low incomes, and an in-work benefit dependent upon workforce participation. There are targeted second-tier benefits for housing and childcare, where family needs vary on a systematic basis, and a discretionary third tier based on specific circumstances, such as disability, residential care or to offset one-off needs.¹

The benefit level for those on the supported living payment is significantly higher than for those on jobseeker support: e.g., using April 2018 rates, a couple on the supported living payment will receive \$448 per week, whereas a jobseeker would receive \$358. This difference also applies to those with children: \$474 compared to \$384, and for a sole parent with one child \$379 compared to \$334. Benefit abatement rates also differ, with jobseeker support having a 70 cents in the dollar abatement on income over \$80 gross per week, while those on the supported living payment can receive up to \$100 per week before benefit abatement begins, at 30% up to \$200 per week, and thereafter at 70%. Personal income tax is also levied on any earnings. The lower benefit level, lower abatement threshold and higher abatement rate for jobseeker support are meant to provide a greater incentive to move into the full-time labour force. Child assistance has an abatement rate of 25% above a threshold of \$42,700.

As Figure 2 shows, the result of this system is a very complex array of effective marginal (and average) tax rates (Nolan, 2018). And this does not take into account the impact of abatement rates for the accommodation supplement or childcare allowances, nor issues arising from changing family circumstances, or

movements in and out of work (tax is based on annual income, benefits on income over the last fortnight). The components of disposable income are shown, with market income increasing with hours of work, the main benefit abating with income as well as family assistance tax credits.

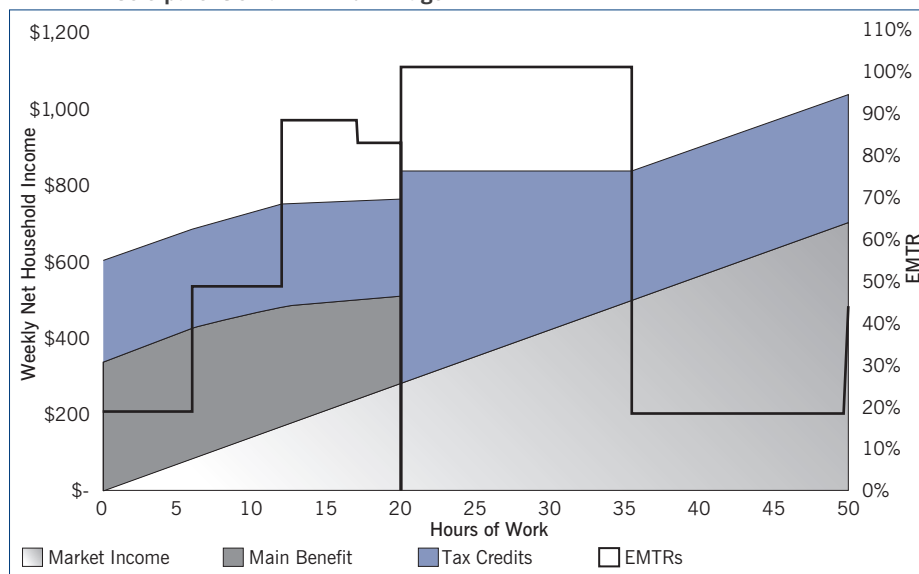
The dark black line is the effective marginal tax rates (EMTRs), with only personal income tax levied on earnings until the abatement threshold of \$100 a week is reached. After that threshold, benefit abatement of 30%, plus personal income tax of 17.5%, gives a total EMTR of 48.9% (includes ACC levy of 1.4%). After \$200 earnings per week, or 12 hours of work, the benefit abates at 70%, and personal income tax and ACC levies put up the EMTR to 88.9%. But at 17 hours of work the level of the main benefit has fallen, so that a lower personal income tax applies. At 20 hours of work the sole parent becomes eligible for the minimum family tax credit, giving a boost in net income and thus lower average tax rate, but the minimum family tax credit is abated at 100% until it is exhausted – hardly an encouragement to work for longer than 20 hours. Only after 35 hours does the EMTR fall so that only the personal income tax rate applies, and disposable income increases. If wage rates are higher, the segments both prior to and after the 20-hour threshold are shortened.

Criteria for evaluation

As the comparison between Figures 1 and 2 shows, the existing social security system is very complex compared to the apparent simplicity of a UBI. The eligibility rules for social security do not provide certainty of income, nor human dignity and social rights. However, part of the complexity of the existing system results from taking account of the likely permutations of need, which vary not just by income level but also by family type and size, housing location and tenure, workforce eligibility and expectations, and need for additional (and discretionary) disability allowances and one-off expenditures that the basic benefit is not designed to cover.

Economic analysis of the welfare system, and political mandates, concentrate on the trade-offs that occur between minimising

Figure 2. EMTRs, earnings level profiles post the 2018 Family Assistance reforms: Sole parent on a minimum wage



Source: Nolan, P 2018.

the fiscal costs of the programme, providing positive labour supply incentives by both the provision of a benefit and its abatement on entering the workforce, and the alleviation of income poverty² – the ‘iron triangle’ (Stephens, 1997). These trade-offs have to be made by any social security system, including the UBI. The UBI draws attention to the complexity of the existing system and gives different weightings to the components of the iron triangle, and adds further criteria for evaluation. The issue is thus whether a UBI would, compared to the existing tax/benefit system: reduce stigma from a lack of income; provide greater certainty of income; reduce compliance and administration costs; provide adequate incentive effects for labour force participation and savings; ensure relief from income poverty; be affordable in terms of tax levels; and be flexible in relation to changing patterns of work.

Human dignity and citizen's rights

Human dignity, income certainty, and the right to a share of the wealth and income from societal production are the essence of the UBI. Apart from an initial application, people will be automatically eligible for the UBI, and probably most secondary or second-tier benefits, resulting in high take-up rates, giving income certainty. A UBI overcomes the demeaning nature of a targeted welfare system, with its emphasis on work incentives and encouragement and enforcement, and will provide some

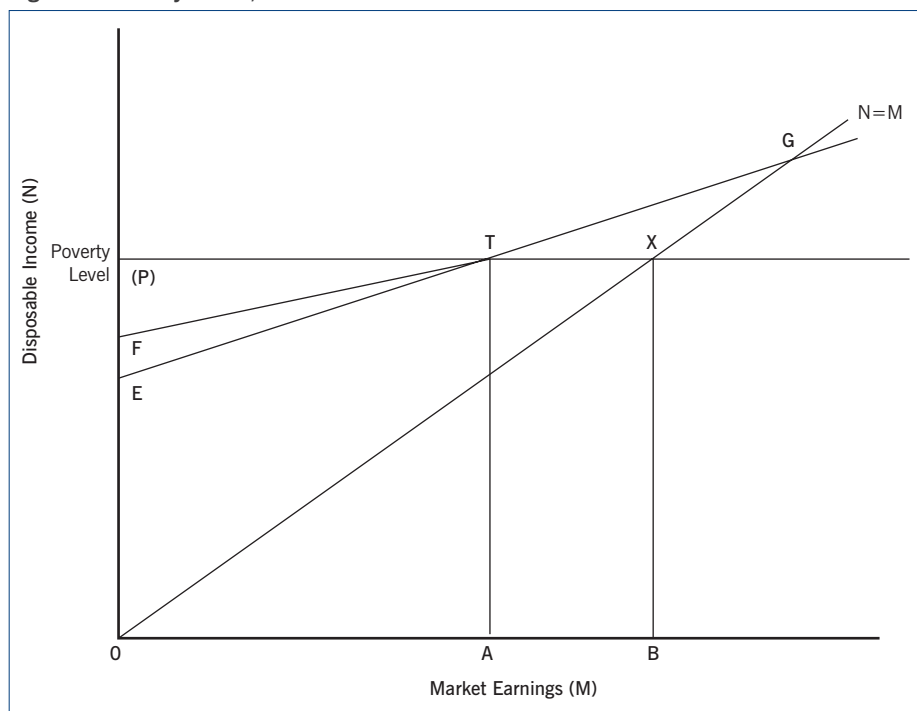
minimum income guarantee in periods of need, especially in periods of transition in and out of employment. Take-up rates for receipt of the UBI should be very high, whereas take-up rates for income-tested benefits, especially second- and third-tier benefits, tends to be fairly low: UK estimates of less than 50% have been recorded (Eardley et al., 1996).

The current social security system is the antithesis of human dignity, with detailed and intrusive application forms, repeat visits to Work and Income offices, monitoring of work applications, threats of and actual reductions to benefits because of non-compliance with complex rules, and in some cases an apparent lack of compassion at the front desk. Stigma attaches to receipt of a benefit. Benefit income is not assured, given stand-down periods which apply when moving into unemployment, or the income gap between entering work and the first pay cheque. Chapple (2018) argues that the 2011 social investment welfare reforms provided perverse incentives by imposing higher surveillance and information costs on legitimately eligible beneficiaries, as well as encouraging benefit exit, but not necessarily to a well-paid job, or even a job.

Administration and compliance costs

These are an automatic part of operating any tax and benefit system. Administration costs are incurred by the government in operating and delivering transfer payments, obtaining tax revenue, and ensuring

Figure 3: Poverty Relief, Fiscal Costs and Labour Incentives



compliance with tax and social security legislation. Compliance costs are incurred by taxpayers and benefit recipients, and include monetary, time and psychological costs of filling in tax forms, or stigma from applying for benefits. Minimising total costs should be the aim. Administration costs can be shifted to compliance costs by requiring, for example, employers to calculate the appropriate amount for family tax credits or deductions of tax liabilities at source.

The use of the current pay-as-you-earn tax system should address some of the concerns about integrating the tax and UBI systems. Costs of transitioning to a UBI should be low, as the design issues are relatively straightforward. There is one application form for each individual, and the current tax deductions at source can be used to assess market income. Complications arising from any need for targeted second- and third-tier benefits will add to costs, but the UK universal credit model (*Economist*, 2018) may provide guidance. There will still be a need for administration expenditures to minimise tax avoidance and evasion, but a UBI should reduce the opportunities for benefit fraud. In contrast, the existing system, with its complex entitlement rules, several benefit levels, abatement of the first- and second-tier benefits and family assistance, at different levels of income and effective

tax rates, plus turnover of the case load and enforcement of work search requirements, all lead to high administration costs.

The iron triangle – fiscal costs, labour force incentives and poverty relief

Returning to the iron triangle mentioned above, the UBI brings these trade-offs into stark relief, showing how these three objectives cannot be simultaneously achieved, irrespective of the parameters of the income maintenance system.

In Figure 3, the income-based poverty level has been set at OP, while the value of the UBI or jobseeker support is OE, below the poverty level. The poverty level has been adjusted, through the use of equivalence scales, for the number (and age) of children, with the disposable income level ET adjusted for any financial assistance provided. The fiscal costs are the triangle OEG, with many of the now non-poor (AB) receiving income not solely needed to avoid income poverty. The direct fiscal cost is also determined by the number of people at each point in the pre-tax income distribution. The provision of the UBI has lowered the number in poverty from OB, based on market income, to OA, giving a relatively small reduction in the incidence of poverty. However, if the measure of effectiveness is the severity of poverty – or the extent to which people fall below the poverty level – the UBI/jobseeker

support is far more effective, reducing the size of the poverty gap from OPX to EPT.

Reducing the incidence and severity of poverty requires raising the level of the UBI/jobseeker support to, say, OF. The extra fiscal cost could be reduced by a higher EMTR, giving FT, with no reduction in the incidence of poverty, although the severity of poverty is reduced. Retaining the original tax rate would increase fiscal costs significantly. Eliminating spillover of fiscal costs to the non-poor could be achieved by having a UBI/jobseeker support of OP, which would eliminate the incidence and severity of poverty. However, it would require a 100% EMTR over the market earnings range OA, giving no incentives to enter the labour market for those with likely market earnings below OA. This lack of incentive to enter work is the concern of those opposed to a UBI.

In other words, the higher the UBI/jobseeker support for poverty relief, the larger the fiscal cost; to reduce the fiscal cost, either the basic benefit has to be lower, increasing the incidence of poverty, or EMTRs have to be higher, giving more adverse labour supply incentive effects. Retaining labour supply incentives requires a lower EMTR, with the likely impact of less poverty relief and/or greater fiscal costs from a higher level of spillover of benefits to the non-poor. The choice is based not just on the direct parameters of the UBI or jobseeker support, as both systems will probably require use of income-tested second- and third-tier benefits if poverty relief is to be provided, increasing fiscal costs and adverse labour supply incentives from higher EMTRs. Raising benefit levels, or the UBI, is the most certain way of reducing income poverty for those out of work, while increasing the generosity of family assistance benefits will be a cost-effective way of reducing child poverty.

Fiscal costs

Very rough estimates can be made of the fiscal costs of a UBI. All of these estimates indicate either a substantial increase in expenditure on social welfare, and/or greater poverty for current recipients of benefits. These costs vary according to the level of the weekly payment, the tax rate and who is covered, but ignoring any labour market incentives. The current

(2018) expenditure estimates for Social Development are \$20bn, of which \$13.7bn is for New Zealand Superannuation. Total core tax revenue is roughly \$70bn, with personal income tax roughly \$20bn. Even using the jobseeker payments, and lowest child assistance expenditures, the fiscal cost of a UBI would be \$45.5bn, or roughly two thirds of all tax revenue, and more than double the existing expenditure on social security benefits.

- If the UBI is set for all persons aged 18+ at the jobseeker support level of \$215 per week, then the total cost for 3.7 million people would be \$41.3bn.
- To this should be added the payment per child for those receiving benefits: \$5,875pa for the first child or \$4,745 for second and subsequent children. Using the first child allowance for all children would raise expenditure by a further \$6.2bn, and \$4.2bn if the second child rate is used.
- If the UBI is set at the supported living payment rate for all aged 18+, the total cost rises to \$51.8bn, plus the child allowance payment.
- If the UBI is set at the existing New Zealand Superannuation level for a single person of \$400 per week, the fiscal cost would rise to roughly \$74bn, plus the child allowance payments.
- If the UBI is restricted just to those aged 18–64, at the jobseeker rate the cost would be \$34.4bn, plus the child allowance of \$4.2bn, plus the existing pension costs of \$13.7bn.
- If the UBI is paid to those aged 18–64 at the supported living payment rate, the cost would be \$41.9bn, again with child and pension payments.
- If revenue neutrality is desired, then the existing fiscal cost of the current social security and pension scheme has to be distributed across all members of society. If we assume that there is no change in the amount spent on children under age 18, then there is approximately \$20bn for the population of 3.7 million people aged 18 and over. The resulting UBI would be only \$104 per person.

In all these cases, significant spending on second- and third-tier benefits would be required to reduce the high poverty level that would ensue, increasing total fiscal

costs. Other options are a substantial increase in tax levels or cuts to government expenditure, especially on social services such as health, education and housing, reducing the real value of the UBI.

Labour supply incentives

The ability to finance either a UBI or the current social security system depends upon the tax base, which is a function of both the tax rate and the number of taxpayers with market earnings in each tax bracket. The imposition of a tax, and

replacement rate – the level of benefit when out of work compared to the expected level of earnings in employment. A higher UBI or benefit level is less likely to encourage work effort. However, a UBI provides limited disincentive to enter work as the EMTR on any earnings is only based on the structure of the tax rates for the total population. For the existing social security system, Figure 2 shows that EMTRs are effectively U-shaped, with high rates as benefits are abated, before falling when earnings are beyond the abatement

The UBI does highlight many of the problems facing the current social security system, and thus provides an outline for how that system can be improved.

the provision of a benefit, can affect the number of taxpayers and their level of market earnings – i.e. labour supply incentive effects.

However, other factors may predominate. Atkinson and Micklewright (1991) indicate that entitlement conditions and case management rules may be the more important determinants of labour supply. Positive encouragement, such as training and education, or working with employers to encourage them to accept those with a disability or released from prison, help overcome disadvantages in participation and are more likely to lead to primary jobs at decent wages, with a lower likelihood of return to unemployment. But the UBI, by ignoring this contingent information, treats all recipients identically and does not take account of these differential potential impacts on labour supply, and thus the possibility of improving the trade-off between fiscal costs, poverty relief and labour supply incentives. Nevertheless, a UBI does allow job experimentation, and time for study and to undertake child or elder care, without the risks of sanctions and stand-down periods.

The decision to enter the workforce is traditionally seen as dependent upon the

thresholds. The resulting structure of EMTRs can be seen as an attempt to encourage either very limited part-time work or full-time work, as there is virtually no financial gain from working at a modest level of employment.

Moreover, the evidence shows that the disincentive to enter work is larger for women than for men, especially with a family-based benefit system. When a partner enters the labour force, benefits which are abated against family income tend to show a limited gain in cash income. Browne and Immervoll (2018) argue that as a UBI is not withdrawn when people start earning more, work incentives are strengthened. Much of the evidence suggests that most people want to work, and the biggest constraint is the availability of suitable employment, at adequate wages in preferred locations. The few experiments with forms of a UBI/negative income tax, such as the Denver/Seattle experiment and that in Canada, have shown a slight reduction in hours of work rather than withdrawal from the labour market, though there were bigger reductions for wives and single mothers. More importantly, there was an improvement in quality of life, teens stayed in high school longer, many women took longer maternity leave, and

there was improved mental and physical health and reduced criminal activity (Glazer, 2017).

Fairness and equity

Political acceptability requires that taxes and benefits are seen to be fair or equitable. Tax avoidance and evasion and benefit fraud break this societal norm of fairness. Resentment over benefit receipt often comes from (low-income) workers and taxpayers. This resentment is likely to be high for UBI payments to those not in need.

An intergenerational perspective may yield different answers, however. The perceived fairness of the UBI may depend on whether those with no current market income will make or have made a positive contribution to society. Surfer Jill or Idler Joe may not be making a current contribution to society, but the time off with some security of income may allow them to adjust to changing personal circumstances before re-entering the labour market, or doing further education/training or voluntary work.

A universal child benefit might be more acceptable. Wages are set on economic rather than social bases (so do not adjust for family size), children cost money irrespective of income levels, and child development represents the future of the economy. As much of child development occurs before age five (Expert Advisory Group on Solutions to Child Poverty, 2012) and this is the age when family incomes are at their lowest, a strong case can be made for universal family assistance for all children under five. There is still the issue of how to decide which parent should receive the child assistance, given the individual nature of the UBI. Universal child assistance would overcome many of the labour market incentive issues that

arise from the high EMTRs in the existing targeted system.

Conclusions

A UBI is seductively simple. Many proponents of a UBI look at it *de novo*, or having a blank sheet for the tax–benefit interface. But it will be a replacement for the existing social security system and will have to face the same issues and people. The UBI does highlight many of the problems facing the current social security system, and thus provides an outline for how that system can be improved. It does not resolve the fundamental trade-offs in the iron triangle – the incompatibility of achieving labour force incentives, poverty relief and low fiscal costs at the same time. Nor does it achieve administrative gains, as some forms of supplementary and income-tested benefit will be needed to mitigate the constraints of the iron triangle.

The existing social security system does have significant problems. But some of these could be addressed by reprioritising the existing system rather than moving to a UBI. The UK universal credit evaluations should be monitored to see whether an automatic and integrated payment approach based on income and social characteristics is a suitable vehicle for addressing some of the failings of the current system. This approach would provide some form of guaranteed minimum income, but without spilling over into the total population.

With a UBI, while the workforce disincentives from high EMTRs are partially addressed, there are few mechanisms to ensure employment and thus the tax base. Other policy instruments may be more appropriate: full employment at adequate wages; workforce encouragement through removal of constraints on entering the labour market,

such as lack of appropriate skills; offsetting adverse backgrounds such as prison history, tattoos, drugs, etc.; and lifelong training opportunities for re-education. The automatic payment of a UBI fails to address any of these issues.

Admittedly, the welfare state has not adjusted well to the changing nature of work, which is becoming more transient and precarious. It has used enforcement and punitive sanctions to fit people into the changing world, rather than providing encouragement to offset barriers to work. Once again, though, the UBI is a panacea, not a realistic solution to these problems.

More generally, as Timmins has commented, there is

a key trade-off in the design of any system of social security: the simpler it is, the more it will involve forms of rough social justice; the more attuned it is to individual need, the more complicated it will be, both for claimants and for those running it. (Timmins, 2018, p.8)

The proponents of the UBI have yet to show how it can be adjusted to take account of individual need. Therefore, we may be better off looking to simplify and amend the current system, to make it fit better with the realities of the 21st century.

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Mountains to Sea

Solving New Zealand's Freshwater Crisis Edited by Mike Joy

It strikes me with great clarity that if you look at the problems in isolation they each seem intractable; but when you grasp that there could be one single solution, then suddenly there is a glimpse of light at the end of the tunnel.



The state of New Zealand's freshwater has become a pressing public issue in recent years. From across the political spectrum, concern is growing about the pollution of New Zealand's rivers and streams. We all know they need fixing. But how do we do it?

In *Mountains to Sea*, leading ecologist Mike Joy teams up with thinkers from all walks of life to consider how we can solve New Zealand's fresh water crisis. The book covers a wide

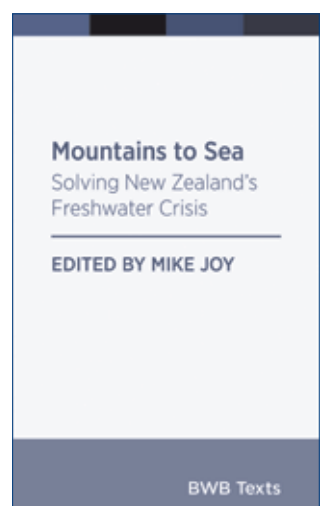
range of topics, including food production, public health, economics and Māori narratives of water. *Mountains to Sea* offers new perspectives on this urgent problem.

Contributors: Mike Joy, Tina Ngata, Nick D. Kim, Vanessa Hammond, Paul Tapsell and Alison Dewes, Peter Fraser, Kyleisha Foote, Catherine Knight, Steven Carden and Phil McKenzie, and Chris Perley

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David Hall

New Zealand's Living Standards Framework what might Amartya Sen say?

Within the general notion of the living standard, divergent and rival views of the goodness of life co-exist in an unsorted bundle ... You could be *well off*, without being *well*. You could be *well*, without being able to lead the life you *wanted*. You could have got the life you *wanted*, without being *happy*. You could be *happy*, without having much *freedom*. You could have a good deal of *freedom*, without *achieving* much. We can go on.

Amartya Sen, *The Standard of Living* (1987), p.1

Abstract

Amartya Sen's capability approach is a guiding light for international efforts to improve the measurement of national well-being. This article compares Sen's nuanced philosophical ideal with the New Zealand Treasury's Living Standards Framework, which identifies the capability approach as one of various influences. However, the idea of the capability – that is, people's freedoms to lead the kind of lives they have reason to value – remains an interpretive possibility, rather than a design feature. To give the capability its due importance, policymakers will need to utilise this idea when making sense of the Dashboard's indicators and instilling policy relevance.

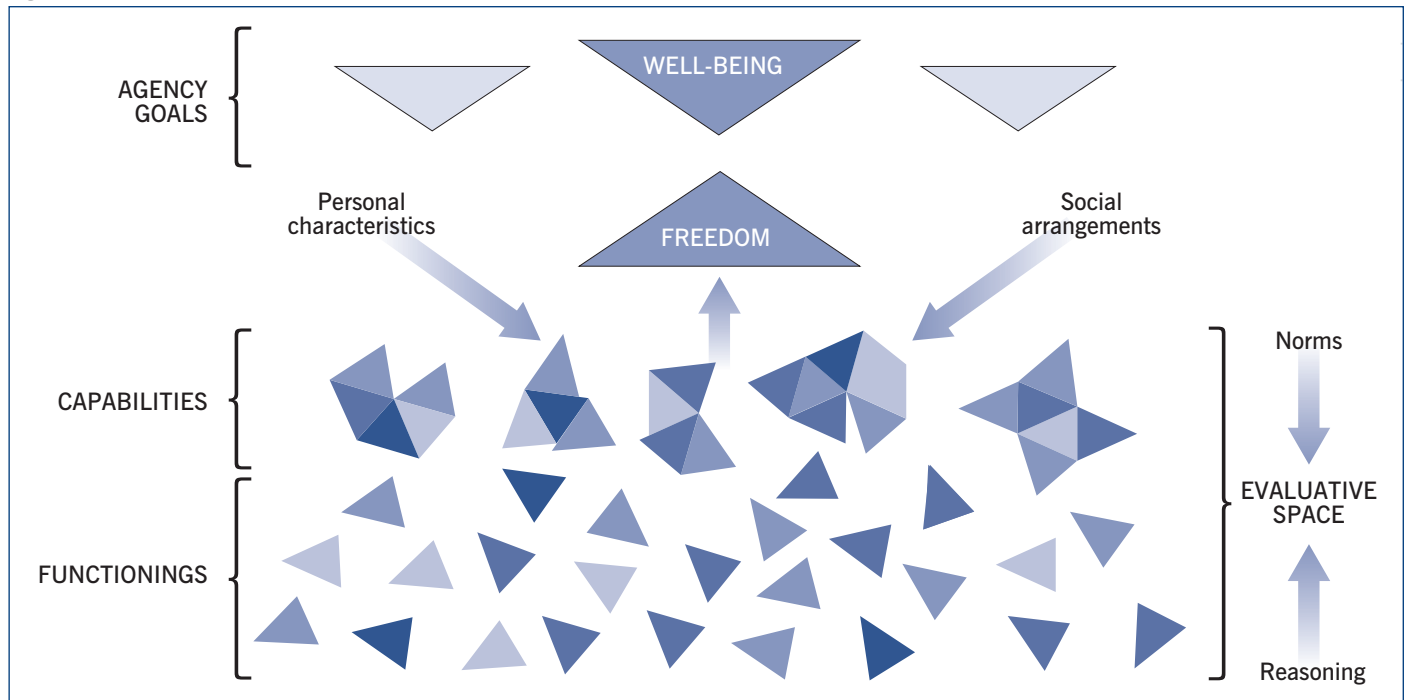
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On the question of how we ought to measure national well-being, the name of Amartya Sen is ever-present. This is not because his capability approach is the standard approach for well-being frameworks. On the contrary, Sen's philosophically sophisticated vision poses well-known challenges for operationalisation (Sugden, 1993; Alkire, 2002, pp.181–93). His ever-presence, I suspect, hangs more on his eloquence, his ample humanism, and his appeal to a liberal sensibility that hasn't yet deserted our age entirely. As Sen puts it, his approach supports 'the expansion of the "capabilities" of persons to lead the kind of lives they value – and have reason to value' (Sen, 1999, p.18).

In 2018, when the current government accelerated Treasury's work to develop the

Figure 1



Living Standards Framework (henceforth LSF), Sen's approach was favourably echoed by the secretary of the Treasury, Gabriel Makhoulf (Makhoulf, 2018), and by the minister of finance, Grant Robertson, in his opening address to the Third International Conference on Wellbeing and Public Policy in Wellington (Robertson, 2018). Sen is also cited in recent publications on well-being economics in the New Zealand context (Dalziel and Saunders, 2014, 2015; Fry and Wilson, 2018). This affirms that the capability – for all its complications – is a compelling ideal.

Treasury has acknowledged this inheritance, both in the original LSF working paper, which discusses Sen's capability approach, and in the first iteration of the LSF Dashboard, released in December 2018 (Treasury, 2011, pp.11–13; 2018, p.8). Notably, however, among the 11 discussion papers produced by Treasury in 2018, only one mentions Sen at all.¹ This begs the question of the extent to which Sen's ideas have directly influenced the design of the LSF.

In this article I explore the LSF's relationship to Sen's legacy. This is not because I think that Sen's capability approach ought to be followed to the letter.² Nor should I be misconstrued as an unqualified defender of Sen and his capability approach, because I am not (for critical perspectives, see Navarro, 2000;

Hartley, 2009; Feldman, 2010, *contra* Deneulin, 2014). Nevertheless, I do believe that Sen's account warrants revisiting, because it shines a light on a variety of useful distinctions and humanistic concerns that ought to weigh on the minds of those designing and utilising any well-being framework. And it is in the *utilisation* of the LSF that the idea of the capability is potentially most relevant, as a way of interpreting the LSF Dashboard and making sense of its indicators. As such, the contribution of Sen's thinking might be still to come, as an instrument for astute political judgement. But let us begin with an overview of the capability approach and its relationship to the LSF.

The capability approach

The basic units of Sen's capability approach are functionings (see Figure 1). In Sen's words: '*Functionings* represent parts of the state of a person – in particular the various things that he or she manages to do or be in leading a life' (Sen, 1993, p.31).

The capability is a more complex object. First, it is a potentiality: the capability is about the *opportunity* to do or be something, not the doing or being itself. As Sen parses the distinction: 'A functioning is an achievement, whereas a capability is the ability to achieve' (Sen, 1987, p.36). Second, capabilities are composites of multiple functionings,

which together contribute to a person's opportunity to achieve a particular outcome. For example, if we wish to assess a person's capability to achieve a tertiary education, a wide range of functionings are relevant, which might include early education, family income, social mobility, mental well-being, and so on. Looking at a person's tertiary education achievements alone won't tell us about her capability, because many people who possess this capability may freely choose not to pursue tertiary education.

As such, the capability intermingles with the idea of freedom. Indeed, Sen even uses the phrase 'substantive freedoms' as a synonym for capabilities (Sen, 1999, pp.36, 74). Freedom contributes to well-being because it enables people to make the choices that contribute to their life going well, but also because acting freely is itself constitutive of well-being (Sen, 1993, p.39). Yet Sen also treats well-being as only one of many possible agency goals that we may choose to pursue (Sen, 1984, pp.186–7). Other such goals – especially 'those relating to fulfilling obligations' (p.187) – may be indifferent or even inimical to well-being, such as a life of ascetic sacrifice, national duty or religious devotion. Our capability set should provide us with the opportunity to improve our well-being, but a capability approach does not dictate this goal, no more than it dictates any particular

functioning as mandatory. Consequently, freedom has a certain centrality in Sen's theory, even a priority over well-being.

Finally, Sen notes that this configuration of functionings, capabilities and agency goals resides within an evaluative space. By this, he refers to exercises of reasoning which identify objects of value, especially the functionings and capabilities that are most relevant to our purposes, such as the analysis of well-being or living standards (Sen, 1993, p.32). Sen strongly endorses democratic forms of public reasoning as appropriate (Sen, 1999, pp.76–81, 146–59, 2009, pp.321–54).

Now, how does this compare to the LSF? The LSF advances three dimensions of intergenerational well-being: current

philosophical framework, but rather more directly from the OECD's *How's Life?* framework (OECD, 2013), which in turn is strongly indebted to the report by the Commission on the Measurement of Economic Performance and Social Progress, chaired by Jean-Paul Fitoussi, Amartya Sen and Joseph Stiglitz. The capability approach is acknowledged in both (OECD, 2013, p.22; Fitoussi, Sen and Stiglitz, 2009, pp.151–3) – unsurprising given Sen's involvement in the latter – but it is not the only methodological input. The Fitoussi–Sen–Stiglitz commission recommends that quality of life be defined in terms of capabilities *as well as* subjective well-being and the notion of fair allocations as derived from welfare economics (Fitoussi, Sen and

capabilities ought not to be regarded as a *substitute* for utilitarian and welfarist metrics, but rather as a *complement* that captures real aspects of well-being that these other metrics neglect (Sen, 1979, 1987, pp.1–19). Moreover, the LSF's own evolution since 2011 has shifted it in a direction that better aligns with Sen's ideal. The inclusion of the 12 domains of current well-being – in addition to the four capitals of future well-being – better aligns the LSF not only with the basic structure of the OECD's *How's Life?* framework, but also with Sen's insistence that 'The value of the living standard lies in the living' (Sen, 1987, p.25). That is, the foremost concern for social measurement is the quality of life that people actually lead, whereas instrumental factors like income have derivative relevance.

The other notable shift is from the LSF's eponymous focus on *living standards* to *well-being*. Originally, the objective of the LSF was to enable Treasury's vision of 'working towards higher living standards for New Zealanders' (Treasury, 2011, p.6). Yet when Prime Minister Jacinda Ardern announced that her government would 'accelerate' the development of the LSF, she announced 'a tool and framework that will make *the well-being of our people* a measure of our economic success' (Ardern, 2018, emphasis added). On Sen's account, this is not merely a change in terminology, but a substantive change in objectives. He conceives of living standards in terms of *self-regarding achievements*: that is, aspects of the nature of the life that a person is living. The idea of well-being includes this, but also *other-regarding achievements*, which includes the nature of lives that other people are living. In this vein, Sen writes: 'one's misery at the sorrow of another certainly does reduce *ceteris paribus* one's well-being, but in itself this is not a reduction in the person's standard of living' (Sen, 1987, p.27).

The clearest example of an other-regarding concern in the LSF is the inclusion of the suicide rate. Only those most emotionally and financially reliant on a person who dies by suicide, such as family and close friends, are likely to have their standard of living affected. Nevertheless, much wider networks of people can have their well-being affected,

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well-being, future well-being, and risk and resilience. Current well-being is organised into 12 domains, each of which incorporates multiple indicators. The domains are: (1) civic engagement and governance, (2) cultural identity, (3) environment, (4) health, (5) housing, (6) income and consumption, (7) jobs and earnings, (8) knowledge and skills, (9) safety, (10) social connections, (11) subjective well-being and (12) time use. Future well-being is organised into the four capitals – (1) natural capital, (2) financial and physical capital, (3) human capital and (4) social capital – which 'generate well-being, both now and into the future' (Treasury, 2018, p.6). Finally, there is a third dimension, risk and resilience, which conceives of 'the ability of our people and the country to withstand shocks' (ibid.).

It is worth noting that this structure does not derive directly from Sen's

Stiglitz, 2009, pp.145–56). It regards the selection of elements from among these three approaches as a matter of 'normative decision' (ibid., p.155). It also recommends that quality of life is not compressed into a single metric, not least to capture the issue of sustainability. Rather, a distinction should be made between instantaneous well-being at a single moment and global well-being over time (ibid., pp.251–3). Consequently, the Fitoussi–Sen–Stiglitz commission recommends a stock-based approach, which conceives of intertemporal sustainability in terms of a 'stock', 'wealth', 'asset' or 'capital' (ibid., p.250). This approach was adopted by the LSF in its original presentation of the four capitals (Treasury, 2011, pp.17–27), as well as by the OECD's *How's Life?* framework (OECD, 2013, p.199).

None of this is inconsistent with Sen's argumentation, because he argues that

because they are touched by the suffering of the person who died, or by the impacts on friends and family. More broadly still, we can argue that our collective well-being is undermined by New Zealand's comparatively high suicide rate, because this is 'a national shame' that touches us all.³ So, by including this indicator, the LSF moves beyond living standards into the realm of well-being. Moreover, there are opportunities to enrich this other-regarding aspect in future iterations of the LSF, not least by incorporating specific proposals from Treasury's discussion papers. For example, a Pacific perspective emphasises the importance of perceived familial well-being and perceived social well-being (Thomsen, Tavita and Levi-Teu, 2018), which are distinctive from subjective well-being by being explicitly other-regarding.⁴

So, there are affinities between the LSF and Sen's philosophical ideal. Well-being is identified as an attractively rich goal. We also see a range of indicators to capture the well-being achievements, the various 'beings' and 'doings', that reflect present well-being, and that might sustain well-being into the future. However, at the mezzanine level of figure 1, between the basic level of the functionings and the high level of agency goals, there are two points of difference: first, the interpretive focus on capitals rather than capabilities; and second, the apparent absence of freedom in the LSF.

Capitals not capabilities

If the LSF follows the OECD's *How's Life* framework, then it invites us to interpret the domains of current well-being in terms of capabilities, as opportunities that New Zealanders presently possess or lack. However, in regards to future well-being, the composite concept for multiple functionings is capital rather than capability.

In a paper that discusses the capital/capability distinction, Sen argues that these 'two perspectives are ... closely related but distinct'. He defines human capability in familiar terms as 'the ability of human beings to lead lives they have reason to value and to enhance the substantive choices they have'. But he defines human capital as 'the agency of human beings –

through skill and knowledge as well as effort – in augmenting production possibilities' (Sen, 1997, p.1959).

In short, the idea of capital is instrumentalist: it is a means to serve economic ends. Sen elaborates in terms of value. On his account, human capital captures the *indirect value* that is realised through economic properties such as production, price and innovation. By contrast, the idea of human capability also captures the *direct value* that enriches the life of the person who possesses the capability.

Consider the example of education. As noted by the Treasury discussion paper on

means of production (even though they excel in that capacity), but also the end of the exercise' (ibid., p.1960). This admonishment is relatively mild by comparison with other critiques of human, social and natural capital (for example, Mabey, Skinner and Clark, 1998; Spash and Vatn, 2006; Knorrninga and van Staveren, 2007; Sullivan, 2018), yet Sen belongs in their company by worrying about capital's instrumentalist implications. His advocacy of human capability instead of human capital is an attempt to forestall this instrumentalism.

Certainly, there is no methodological prohibition against such a move. When the

With characteristic courtesy, Sen describes the uptake of the idea of human capital as 'certainly an enriching move', yet he adds that 'it needs supplementation ... because human beings are not merely means of production (even though they excel in that capacity), but also the end of the exercise' ...

human capital, education and skill levels are central to measuring 'the productive wealth embodied in people', because 'qualifications and labour market earnings are highly correlated' (Morrissey, 2018, p.7). Education creates indirect value by augmenting the value of production in the national economy. However, education also delivers direct value to people – 'in reading, communicating, arguing, in being able to choose in a more informed way, in being taken more seriously by others, and so on' (Sen, 1997, p.1959) – which may not have a straightforward relationship to economic production.

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Sustainability subgroup of the Fitoussi–Sen–Stiglitz commission recommends taking a stock-based approach to sustainability, it acknowledges the normative uncertainty that remains: 'There as many [sic] evaluations of the sustainability of well-being as there can be definitions of what current well-being is' (Fitoussi, Sen and Stiglitz, 2009, p.258). Consequently, the Sustainability subgroup defers to the Quality of Life subgroup on the normative choice over 'what we are trying to sustain' (ibid., p.261). As discussed earlier, this subgroup recommends a focus on capabilities, subjective well-being and fair allocations. Sen clearly regards this inclusion of capabilities as advantageous, because it ensures that considerations of direct value are not lost from the exercise of deriving policy relevance from indicators

of stocks (Sen, 1997), and that the expansion or retraction of freedoms is regarded as a concern for sustainability (Sen, 2009, pp.248–52).

However, Sen further suggests that the idea of capital is not destined to be instrumentalist. On the issue of direct and indirect values, he notes: 'The human capital perspective can – *in principle* – be defined very broadly to cover both types of valuation, but it is *typically* defined – *by convention* – primarily in terms of indirect value: human qualities that can be employed as "capital" in production in the way physical capital is' (Sen, 1997, p.1959, emphasis added). In other words, the instrumentalism of human capital is a

capital approach, they might only care about the interdependencies between human capital and financial and physical capital, or the 'income and consumption' and 'jobs and earnings' domains in current well-being. However, if policymakers conceive of capital more broadly (or switch to a capability lens), then they are encouraged to acknowledge the interdependencies between non-communicable diseases and various aspects of personal well-being – including 'health' and 'subjective well-being' within current well-being – thereby averting the instrumentalist critique.

The same goes for the social capital indicators ('trust held in others', 'perceived

convention – can permit this broader conception of value, or whether decision makers will invariably lapse back to the instrumentalist understandings of capital that so readily spring to mind. Some argue that these associations are undisplaceable, because the idea of capital is entangled in larger ideational structures that make such meanings irresistible (Moore and Patel, 2018, p.26). Perhaps anticipating this line of critique, the Fitoussi–Sen–Stiglitz commission notes that 'stock', 'wealth', 'asset' and 'capital' are viable alternatives, even registering its own preference for 'the more neutral term of wealth' (Fitoussi, Sen and Stiglitz, 2009, pp.250, 266). And while Sen recommends that capability not be neglected, this term is not without its ambiguities; nor is Sen entirely in control of its usage by relevant linguistic communities (Deneulin, 2014). This points to the significant interpretive work that remains to be done, which I revisit in the final section.

What about freedom?

The second divergence between the LSF and the capability approach is the absence of freedom and, hence, what appears to be the absence of capabilities, properly conceived. Nowhere in the LSF is freedom accorded the primacy that Sen accords it. In its original iteration, the LSF highlights that 'freedoms, rights and capabilities' are important for higher living standards (Treasury, 2011, pp.16–17), yet this dissipates throughout the development of the LSF Dashboard.

So I begin this section by exploring a strong conclusion – too strong – that the LSF is simply not a capabilities approach, at least not in the formal Sennian sense. However, because this conclusion only holds weakly, I will eventually deliver the reader to an alternative conclusion: that the ideas of freedom and capability are implicit or unrealised in the LSF Dashboard, and hence an unresolved matter of interpretive choice.

But first, let us say, in strong terms, that the LSF is not a capability approach. It is informed by such an approach, but is not itself such an approach, at least as Sen defines it, because it focuses on functionings rather than capabilities. It measures achievements but not the opportunity to

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matter of convention rather than essence. Notably, the OECD interprets human capital in this broader sense, by highlighting its links to current well-being through its 'essential input to economic production and income generation' as well as 'intrinsically valuable well-being outcomes' (OECD, 2013, p.186). The LSF's four capitals might be interpreted in this way, without needing to invoke the language of capability.

So, in the same way that Sen shows how education provides direct value for people, the same manoeuvre is possible for the LSF's other human capital indicators. For example, a decline in non-communicable diseases creates indirect value for the economy, because healthy workforces are productive workforces. But it also creates direct value for people who avoid the incommodity, fear and suffering that such diseases may entail. Both lines of evaluation are implicit within this indicator, so the choice of interpretive approach will influence how broadly this value is conceived. If policymakers take a narrow

corruption', 'discrimination', 'trust in government institutions' and 'sense of belonging'). To be free from mistrust, to be spared from the frustrations and paranoia that corruption induces, to live without the misery of discrimination and arbitrary domination, to enjoy institutional integrity and transparency, to feel like one belongs and has standing in a community – these are all forms of direct value that accrue to people and improve their personal well-being. Yet these indicators also generate indirect value for social and governmental institutions by 'better economic and democratic performance, better educational outcomes and a healthier and safer society' (Frieling, 2018, p.6). What is at stake is how policymakers interpret the indicators of social capital (and indeed natural capital),⁵ either as instrumental to existing social and economic structures, or as constituent elements for sustaining the freedoms and capabilities of present and future peoples.

The question is whether the four capitals framework – by dint of linguistic

achieve. If true, does this actually matter? After all, the capability is an elusive, if not impossible, thing to quantify. For example, how does a government distinguish between a person who lacks the capability to enter tertiary education and a person who possesses the capability but chooses not to use it? While some such factors may be simple enough to measure (such as enrolment criteria and debt burden), other factors may be invisible even to the person making a choice about their education (such as feelings of personal inadequacy).

On the flipside, the study of functionings, of actual achievements, can take policymakers quite far. It is an ongoing debate among Sen scholars as to whether functionings or capabilities should be the focus, or some combination of both (for discussion, see Robeyns, 2017, pp.107–12). In particular instances, an analysis of capabilities is not only unnecessary, but inappropriate. If we are concerned with the well-being of children or the severely cognitively disabled, for example, then our analysis ought to focus on functionings rather than capabilities, because it isn't appropriate to burden children or the severely cognitively disabled with the full responsibilities of choice. Still other achievements, such as safety from violence, ought to be provided *absolutely* to adults as well as children. To frame non-violence in terms of capability, as if the state is only obliged to provide its citizens with *opportunities* for a non-violent life, is clearly inadequate.

For these issues, a level of paternalism is generally accepted. But there are other aspects of contemporary life where (at least under the expectations of liberalism) it is not appropriate or effective for a government to determine the life that people ought to lead. In such instances, the capability is an appropriate place for a government to land.

Consider the issue of childcare. If a government is focused on the achievement of a certain outcome – say, gender parity, or a specific ratio of childcare among men and women – then it faces manifold considerations. Is the mother suffering from postnatal complications that require extended leave? Does the mother intend to breastfeed or bottle-feed? Is the infant able to breastfeed or bottle-feed? Does either

parent prefer to be primary carer? Is either parent incapable of fulfilling the role of carer? What are the expectations of the extended family and community? Are gender pay inequities driving a correspondingly unequal distribution of childcare? Do the parents' respective employers permit flexible or part-time working hours? Does the family have access to childcare? Each family tracks a unique course through these and other considerations, influenced by a range of factors, which might include personality, education, religious and cultural values, personal and family finances, and so on. In this nuanced space, government

fact, no more than a perspective in terms of which the advantages and disadvantages of a person can be reasonably assessed' (ibid., pp.296–7).

Which brings us to the more viable conclusion: that the idea of the capability isn't so much absent from the LSF as it is underdetermined, one of several ways to organise the information that the LSF Dashboard conveys. This is not a bad thing, because, as I argued earlier, there are instances where a capability lens would be inappropriate. However, in some instances the capability is a desirable lens, because it directs policymakers to empower citizens to lead the lives that they have reason to

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paternalism is an extremely blunt tool. Yet by focusing on capabilities, a government is encouraged to focus on resources and social arrangements that might support diverse forms of family life. These could include access to childcare facilities, paid parental leave, gender pay equity, provision of pre- and post-natal support services, education on reproductive health and parenting, and so on.

In *The Idea of Justice*, Sen is very clear about what his capabilities approach does and does not do. He writes that 'the capability approach points to an *informational focus* in judging and comparing overall individual advantages, and does not, on its own, propose any specific formula about how that information may be used, nor any 'specific formula for policy decisions' (Sen, 2009, p.232). This open-endedness could be regarded as a shortcoming, but it also means that the capability approach is amenable to a variety of normative positions, whether a conception of the good, a theory of justice, or some other ethical framework. In Sen's words, it 'is, in

value, rather than lives that accord with policymakers' own prescriptions.

Capability as an interpretive framework

The capability ought to be regarded as a technique for political judgement, as a mode of interpreting and ascribing relevance to the indicators in the LSF Dashboard. It won't always be the most appropriate technique, but occasionally it may be, especially where it persuades policymakers to make choices that enable people to lead the lives they have reason to value without determining the nature of those lives on people's behalf. In this sense, the usefulness of the idea of the capability is primarily *ex post*, an exercise that we might yet undertake to imbue the LSF's indicators with policy relevance.

The relative absence of capabilities from the Treasury's discussion papers perhaps reflects the stage of the LSF's development, in design rather than utilisation. As Conal Smith notes, philosophical differences over the nature of well-being have limited relevance to the choice of indicators: 'The determinants of

life satisfaction ... turn out empirically to be largely the same things that are identified as important in a capabilities approach' (Smith, 2018, p.17). However, looking beyond the choice of indicators, there are unresolved questions about how to interpret these indicators, to make sense of the data and to instil policy relevance.

For example, a capability approach and a utilitarian approach are designed to draw quite different conclusions from the data, because each approach serves quite different normative goals. The former focuses on the expansion of substantive freedoms, whereas the latter focuses on the maximisation of utility. Even if we focus on the same data set, these approaches will

transcend this disadvantage, whether or not people have adapted to their condition, or acquired a false consciousness. The Fitoussi–Sen–Stiglitz commission includes the capability approach for this reason, because it identifies objective determinants of people's well-being, 'beyond their self-reports and perceptions' (Fitoussi, Sen and Stiglitz, 2009, p.151). As a result, while a capability perspective avoids one kind of paternalism in regards to determining how people's lives ought to go, it is disposed to another kind of paternalism in regards to social arrangements. I will not argue a view here on whether this is good or bad, only note the different angle for policy relevance (for discussion, see Deneulin, 2002).

particular approach to policymaking, one that is far more concerned with enabling and empowering people to make their own choices than with delivering prescribed outcomes.

This is the next frontier for the LSF: to bring greater clarity to how the LSF Dashboard might inform the political judgements of decision makers. Different normative and conceptual presumptions may lead to divergent interpretations of what the data implies. So far, the clearest example of thinking at this normative level is the prototype Māori framework (O'Connell, Greenaway and the Tax Working Group Secretariat, 2018), which situates the four capitals within a tikanga framework of kaitiakitanga (intergenerational/sustainability), whanaungatanga (connectedness), ohanga/whairawa (prosperity) and manaakitanga (care/reciprocity). Each of these tikanga concepts is a way of making sense of the LSF indicators, of imbuing these with value and significance. Ideas like capability and utility operate at a similar level, as normative conceptions that instil the indicators with meaning. Greater conceptual clarity at this level will help the LSF to fulfil its promise in improving the practical judgements of policymakers.

Sen notes that people who are disadvantaged – for example, by poverty or disability – may adapt to their circumstances and eventually become happy with their lot.

generate different accounts of policy relevance and imply different sorts of policy.

Consider, for example, the adaptation problem (Qizilbash, 2009). Sen notes that people who are disadvantaged – for example, by poverty or disability – may adapt to their circumstances and eventually become happy with their lot. Alternatively, people might acquire a 'false consciousness', where they are unwilling to acknowledge the injustice of their plight because of ideological commitments. Yet a subjective satisfaction with one's situation does nothing to remedy the objective reality of disadvantage, nor does it absolve fellow citizens from obligations to ameliorate their situation, especially when disadvantage is arbitrary or unjust. Sen's worry is that a metric of happiness, however, is blind to these considerations, because it only measures the stoicism of the disadvantaged and not the state of disadvantage that they've adapted to. A capability approach, by contrast, is concerned with creating opportunities to

Through its diverse methodological inheritances, the LSF incorporates the informational materials for a range of different philosophical perspectives. It therefore can accommodate a range of interpretive possibilities for policymakers and others who wish to derive practical and policy relevance. This interpretive pluralism ought to be seen as a virtue, especially given that the framework will be utilised by different consecutive governments with different values and policy priorities. Sen has long argued for the superiority of his capability approach vis-à-vis other approaches that focus on utility (through happiness or satisfaction), or opulence (through income or commodity possession), or resources, or primary goods (Sen, 1993, p.48). But this was not to denounce these approaches as irrelevant; rather to argue that they were insufficient or subsidiary in the quest to analyse well-being and living standards. The capability is a particular way to make sense of the indicators for current and future well-being, which lends itself to a

- 1 The exception was the 11th discussion paper, on te ao Māori perspectives (O'Connell, Greenaway and the Tax Working Group Secretariat, 2018, p.9). Sen is also discussed in a report that Treasury commissioned from Kōtātā Insight (Smith, 2018, pp.10–11, p.17).
- 2 In any case, it would be difficult to follow Sen's recommendations to the letter, because his framework is purposefully indeterminate and open-ended, in order to accommodate cultural particularities and democratic participation (Sen, 2004).
- 3 Campaigner Mike King refers to 'national shame' in his work to raise awareness of youth suicide in Aotearoa New Zealand (see Carville, 2017).
- 4 The LSF indicators for subjective well-being ('general life satisfaction' and 'sense of purpose in one's life') are clearly self-regarding achievements. For life satisfaction, the New Zealand General Social Survey asks, 'how do you feel about your life as a whole?'; for sense of purpose it asks, 'to what extent do you feel the things you do in your life are worthwhile?' (emphasis added; see Statistics New Zealand, 2016).
- 5 I do not have the space here to properly address the idea of natural capital, not least because environmental issues are peripheral to Sen's anthropocentric approach, but I direct the reader to germane discussions by Herman Daly, 2014, and Dalziel, Saunders and Saunders, 2018, pp.109–27.

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Where There is a Will encouraging policymakers to value unpaid labour

Abstract

Unpaid labour, notably caring labour, is one of the most important and productive sectors of our society. Its inherent and measurable value has been stressed by scholars and practitioners, feminists and those doing unpaid work for generations. Yet policymakers continue to sideline it. This article describes the improvements that would flow from recognising and responding to the importance of unpaid labour, the values and cultural narratives that help explain the lack of policymaking will, and the potential for counters to these narratives.

Keywords economics, unpaid work, policy, gender, equity, framing, narratives, values

Unpaid work, especially care work, is like the water that citizens drink, irrigate their soil with and use to generate their electricity. It is fundamental to paid work and social functioning. As when riverbeds run dry, if unpaid labour ran out, the consequences would be severe. Yet its value is poorly recognised in policy. This neglect is surprising given the decades of research, by feminist economists in particular, on the critical importance of unpaid labour (Waring and Steinam,

1988; Saunders and Dalziel, 2017). This research has shown that gross domestic product (GDP) is an insufficient measure of human progress, as it fails to account for many productive and valuable activities – especially those done mainly by women, including reproductive work, caring work and domestic work.

New Zealand is now poised to introduce new ways of measuring economic well-being, via the Treasury's Living Standards Framework (Burton, 2018). In addition, policymakers have many opportunities to recognise, reduce and redistribute unpaid labour more equitably. There is, of course, a vast literature around 'valuing' unpaid labour (Beneria, 1999; Anielski, 2001; van den Berg and Spauwen, 2006). Typically this has involved assigning a dollar amount to the relevant hours of work. However, it is precisely our habit of acknowledging only those activities with a market value that has rendered unpaid labour so invisible to policymakers. Emphasising market value also makes it difficult to see the importance of an activity's intrinsic value. In what follows, therefore, I use the word 'value' to denote non-monetary ways of making unpaid labour, the people doing

it and their impacts more visible and better accounted for in policymaking.

Unpaid work in New Zealand: a snapshot

In this article I focus specifically on the work of producing new people, caring for children, caring for adults, and household domestic work such as cleaning, washing, and shopping for and preparing food. While volunteer work is also a type of unpaid labour, involving at times caring and domestic work by women, it is deserving of detailed and separate discussion.

New Zealand time-use surveys, the last of which was carried out in 2009, show that women continue to do the bulk of unpaid caring and domestic work (Statistics New Zealand, 2011). They spend an average of 4 hours and 20 minutes a day on unpaid labour, against 2 hours and 32 minutes for men. Most men's 'work' is paid (63%), while most women's 'work' is unpaid (65%). Māori and Pacific women carry out more childcare than do New Zealand European women. European and Māori women do a disproportionately large amount of unpaid caregiving for ill or disabled people (Grimmond, 2014). The majority of carers of ill or disabled people are women in their fifties (Harper, 2013).

Although assigning market values to unpaid labour is problematic, it can be useful as a means to estimate that sector's size in relation to other productive sectors. Conservative estimates made in 1999, assuming payment at the median wage, valued unpaid labour at \$40 billion annually, equivalent to 39% of contemporary GDP. Unpaid work done by women in 1999 accounted for \$25 billion (Statistics New Zealand, 2001), making it the largest productive sector.

Valuing unpaid labour in policymaking

For policymakers seeking to properly value unpaid labour, Diane Elson's 'triple R approach', based on the concepts of recognition, reduction and redistribution, provides a useful framework (Elson, 2008).

Recognition

If policymakers were committed to recognising the value of unpaid care work, they would regularly measure it. Time-use

surveys would occur more frequently than once every ten or so years, and would be carried out as distinct, stand-alone research. Data analysis would report distributional differences across gender, ethnicities and sectors of work. Such surveys would also capture simultaneous work – situations where, for instance, a parent carries out childcare at the same time as doing paid work. Research shows that men and women work quite differently when doing unpaid labour: when men care for children they typically spend more time playing and reading, while women will simultaneously carry out other domestic tasks (Queisser, 2016). This reinforces the need for research to accurately reflect women's experiences as a starting point.

unpaid labour, improving the robustness of policymaking.

Attempts to improve children's well-being and reduce child poverty would also benefit from properly recognising unpaid work. While there has been cross-party agreement on new child poverty reduction legislation, there has been little discussion of formally valuing unpaid labour as a poverty reduction strategy.

Current poverty alleviation and welfare policies focus on encouraging parents into paid work, yet this may increase total productive work beyond their capacity (especially for sole parents), thus exacerbating their mental distress (Baker and Tippin, 2002; Hodgetts et al., 2016) while not boosting overall well-being.

While many societies have strong underlying cultural narratives about the meaningfulness of caring work, especially parenting, the day-to-day tasks can nonetheless be tedious.

Cost-benefit analyses could also be amended to incorporate unpaid work. The usefulness of such an approach can be seen in the health sector, where the costs/harms and benefits of unpaid labour are, in some cases, already included. This has resulted in revised policy recommendations (Krol, Papenburg and van Exel, 2015). In one case, the types of interventions recommended for people with Alzheimer's disease were altered when unpaid care was included. In other cases, an intervention for rotavirus became more cost-effective when carers' outcomes were included, while an intervention for cataract surgery became less cost-effective when carers' costs were included (Goodrich, Kaambwa and Al-Janabi, 2012). While cost-benefit analysis often involves assigning a dollar value to outcomes, it can place equal importance on measures such as quality-adjusted life years, which account for the wider, non-monetary costs and benefits to, for instance, carers' well-being. On similar lines, government agencies' Budget bids could incorporate the costs and benefits of

Moreover, extensive analysis of large-scale interventions with sole parents living in poverty shows that simply moving them from welfare to work, using conditional payments and welfare sanctions, improves neither their overall economic situation nor the outcomes for their children (Kaushal, Gao and Waldfogel, 2006; Waldfogel, 2007; Duncan, Gennetian and Morris, 2008; Duncan, Magnuson and Votruba-Drzal, 2014).

In contrast, international evidence suggests that when policymakers recognise unpaid labour, they can better address both goals. Consider, for instance, the policy of paying a generous and unconditional family benefit, such as those distributed in Australia and Sweden (and in New Zealand until the early 1990s). As well as recognising the work of parenting, this contributes to multiple beneficial outcomes. By reducing the need to take on potentially inappropriate paid work, it reduces parental stress, thus directly enhancing children's well-being. And if it is set sufficiently generously it can significantly

reduce child poverty rates and improve the negative impacts of poverty (Cooper and Stewart, 2013). Similar arguments can be made for policies such as longer paid parental leave for sole parents, advance payment of child support by the state, and paid and extended leave for caring for sick children. (In Sweden, for instance, parents receive up to 120 days' paid leave a year to care for a sick child.)

Reduction

The second element of Elson's approach concerns reduction, either of unpaid work itself, where appropriate, or of its negative impacts. While many societies have strong underlying cultural narratives about the meaningfulness of caring work, especially

- improving accessibility of basic services: e.g. better transport for those looking after people with a disability.

Such measures are especially important in an area that receives little attention, reproductive work. Around two thirds of first-time New Zealand mothers experience a significant intervention during birth, including epidurals, instrumental deliveries due to prolonged labour, episiotomies and caesarean sections. These interventions all markedly increase the risk of long-term injury (Ministry of Health, 2017). Such injuries significantly diminish people's ability to undertake basic activities and to cope with the additional and demanding work of caring for children. Yet ACC recognises neither these injuries nor the

childcare, or significantly more generous childcare subsidies.

A focus on redistribution would also direct policymakers' attention towards enabling men and non-birthing partners to do more unpaid caring work and other domestic labour. The relevant policies might include expanding paid parental leave conditions for all genders (Brandth and Kvande, 2002), and specific interventions known to reduce gender and motherhood pay imbalances in different sectors (Sin, Dasgupta and Pacheco, 2018) and other signal effects from the labour market (Stafford and Sundström, 1996).

Such policies can help address broader economic inequality as well as specific inequalities in the division of labour (Ekberg, Eriksson and Friebe, 2013; Patnaik, 2018). Greater male involvement in caring for their children also has numerous benefits (Callister, 1995). International research has emphasised the need to make men key actors in the drive to enhance women's economic empowerment (International Labour Organization, 2014).

The valuing of unpaid labour would have differential impacts on Māori. Unpaid caregiving for adults and those with illness or disability is, researchers suggest, integral to te ao Māori (Collins and Willson, 2008). It has many positive cultural and psychological dimensions. But it is also work that exacerbates existing socio-economic and health inequities experienced by Māori. Māori may forgo paid work to do unpaid work, even though they already have lower economic well-being. The emotional and physical burdens of caring work are also felt more strongly by Māori, because they already have poorer healthcare access and experiences (Alpass et al., 2013; Hokanson et al., 2018). A lack of social recognition for this work exacerbates the risk of negative effects (Collins and Willson, 2008).

Many Māori deemed 'unemployed' or 'underemployed' are working as carers for the elderly, people with disabilities and whāngai (adopted) children, or taking active roles in maintaining marae. In 2015, Counties Manukau District Health Board found that Māori experienced both a high unemployment rate (13%) and a very high rate of work without pay (87%). Māori

Many Māori deemed 'unemployed' or 'underemployed' are working as carers for the elderly, people with disabilities and whāngai (adopted) children, or taking active roles in maintaining marae.

parenting, the day-to-day tasks can nonetheless be tedious. Washing, cleaning, breastfeeding, preparing food and even playing with children can become stressful in their own ways. For those caring for the ill or disabled, both the physical work and the emotional load involved can be significant.

In valuing this work, policymakers would actively support research and policies that look to reduce the volume of some unpaid work, while also investing in reducing its negative impacts. These measures have three dimensions (Hirway, 2015):

- technology to assist in the work: e.g. physical technologies to reduce lifting while caregiving, or health technologies and supports to overcome breastfeeding difficulties;
- supports to reduce drudgery and stress: e.g. reducing the hours of caregiving carried out by any one person, or improving mental well-being services for those carers who experience greater mental distress (Dalgety, 2010; Krassoi Peach and Cording, 2018); and

considerable impacts on the individuals, families and communities that care for those afflicted. Hence, policymakers give little attention to the need to reduce the negative impacts of reproductive work. If reproductive work was properly valued, ACC would provide support for birth injury rehabilitation. It would also be motivated to implement evidence-based policies to reduce rates of birth injury, such as national strategies and programmes to help reduce both prolonged labour and New Zealand's high rates of caesarean section births.

Redistribution

The redistribution of unpaid work could entail more equal divisions of labour between men and women within households, but also within wider social institutions. For example, some unpaid work could be made the responsibility of the public sector – or even the not-for-profit sector or the market, if accompanied by appropriate funding. This could occur through the provision of universal free

working within the board catchment were nearly twice as likely as non-Māori to do unpaid caring work for someone who was disabled or ill, both within the home and outside it (Robson et al., 2015). Consequently, valuing unpaid caregiving properly could lead to a redistribution of formal paid care work in ways that recognised the unique needs and cultural meaning of unpaid labour for Māori. This in turn could play a significant role in delivering more equitable health and well-being outcomes for Māori.

Policy options

A wide range of policies will be needed to address the undervaluation of unpaid work. Given space constraints, I will focus on a handful of particular importance.

First, New Zealand needs to commit to regular time-use surveys. The OECD cites a lack of comprehensive time-use data as a reason to exclude unpaid labour from its *How's Life?* well-being framework (OECD, 2017). This framework, in turn, forms the basis of New Zealand's current Living Standards Framework, which is also missing any major analysis of the importance of unpaid labour (Smith, 2018). Better data, therefore, is necessary (though not sufficient) for unpaid labour to become more visible in policymaking.

Second, policymakers and politicians need to take clear and specific actions to meet goal 5 of the United Nations' Sustainable Development Goals, which is to 'achieve gender equality and empower all women and girls'. One of its explicit targets is as follows:

Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate. (UNDP, 2018)

This is particularly important in light of the policymaking effort being devoted to the Living Standards Framework. The Treasury's own analysis shows that none of the framework's elements links directly to Social Development Goal 5. This is not a concern, it argues, because gender inequality is 'a cross-cutting issue that

applies to every domain' (Ormsby, 2018). But although the Living Standards Framework, as currently articulated, includes a measure for time use, it does not commit to measuring either the distribution or sustainability of unpaid labour in particular. Unpaid labour and gender equality therefore remain neglected.

In short, if policymakers do not explicitly create policies and practices to improve gender, ethnic or other structural inequities, they will inadvertently design in further inequity. A recent Treasury paper on tax expenditures, for instance, notes a significant number of expenditures in 2016 that could have a negative impact on gender equality (Morrissey, 2018). Yet this does not seem to be of wider concern

ensure that one of the country's largest productive sectors receives due consideration.

A third action worth highlighting relates to organisational shifts. There needs to be an organisational culture, within Treasury and other key policymaking institutions, where gender and equity analysis is championed and embedded, not individually applied as a special interest topic. Focusing on diversity and inclusion in the public service (see, for instance, State Services Commission, 2017) is necessary for such a change, but not sufficient. Leaders in the public service need to build a culture where equity analysis is systematically sought and applied. Their efforts should be oriented towards a new

Data from the National Council of Women's gender attitudes survey can help explain the narratives that surround New Zealanders' ... understanding of gender equity and unpaid labour.

within the agency.

Ironically, the new Living Standards Framework does allow policymakers to value unpaid labour and address relevant inequities. The framework is concerned with the growth, distribution and sustainability of what it calls the 'four capitals': financial and physical, natural, social, and human capital. In effect, then, the ability to measure whether unpaid and paid labour is equitably distributed, and the impact such distribution has on its sustainability for different genders, ethnicities and levels of abilities, is technically built in. Yet this potential is not being realised, given the inadequacy of the framework's measures related to unpaid work. The author's personal experience, furthermore, is that unpaid labour has received serious attention within the Treasury from only a few very motivated individuals, most of them women. It is unacceptable, in a public service organisation, that it should be left to individuals with a personal interest to

public service goal to achieve equity for groups traditionally excluded from central social institutions (see Public Service Commission, 2018).

Such action would support a fourth change: embedding the use of not just gender but also equity analysis tools across all government departments. For instance, Suzy Morrissey highlights gender budgeting as a necessary public policy tool (Morrissey, 2018). However, equity analysis tools, much like time-use surveys, are only as useful as their users. They need champions across the public service, of all genders, ethnicities and disabilities, who are themselves actively supported to lead on this work. Applying the knowledge from implementation science will be critical to achieving such change (Bauer et al., 2015).

Dominant cultural narratives

The above policies are all well grounded. There is no lack of evidence as to which actions will help properly value unpaid labour. What is lacking is the will and

motivation to act upon the evidence. This, in turn, highlights the role of values and narratives. Research shows that when evidence conflicts with the dominant values in a society, and the 'stories' about how a problem came about and what will therefore solve it, citizens do not act (Berentson-Shaw, 2018). This emphasises the need for strategies that prioritise existing but not prevailing values, and identify narratives (or cultural explanations) that assist people to act upon evidence. Research suggests that politicians and governments can lead a move in public values, and that the public also acts to effect such change in politicians and policymakers (Hoff-Elmari et al., 2014.)

Data from the National Council of

than on collective values such as equity (Rashbrooke, 2018). This obscures the fact that, as Hirway observes, unpaid work is neither free nor unlimited. It is also a productive good and a basic building block of a healthy society, one just as important as the more formally constituted public and market sectors (Hirway, 2015). These institutions are profoundly interdependent; indeed, the unpaid labour carried out (largely) by women operates as an unrecognised subsidy to those reaping financial benefits in the formal market.

These well-established facts, however, have little place in narratives based around individualistic values such as success, wealth and power. Such values, and the decisions and actions associated with them,

equity (since it is women who produce and primarily raise children), the rights of all children to fully participate in society, and the importance of intergenerational care and the well-being of the collective.

The second narrative Fineman identifies is the 'foundational myth of autonomy and self-reliance'. In this myth, the inevitable dependency of all human beings at various points in their life cycle – and for some their entire lives – is ignored in favour of ideas of individual and family self-reliance. These myths can be seen in popular fiction, for example the bestselling American novel *The Little House on the Prairie*, which expressly celebrates the idea of self-reliance (Tharp and Kleiman, 2000). Potential counters to this particularly Western mythology include Māori values such as manaakitanga and cultural practices that are part of the mutual obligation to care for other people, wider communities and future generations.

Under the influence of the self-reliance myth, policymakers have devalued dependency while prioritising autonomy from the collective, often represented by government. Dependency, and the work required to support it, is often treated as a private issue. Benefits are provided through the welfare system, but generally to those attempting to reduce their dependency on government by seeking paid work. (There are, however, notable exceptions, including New Zealand Superannuation, which furnishes an unconditional income to those aged over 64, and the provision of income compensation, in cases of injury, via ACC.)

The myth of autonomy, Fineman argues, helps ensure that those who do caring work are significantly under-compensated and under-recognised. The myth also helps obscure the profound impact that unpaid caring work has on the functioning of both the market and the state:

The mandate that the state (collective society) respond to dependency, therefore, is not a matter of altruism or empathy (which are individual responses often resulting in charity), but one that is primary and essential because such a response is fundamentally society-preserving. (Fineman, 2000)

Under the influence of the self-reliance myth, policymakers have devalued dependency while prioritising autonomy from the collective, often represented by government.

Women's gender attitudes survey can help explain the narratives that surround New Zealanders' (both the public's and politicians') understanding of gender equity and unpaid labour. Around 80% of New Zealanders agree that tackling gender inequality is necessary to establish a fairer society, but 50% either think New Zealand has already achieved gender equality or are neutral on the question; 60% think that gender equality has no positive impact on valuing unpaid labour, or have no opinion (National Council of Women, 2018).

So, while champions of gender equity such as Kate Sheppard have a place in narratives of New Zealand progress, equity for women in New Zealand appears not to be highly valued (or understood), and the importance of valuing unpaid labour is not a dominant narrative. This is unsurprising given that current economic and social paradigms encourage politicians and policymakers to place greater emphasis on values such as individual independence from the state and enabling private markets

are prioritised in the dominant cultural stories told about the market economy, unpaid labour, caring work and self-reliance. Martha Fineman identifies two particularly powerful narratives that prioritise values unhelpful to formally recognising unpaid labour (Fineman, 2000). The first, which she terms the 'Porsche preference', is the view that having and raising children is a private choice analogous to acquiring a sports car, or indeed any other possession. Society, the argument goes, should not subsidise any such preference, neither the money spent on a car nor the labour devoted to a child. Yet, ironically, it is those having and raising children in an unpaid capacity who are subsidising both the market and government. The 'Porsche preference' narrative selectively ignores social and cultural differences around the having of children. For instance, around 30% of pregnancies are unplanned, and in te ao Māori children are seen as a taonga or treasure. It also ignores issues of gender

It is essential, therefore, to contest narratives that prioritise values unhelpful to achieving equity, justice and well-being across generations and groups. Simplistic models that focus on monetary values, markets, independence and self-reliance, treating children as a private good, must be replaced with values and narratives that help move the public, policymakers and politicians to focus on collective well-being.

Practically, what is required in a New Zealand context? As discussed earlier, recent data shows that most New Zealanders do believe gender equity matters. Yet around half the population don't see gender inequity as an urgent policy problem, and so are unlikely to accept the need to act on valuing unpaid labour. We require a deeper understanding of these dominant values and cultural narratives that hamper efforts to prioritise gender equity and value unpaid labour. We need to utilise mixed methods of research to identify values, effective narratives and other techniques of communication that can counter unhelpful narratives and help reveal the well-documented evidence on the importance of valuing unpaid labour to more New Zealanders (Kendall-Taylor, 2010; Manuel and Kendall-Taylor, 2010; Kendall-Taylor and Levitt, 2017). In other words, we need to understand how to talk

about unpaid labour in ways that encourage people to see and act upon the evidence.

Recent research also recommends shifting arguments away from the idea of reaping the economic and financial benefits of recognising women's work and unpaid labour (Elomäki, 2015; Berentson-Shaw, 2018). Developing new narratives focused on the financial benefits of valuing unpaid labour will not counter dominant narratives that also prioritise financial benefits and wealth acquisition in ignoring unpaid labour. Instead, we should focus on the intrinsic value of unpaid labour, and the collective benefits of recognising that more formally.

Properly valuing unpaid labour matters, ultimately, because equity, fairness and justice are all values that matter to the well-being of citizens in their lives together as a society. Activating these values is thus critical work; so too is the effective use of language – powerful metaphors, for instance – and of values-aligned messengers and champions. Evidence is never presented neutrally, so policymakers must give more attention to the science of narrative if they want the public to fully understand the evidence that underlies their policymaking. A belief in the neutrality of a factual narrative does not one any favours.

Conclusion

A serious injustice is embedded in policymaking when productive work, work which is not paid for and which is mainly done by women, is rendered invisible. Unpaid labour is arguably New Zealand's most productive sector. Both government and markets are dependent upon it to function. Yet policymakers barely recognise it, let alone work to reduce it or redistribute its benefits or costs more equitably. The case for doing so has been well made by countless scholars and practitioners, the evidence supporting their arguments is clear, and the policy options are well articulated. But for significant progress to be made, it is important to delve into the core values that drive the lack of action on unpaid labour, and identify other values that motivate greater consideration of the evidence. Policymakers can seek to understand problematic cultural narratives, such as the myths of self-reliance, in a New Zealand context, and investigate and invest in developing powerful counter narratives. This is vital to overcoming inaccurate narratives that allow both good evidence and unpaid labour to be ignored.

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Dawn Duncan

50 years on from the Woodhouse Report

workers' health in New Zealand's ACC scheme

Abstract

It has been 50 years since the Woodhouse Report was published, resulting in the creation of the first ACC scheme for New Zealand. Work and the working environment have changed a great deal in this time, as have scientific understandings of the relationship between work and health. The Accident Compensation Act 2001, as it stands, is struggling to provide fair and equitable compensation to New Zealand workers, with significant gaps in cover, inequalities in the treatment of different occupations and a detrimental flow-on effect for worker health and safety. This article outlines some of the key areas of legal reform required to ensure that the ACC scheme can meet the needs of New Zealand working people in the future and help improve work health and safety.

Keywords ACC, compensation, stress, mental illness, cardiovascular disease, gender, health and safety, law reform

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It has now been 50 years since the publication of the report of the Royal Commission of Inquiry into Personal Injury in New Zealand, commonly referred to as the Woodhouse Report, after the commission's chair, the then Justice Woodhouse. The anniversary has been met with various calls for reform, including improving the transparency and fairness of the scheme, and even extending it to provide comprehensive social insurance for all incapacities (Palmer, 2018; Forster, Barraclough and Mijatov, 2017). This article focuses only on the workers' compensation functions performed by the ACC scheme, as these unique functions, and the connection to work health and safety, are too often neglected.

The royal commission was originally set up to inquire into New Zealand's workers' compensation regime and make recommendations for improvement. The Woodhouse Report went far further than that, proposing the adoption of something radically different: an accident compensation scheme, with compensation for work-related injuries to be incorporated within it. The ACC scheme extended cover to New Zealanders who suffered 'accidents' outside of work, such as in vehicle collisions or in the home, and has become a key

feature of the country's social and legal landscape.

The decision to incorporate work-related injuries into an accident-focused scheme was not without costs to those core workers' compensation functions and to work health and safety in the years that followed. For example, the cover of chronic work-related health problems in New Zealand is poor compared to that in comparable jurisdictions, with some of the largest causes of work-related incapacity excluded, significant gender inequalities in cover, gaps in data collection and negative consequences for work health and safety. While these issues have been discussed in greater detail elsewhere,¹ this article provides an overview of the problems in most urgent need of reform.

The original 'accident' compromise

Woodhouse and fellow reformers had grander visions in the 1960s than just compensation for accidents. Reformers wanted a comprehensive social insurance scheme that would provide cover to incapacities of any kind, covering 'all the hazards of modern living' including all diseases (Royal Commission of Inquiry into Personal Injury in New Zealand, 1967, p.3). This ambitious vision was thought too radical for the government of the day and the proposal was confined to 'accidents'. The first Accident Compensation Act 1972 was drafted to reflect this narrower focus, and intended to be a temporary measure until political fortunes changed. The Labour Party opposition at the time had expressed an intention to 'introduce not only the letter of the Woodhouse report but also the spirit of the concept behind' it (Faulkner, 1972). In 1989 an attempt was made to extend ACC cover to all sickness and disease, following an officials committee report (Officials Committee, 1986) and a report by the New Zealand Law Commission, headed by Sir Owen Woodhouse (New Zealand Law Commission, 1988). However, these proposals were scrapped by the incoming National government in 1990, which favoured a shift towards a private insurance model (Birch, 1991).

The 1972 Act contained another political compromise, the inclusion of 'occupational disease'. Occupational

diseases did not fit the rationale for the new scheme as they were not accidents, but they had been covered under the previous workers' compensation regime. To exclude them from cover would deprive workers of an existing entitlement, breach ILO conventions and result in resistance to the proposal by organised labour, which had fought for the cover of those diseases over many decades and generally opposed the Woodhouse Report (MacMillan, 1983). The 1972 Act imported the occupational diseases provisions, as they stood, from the Workers Compensation Act 1956, and described them as an 'extension of cover', making their status as

include acute incidents of poisoning or choking, burns and some cases of exposure to radiation or extremes of temperature (ss25(b), (c)). The definition of accident focuses on acute physical injury, being an immediate or sudden impact on the body from something external.

Where a worker has an injury that falls within the definition of 'accident' they have cover. If the worker's health problems fall outside the definition, there are separate sections with a range of different legal tests which apply, reflecting the retention of the original compromise. ACC provides cover for certain listed 'occupational' conditions in the occupational diseases schedule, and

There have now been at least 70 years of research into stress-related illnesses and the links between work stress and the development of chronic diseases ...

an exception to the 'accident' focus of the legislation clear (Accident Compensation Act 1972, ss65–7). While the ACC legislation has been re-enacted and amended many times since the 1970s, subsequent iterations of the legislation retained this 'accident plus exceptions' structure and the problems that come with it, including the current Accident Compensation Act 2001.

Current cover of work-related health problems

The current legislation revolves around the definition of 'accident' in section 25. An accident is defined as 'a specific event or a series of events, other than a gradual process' that involves the 'application of a force (including gravity), or resistance, external to the human body', or 'involves the sudden movement of the body to avoid a force (including gravity), or resistance, external to the body', or 'involves a twisting movement of the body' (s25(1)(a)). This definition covers the majority of work-related slips, trips and falls, many lifting and manual handling injuries, machinery-, tool- and plant-related injuries, and physical assaults. An accident can also

for some gradual process injuries, diseases or infections under section 30, the problems with each discussed in greater detail elsewhere. There are two final, narrow categories of cover provided in sections 21B and 28, which relate to single incident trauma, and heart attack and stroke. This may sound like good coverage, until you take a closer look at what work-related health conditions are being excluded and who this affects.

Exclusion of work stress-related illness

A fuller analysis of the gaps in the cover of chronic work-related illness is provided in other papers by the author (see Duncan, 2016, 2017, 2018, 2019), but one of the most significant gaps is work stress-related illness. Although section 30 provides cover for 'gradual process, disease or infection', it excludes any conditions related to 'non-physical stress' (s30(5)(a)). There have now been at least 70 years of research into stress-related illnesses and the links between work stress and the development of chronic diseases (Väänänen, Murray and Kuokkanen, 2014; Sapolsky, 2004), yet work stress-related health conditions are excluded from cover.

In relation to mental illnesses, ACC cover is limited to conditions that arise 'because of a physical injury' (26(1)(c)), those caused by certain criminal acts (schedule 3 lists sexual offences) and those covered in section 21B. Section 21B, introduced in 2008, covers a narrow range of traumatic exposure – for example, a transport driver suffering post-traumatic stress disorder after a person commits suicide by stepping in front of their vehicle. To obtain cover the worker must experience, see or hear an event directly or be 'in close

currently no cover for the health consequences of workplace bullying or harassment, despite the growing recognition of the size and impact of this in New Zealand workplaces (Bentley et al., 2009). There is also no cover for illnesses resulting from workload pressure, burnout or care fatigue. Looking internationally, the largest numbers of work-related mental illness claims are for work stress-related illnesses and bullying (Safe Work Australia, 2016). ACC offers little cover to the potentially large and growing number of

(see Wieclaw et al., 2006; Rodwell and Demir, 2012; Brouwers and Tomic, 2000). These hazards are associated with increased rates of chronic stress-related illnesses, including mental illnesses such as depression and anxiety, which are excluded from the ACC scheme. If we map the health risks associated with these jobs against the cover available, the health conditions most likely to affect workers in female-dominated occupations are the most likely to be excluded, leaving these workers with less of a safety net than workers in other occupations.

The lack of recognition of the health effects of a work-stress and the exclusion of most work-related mental health problems runs contrary to decades of research, the practices in comparable jurisdictions and the recent urgings of international bodies (OECD, 2018). It potentially also has an effect on people's perceptions of the 'realness' of mental health problems and the importance of work-stress as a hazard.

The decision to incorporate work-related injuries into an accident-focused scheme was not without costs to those core workers' compensation functions and to work health and safety in the years that followed.

physical proximity to the event at the time it occurs'. The event is required to be a single identifiable event and be 'an event that could reasonably be expected to cause mental injury to people generally' (s21B(2), (5)).

For example, in the case of *KB v ACC* (2013) a claim was made by a police officer attending a particularly distressing suicide and having to counsel the family, which she alleged caused her condition. The court declined cover, finding that 'the appellant has experienced a significant number of events in the course of her work' and an event 'must be one that is in effect a one-off event, and which results in the more or less immediate onset of the factors involved in the medical condition of post-traumatic stress disorder'.² While there has been some hope expressed following the decision in *MC v ACC* (2016),³ the meaning of words can only be strained so far, and the drafting of section 21B excludes the vast majority of work-related mental health problems.

In the case of *OCS Ltd v TW* (2013) the court declined a claim made for a mental health problem resulting from a pattern of bullying and harassment that culminated in an incident of minor assault.⁴ There is

workers affected by these conditions.

Workers in female-dominated occupations

Particularly noteworthy are the impacts of this exclusion on female-dominated occupations. The legal treatment of workers in female-dominated occupations under the ACC scheme has been covered in greater detail elsewhere. To summarise, New Zealand's labour market remains highly segregated by gender, meaning that male and female workers tend to perform different types of work (Statistics New Zealand, 2015, 2019). Different types of work mean exposure to different types of hazards, and result in different patterns of work-related health problems (Eng et al., 2011).

Looking at the international research, and the data available from workers' compensation schemes in other jurisdictions (the lack of New Zealand data is discussed further below), the work that women typically perform, like teaching, caregiving, healthcare and administration, tends to be associated with exposure to psychosocial hazards such as bullying, harassment, occupational violence, workload stress and fatiguing care demands

The importance of worker mental health

The recent report of the Government Inquiry into Mental Health and Addiction, *He Ara Oranga*, highlighted the costs associated with poor mental health:

The economic costs of mental illness are substantial. Recent estimates for OECD countries are that mental illness reduces gross domestic product (GDP) by approximately 5%, through disability leading to unemployment, work absenteeism and reduced productivity, and the additional costs of physical healthcare among people with mental health problems. (Government Inquiry into Mental Health and Addiction, 2018, p.97)

While much is made of the positive impact of work on mental well-being, stressful work can also be a significant cause and exacerbator of poor mental health (Chandala and Zhang, 2018). Mental health problems frequently involve a range of complex and interrelated causal factors, with work forming a significant component of many people's mental health problems. Most New Zealanders spend more time working than doing anything

else, and tackling New Zealand's mental health crisis requires acknowledging the role of work.

Work-stress has been linked with a wide range of mental health problems, including depression and anxiety, internationally and in New Zealand (Rantala et al., 2018; Melchior et al., 2007). Work intensification, increasingly rapid organisational restructures, hyper-connectivity and precarity have all been linked to increased stress levels and poorer mental and physical health (Crawford and LePine, 2010; Maslach and Leiter, 2008; Wajcman and Rose, 2011; MacCormick, Dery and Kolb, 2012; Green, 2004; Korunka and Kubicek, 2017; New Zealand Council of Trade Unions, 2013). Recognising this body of evidence and the costs of inaction, other countries include stress-related illnesses within their workers' compensation schemes, allowing for greater resulting data on costs and consequences.

Out of step with the rest of the world, section 30(5) of the Accident Compensation Act contains a blanket exclusion for any health problems resulting from 'non-physical stress' and a legislated separation between mind and body. The problems with retaining mind/body dualism in law are particularly evident in the treatment of chronic pain cases such as *Teen v ACC and Telecom Ltd* (2002) and *Meikle v ACC* (2008),⁵ where ACC regards the pain as mental (Duncan, 2016). Science has long since abandoned the strict separation of mind and body, increasingly recognising that the human body seldom confines its functions to neatly isolatable and convenient categories (Sapolsky, 2017). An earlier version of the *Diagnostic and Statistical Manual of Mental Disorders* (1994) even concluded that the 'term mental disorder unfortunately implies a distinction between "mental" and "physical" disorders that is a reductionist anachronism of mind/body dualism', retained in the title only 'because we have not found an appropriate substitute' (American Psychological Association, 1994). There is no basis in science, nor good social policy, for drawing a hard line between mind and body.

Stress-related heart disease and stroke

Another area where the ACC legislation has fallen behind medical thinking is in its

cover of 'cardiovascular or cerebrovascular episode[s]' (heart attacks and strokes). Cover is only provided if 'the episode is caused by physical effort or physical strain, in performing his or her employment, that is abnormal in application or excessive in intensity for the person' (s28(3)). Essentially, cover is only available where the heart attack or stroke is 'caused by' some unusual physical exertion on the part of a worker in performing an unusually physical task in their ordinarily sedentary work. For example, in *Estate of Wei v*

not likely, on review of the medical evidence, be considered the 'cause'. It would be extremely unlikely for a worker to have a heart attack in the circumstances set out in section 28(3) without pre-existing heart disease or a pre-existing structural defect, meaning the section, as drafted, offers little assistance to workers in the contemporary workplace.

The consequences of exclusion

While cost arguments and floodgate fears are often levelled in response to calls to

... the costs of exclusion are being borne by the individuals and families affected, businesses, and the wider society and economy.

ACC (2004), Wei died of a heart attack after being assaulted while working in his electronics shop. The judge considered that although the 'physical effort in the struggle during the assault' may meet the requirements, it could not be said to have 'caused' the cardiovascular episode, meaning Wei's estate could not obtain compensation. The medical evidence revealed underlying asymptomatic heart disease. The court recognised that the additional physiological stress may have triggered the heart attack, but this did not amount to cause. Although stress was a factor here, the judge held that 'physiological stress' did not meet the definition of 'physical stress'.⁶

This case highlights the risks of drafting for specific medical conditions at a given point in time, a consequence of the accident plus exceptions structure of the ACC legislation. Heart attacks were, in the early part of the 20th century, considered by policymakers to be caused by physical exertion and thus 'accidents'. Nowadays, heart attacks are viewed as acute events caused by a blockage in blood vessels to the heart in cases of cardiovascular disease. As in the case of Wei, the physical exertion would at best be considered to operate as a trigger to an inevitable event, and would

widen the scope of ACC cover (Birch, 1991), the costs of exclusion are being borne by the individuals and families affected, businesses, and the wider society and economy. Employees who are unable to access ACC cover are either using sick leave, turning up to work unwell (with the associated costs and productivity impacts), leaving the workplace or labour market entirely, or suing through the personal grievance system.

The Holidays Act 1993 provides for five days' sick leave per year (section 65(2)), which is unlikely to be filling the gaps, although the worker may have a more generous contractual entitlement and a supportive employer granting what has colloquially been called 'stress leave'. If the worker is an employee they may be able to sue their employer, either taking a personal grievance for unjustifiable disadvantage or bringing a claim for breach of statutory duty or breach of an implied term of contract. To succeed the employee would need to prove the fault of the employer in failing to provide them with safe and healthy work and provide the necessary evidence of causation and incapacity. The New Zealand Court of Appeal in the leading case of *AG v Gilbert* (2002) has described this as posing 'formidable

obstacles' to most employees.⁷ An employee would also have to bear the costs and stress of legal action, something unlikely to be appealing to someone with a stress-related illness and no income. Even if they win, the amounts in compensation awarded are unlikely to be high, or equivalent to that provided with ACC cover (Duncan, 2018).

Legal action is not without costs for the employer either. Employers are exposed to litigation risk in relation to work stress-related illnesses in a way they are not normally, and may not be prepared for, with few affordable or easily accessible resources to help small employers prevent

benefits (efficient and predictable costs, avoiding legal action, healthier workers, etc.) are likely to outweigh these.

There are also social costs of exclusion. Employees without sufficient sick leave entitlements, insurance cover or a successful legal case have only family or the benefit system to fall back on. A New Zealand study looking at the impacts of the differences between ACC cover and a benefit, involving people with a similar level of impairment, concluded that the WINZ (Work and Income) group (no ACC cover) had 'considerably poorer socio-economic outcomes', did not return to

resources and guidance for employers.

The report of the Royal Commission into the Pike River Coal Mine Tragedy (Royal Commission on the Pike River Coal Mine Tragedy, 2012) and report of the Independent Taskforce on Workplace Health and Safety (2013) both highlighted workplace health, including conditions resulting from exposure to psychosocial hazards, as an issue in need of urgent attention. WorkSafe New Zealand has issued *Healthy Work: WorkSafe's strategic plan for work-related health 2016 to 2026*. This document acknowledges New Zealand's failure 'to adequately address work-related health risks and the harm associated with them', which they recognise are having an 'even greater impact' on the country than 'that from acute work-related injuries' (WorkSafe New Zealand, 2016, p.6). One of the additional benefits of extending ACC cover to a wider range of work-related health conditions would be better data on those conditions, which would help regulators to develop a better health and safety response.

Greater pressure is being placed on the scheme by changes in the nature of work and medical thinking on the relationships between an individual's work and health.

or defend against such claims. On a practical level, many employers struggle to manage employee stress-related health issues, including health and safety monitoring and risk assessment, evaluating impairment and impact of illness on performance, and cases of alleged bullying and harassment. Complexities also arise for employers in return-to-work planning, making the reasonable accommodations required under the Human Rights Act 1993, and navigating the related privacy rights and disclosure obligations.

Extending ACC cover to a wider range of work-related health problems would allow both employers and employees to avoid many of these costs and practical issues, with employees able to access treatment and compensation and be managed back to work through the usual ACC processes. Extending cover would likely be a particular gain for organisations in industries where stress-related health problems are a significant issue, such as transport, health, education, finance, and public and professional services. While ACC levies may rise in these sectors in response to an expansion of cover, the

work as early, and were the 'most vulnerable for decline into poverty and ill health' (McAllister et al., 2013). While there is no New Zealand data on how many individuals are being affected by exclusion from ACC cover each year, looking to international rates, the numbers and the associated costs are potentially considerable.

A negative impact on health and safety

The lack of ACC cover for significant chronic work-related health problems also has a negative flow-on effect for work health and safety. New Zealand's workplace injury and illness data is mostly derived from ACC administrative data, meaning that where there is no cover for a particular condition, there is no resulting data on that condition. If work stress-related conditions are not showing up in the official workplace injury and illness data, they are not visible as a 'problem' to policymakers and regulators. The lack of data makes it difficult to understand the size and specifics of the issues, who is affected, and the costs associated. It is also more difficult to develop monitoring or enforcement responses, or to develop

What might reform look like?

Calls for reform of the scheme have ranged from specific amendment, to the complete reimagining of the health and welfare system. Specific legislative models with alternative drafting to fit in either an amended ACC scheme or a comprehensive social insurance scheme have been proposed and explained in greater detail elsewhere. Whatever model is selected, reform needs to begin with a clearer set of principles underpinning compensation. One of the lessons from ACC's peculiar history is the need to focus on better cover, not just more cover. The ACC scheme has always struggled to find a principled basis for the determination of the boundary lines of cover. This stems from the original political compromise to confine the scheme to accident. An accident, in plain meaning, is 'an unexpected event with negative consequences' or something 'happening by chance or accident; not planned [or] unexpected'. If the scheme cannot (or there is no political will to) compensate all such consequences, then a question as to which accidents should be compensated naturally arises. The scheme contains an inherent rationing problem

that pure workers' compensation regimes do not (Duncan, 2017). As Geoffrey Palmer identified as early as 1976, the ACC scheme has developed a 'cut and fill approach', of small-scale ad hoc amendment, with amenders failing 'to see the forest for the trees' (Palmer, 1977, p.8).

Preventing work-related health problems is better than just compensating them, and the ACC scheme plays an important role in improving work health and safety. While, as Woodhouse argued, all incapacities may be equally deserving, this does not mean that they are caused by the same factors, or can be prevented by the same response. If prevention is truly a goal of the scheme, then the workers' compensation provisions need to be designed to perform those functions, and towards the goals of improved work health and safety. Just adding a new section for chronic work-related mental health conditions or removing section 30(5) repeats the same pattern which has caused

the problems in the first place. As discussed elsewhere, the problems with the current cover of work-related health conditions are much wider, with stress-related illnesses only symptomatic of a fundamental tension within the scheme (Duncan, 2016).

Work has also changed a lot since the Woodhouse Report was written in 1967. Greater pressure is being placed on the scheme by changes in the nature of work and medical thinking on the relationships between an individual's work and health. Work will continue to change, with the types of health problems facing New Zealand workers and the causal relationships between work and health becoming more complex and interrelated. As argued in other papers, the best response to increasing factual complexity in the relationships between work and health is clarity in legal principle (Duncan, 2019). Reforms to the workers' compensation functions of the ACC scheme need to start with a clear set of principles, recognising

the different context of work-related health problems, the rights of workers to compensation, the links between compensation and prevention activities, and the role of the ACC scheme in improving work health and safety. Fifty years on from the Woodhouse Report, it's time for policymakers to stop plugging the holes in a compromised scheme and think about the bigger picture of what we are compensating and why, designing a scheme better able to meet the needs of New Zealand working people harmed through work, as well as outside of it.

- 1 This article draws on research towards a PhD in law at Victoria University of Wellington and contained in a series of publications. For a more in-depth treatment of some of the historical, wider chronic health issues, gender issues and coverage of cardiovascular diseases and depression see Duncan, 2016, 2017, 2018, 2019.
- 2 *KB v ACC* [2013] NZACC 41, paras [24] and [25].
- 3 *MC v ACC* [2016] NZACC 264.
- 4 *OCS Ltd v TW* [2013] NZACC 177.
- 5 *Teen v ACC and Telecom Ltd* [2002] NZACC 244; *Meikle v ACC* (2008)[2008] NZACC 158.
- 6 *Estate of Wei v ACC* [2004] NZACC 338.
- 7 *AG v Gilbert* [2002] 2 NZLR 342, para [87].

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Exploring Public Sector Managers' Motivations in Deploying Decision Support Tools to the Street Level

Abstract

This article explores the motivations of public sector managers in developing and deploying digital tools to support decision making at the front lines of public service delivery. Two digital decision support tools created by New Zealand's Ministry of Social Development are presented as a case study, drawing primarily on semi-structured interviews with senior managers. Results provide empirical evidence that public sector managers deploy digital tools not to curtail, but to support street-level bureaucrats' discretion. Managers appear to be motivated not by increased control over front-line staff, but, rather, by improving clients' experience of the system and decreasing long-term service costs.

Keywords digital government, automated decision making, street-level bureaucracy, algorithms

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Determining who gets what from government is the fundamental purpose of politics. Winners are rewarded with control of whole bureaucracies to fulfil their vision of how people should receive the services, benefits or sanctions to which government deems they are entitled. But decisions about who gets what are not made in parliamentary chambers; counterintuitively, they are made on the streets by some of the most junior public servants: street-level bureaucrats.

Street-level bureaucrats are no longer the only interface between governments and their people. Technological change has 'major impacts on budgets, jobs, accountability, transparency, efficiency, effectiveness, and relations with citizens' (Pollitt, 2010, p.32). However, government technologies remain a neglected aspect of public administration scholarship, especially at the street level, where digital tools are increasingly used to support decision making (Buffat, 2015; Reddick, 2005).

Table 1: Illustrative arguments for the impact of digital tools on street-level bureaucrats

	Enablement thesis	Curtailment thesis
Digital tools may positively influence discretion by...	providing data to support decision making	introducing rules that increase the grey area where bureaucrats can apply discretion
	automating mundane, routine decisions to 'free up' discretion	providing managers with remote oversight capabilities, reducing direct supervision
Digital tools may negatively influence discretion by...	breeding reliance, thereby degrading bureaucrats' ability to apply discretion without digital tools	prescribing decisions previously made by bureaucratic judgement
	tracking outputs of decision making, leading to self-enforcement	explicitly tracking bureaucrats' compliance with rules
		disintermediating bureaucrats' interactions with clients
		empowering clients to influence their own outcomes

Digital tools do not magically appear on the front lines: they are planned, developed and implemented by managers. Yet little is known about managers' specific motivations to deploy street-level digital tools. This research asks: what motivates the creation, implementation and use of decision support tools for front-line decision-making processes?

New Zealand's Ministry of Social Development (MSD) is presented as a case study, drawing specifically on two decision-support tools. Drawing on qualitative research consisting primarily of elite interviews, this research suggests that public sector managers deploy digital tools to support, not curtail, street-level bureaucrats' discretion, with the dual goals of decreasing long-term service costs and improving client well-being.

Theoretical context

Bureaucracy and public administration theory
Max Weber's early definition of bureaucracies – organisations governed by hierarchy, rules, documentation and professional management – allowed for autonomy and discretion only at the top of hierarchies. Weber anticipated 'the reduction of modern office management to rules', suggesting that managers would limit autonomy and discretion at lower levels by codifying their preferences into standard procedures (Weber, 1978 [1922], p.956).

In 1980, Michael Lipsky's street-level bureaucracy theory upended the assumption of managerial control. Lipsky argued that public policy was an abstraction until actualised by front-line workers, who held far more decision-making power than Weber could have imagined:

Although they are normally regarded as low-level employees, the actions of most public service workers actually constitute the services 'delivered' by government. Moreover, when taken together the individual decisions of these workers become, or add up to, agency policy. (Lipsky, 1980, p.401)

Furthermore, Lipsky observed a principal-agent problem: street-level bureaucrats' professional motivations, priorities and objectives do not necessarily match their managers'. Street-level bureaucracy theory suggested that rules and procedures should extend down to street level, lest 'tiny oligarchs' on the front lines undermine managerial objectives (Bovens and Zouridis, 2002, p.175).

The introduction of rules, procedures and incentives to prescribe and monitor public servants' behaviour was a central tenet of reforms carried out across many countries from the 1980s onwards, now collectively known as New Public

Management (NPM) (see Dunleavy et al., 2006b; Henman, 2010, p.118; Hood, 1995).

The effect of digital tools on public administration

In modern bureaucracies, the collection and analysis of operational data allows for the development of data-driven digital tools to support policy implementation (Fountain, 2001). Digital tools have a range of uses (see Snellen, 2005), including providing managers with the capability to encode their preferences into decision-making tools: a means of direct influence over street-level bureaucrats (Pollitt, 2010, pp.34–45).

Digital decision support tools are variously hypothesised to have enabling and curtailing effects on street-level bureaucratic discretion (Table 1). The enablement thesis holds that digital tools can support bureaucrats' exercise of discretion (see Buffat, 2015; Bovens and Zouridis, 2002). In contrast, the curtailment thesis suggests that digital tools degrade or remove elements of street-level bureaucratic discretion (Snellen and van de Donk, 1998; Bovens and Zouridis, 2002).

Digital tools are often viewed as neutral technical objects, the unglamorous administrative elements of policy implementation (Pollitt, 2010). Yet digital tools are not neutral: they result from larger socio-organisational processes, against a milieu of organisational beliefs, goals and power dynamics. Though little is known about the motivations that drive the creation, implementation and use of digital tools at the front lines, the public sector managers who develop and implement such tools surely have specific intentions vis-à-vis street-level bureaucrats.

Public administration scholars have not achieved consensus on how to characterise the use of digital tools in the years following the New Public Management reforms. Two leading theories are used in this research as the basis for hypotheses: neo-Weberian statism (Pollitt and Bouckaert, 2017) and digital-era governance (Dunleavy et al., 2006a; Margetts and Dunleavy, 2013). Neo-Weberian statism re-asserts the importance of many traditional elements of Weberian bureaucracy – rules, hierarchy and documentation – while also using

technology to involve citizens in decision making (Drechsler, 2005; Pollitt and Bouckaert, 2017, pp.121–2). Digital-era governance suggests that technology is used to support the post-NPM reintegration of government departments and holistic service delivery to clients (Dunleavy et al., 2006a).

New Zealand policy context

This research uses New Zealand’s Ministry of Social Development as a case study and examines managers’ motivations in deploying two digital tools to the front lines. Following the global financial crisis, demand for the ministry’s core welfare services more than doubled. In response, the newly elected fifth National government reshaped MSD’s business rules to ensure that the system could cope with increased demand, and in 2010 the minister for social development, Paula Bennett, created a Welfare Working Group to target the ‘unsustainable’ fiscal, social and economic costs of welfare (Bennett, 2010; Garlick, 2012, p.279).

The working group’s report, released in 2011, most notably recommended adopting an actuarial approach to measure forward liability. Minister of Finance Bill English spearheaded a new ‘social investment’ approach, premised on the idea that early interventions could reduce forward liability in the welfare budget (Boston and Gill, 2017).

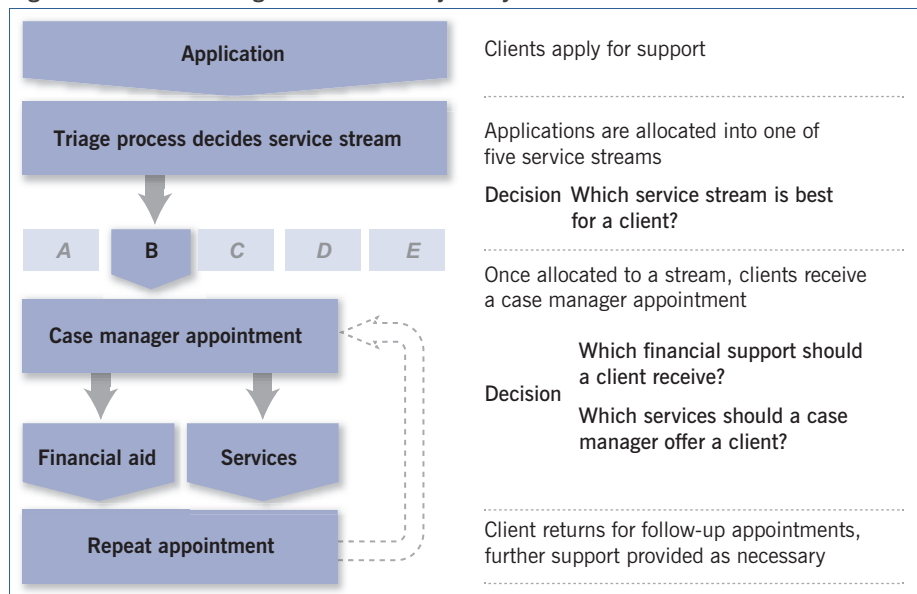
As social investment took shape, MSD also digitised various transactional processes to achieve operational cost savings and improve the client experience. The Simplification programme, launched in 2012, created client- and staff-facing tools to support appointment booking and routine data entry tasks (Office of the Auditor-General, 2015, pp.9–10).

The sixth Labour government, elected in late 2017, continued key elements of social investment under the name ‘investing for social wellbeing’ (Sepuloni, 2018). The approach remains a key input into decision making within MSD and other government agencies (personal interview, 2018).

Digital decision support tools used by MSD

This article focuses on two specific tools developed by MSD: the client service matching (CSM) tool and the menu of

Figure 1: Illustrative diagram of the client journey



services (MoS). Each simplifies one part of the service delivery process (Figure 1).

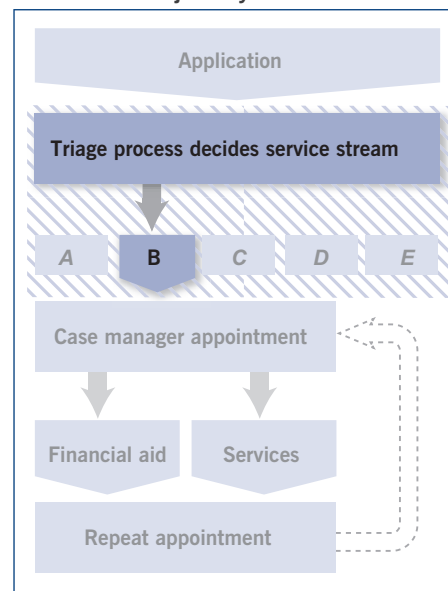
Client service matching tool

The CSM tool removes human decision making from the triage process by automating the allocation of clients to case manager appointments.

Since 2012, applicants are sorted into five service streams. The lowest service stream, general case management, is for clients unlikely to require targeted support; higher streams are for clients requiring active case management support to varying degrees of intensity. An automated triage process, widely considered impossible for manual review, allocates clients to case management streams appropriate for the level of support required: ‘We had 250,000 clients, some thousands coming on the books each month ... the sheer volume of that problem means you can’t necessarily have a person sitting there doing that’ (personal interview, 2018).

The CSM tool was implemented in 2017 to make the triage allocation process ‘smarter’ through harnessing predictive risk modelling. First, business rules determine which stream is suited to the client, given their characteristics. Next, the tool applies two models to prioritise clients within each stream. A service effectiveness model compares each client’s data with aggregate outcome data from similar clients to estimate the likelihood of a positive outcome from each stream. A ‘positive

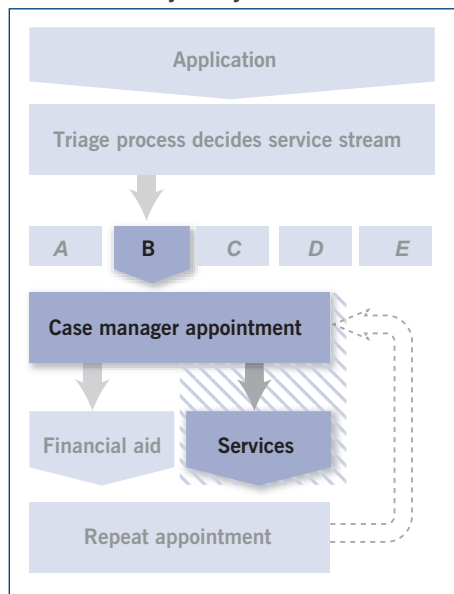
Figure 2. Role of the CSM tool in the client journey



outcome’ is where ‘a client is more independent and needs less support’ (personal interview, 2018). For one service, where there isn’t enough data to create a service effectiveness model, a second model is used: the liability estimator tool (LET). The liability estimator tool predicts the lifetime future benefit cost of a client. Clients with higher expected lifetime future costs are prioritised for this intensive service stream.

The number of clients eligible for a given case management stream sometimes exceeds allocation capacity. Allocations to each service stream are made according to the models’ prioritisation, and where there is not enough capacity in a given stream,

Figure 3. Role of the MoS in the client journey



clients will be considered for other streams. This process repeats weekly, so if space becomes available in a stream where a client is expected to have a better outcome they may then move to that stream. Case managers are responsible for booking appointments and ongoing client interaction once clients are assigned to a stream.

Crucially, CSM decisions are not binding: case managers may exercise their discretion to recommend clients to higher or lower streams for future appointments.

Menu of services

Case managers, once allocated clients, assess their financial and service entitlements. Financial aid is determined at case managers' discretion without direct input from digital decision support tools. The MoS tool, launched in July 2018 at several trial sites, supports case managers to make decisions about which services to offer clients.

Case managers recommend services and programmes to support clients' return to work, such as curriculum vitae assistance or career counselling. These services are often provided by non-government third party organisations, sometimes contracted by MSD. Service availability varies by region, and each service has distinct eligibility requirements and contracted capacities.

Before the MoS tool, case managers were expected to be familiar with all

services on offer at their site, including their eligibility criteria. Many relied on heuristic shortcuts to identify appropriate services for clients, creating suboptimal outcomes: 'Some sites have a long list of services, and case managers will be familiar with only a few of those services, which they know always have capacity, and will always refer clients to those services' (personal interview, 2018). The MoS tool is intended to close this knowledge gap by cross-referencing MSD client databases with service providers' eligibility rules to create a shortlist of potential services for the case manager via their screen. The case manager can use the list, in consultation with the client, to decide which services to refer a client to. No additional data collection is required, as information is pulled directly from client records.

Research question and hypotheses

Bureaucracies can be thought of as decision factories (Jorna and Wagenaar, 2007, p.191). Two research questions are used in this article to explore what motivates public sector managers to change the assembly line. The first asks: What motivates the creation, implementation and use of decision support tools for front-line decision-making processes?

Three hypotheses are tested against research question one, each rooted in the history of modernisation reforms. The first hypothesis tests whether managers' motivations are consistent with the principles of New Public Management:

Hypothesis 1a: Managers develop decision support tools to save costs and increase efficiency

New Zealand's NPM reforms were 'unusual in their comprehensiveness' (Politt and Bouckaert, 2017, pp.318–24). Although some scholars have declared NPM 'dead', rearguard actions persist, and managers motivated by NPM principles may deploy digital tools to save operational costs, improve cost-effectiveness or measure performance (Dunleavy et al., 2006a, 2006b; Margetts and Dunleavy, 2013). Evidence for hypothesis 1a would show managers, spurred by efficiency goals, leveraging digital tools to create cost savings or improve cost efficiency.

The second hypothesis tests whether managers' motivations are consistent with the principles of neo-Weberian statism:

Hypothesis 1b: Managers develop decision support tools to increase the capacity for auditing and managing front-line behaviour Managers may use digital tools to assert hierarchy, codify rules and document front-line decision making. Evidence for hypothesis 1b would show managers deploying digital decision support tools to capture data for improving transparency of street-level behaviour, both upwards (to managers) and outwards (to clients and civil society).

Managers may also use digital tools to reorient services around clients' needs. The third hypothesis tests whether managers' motivations are consistent with principles of digital-era governance:

Hypothesis 1c: Managers develop decision support tools to reintegrate services and improve the service experience for clients

Evidence for hypothesis 1c would show managers expressing a desire to use technology to improve clients' experience of government, and could appear as tools explicitly designed to reintegrate previously fragmented elements of government, or the use of well-being or needs-based frameworks to measure success.

The second research question asks: How do managers intend to influence street-level bureaucratic discretion through the implementation of decision support tools? This question is evaluated without a hypothesis. I will use themes relating to the enablement and curtailment hypotheses as starting points for exploration (see Table 1; Buffat, 2015).

Results

Results for each research question draw on 17 original, semi-structured elite interviews with 13 senior managers, primarily from MSD, conducted between January and August 2018. One limitation of elite interviews is that participants may not honestly appraise their own motivations. To mitigate this, participant anonymity was preserved, and interview responses were triangulated using secondary documentation, including government press releases, departmental

documents and media reports, collected via online search and recommendation from participants.

Research question one: What motivates the creation, implementation and use of decision support tools for front-line decision-making processes?

Two primary managerial motivations emerged for deploying digital decision support tools: to save long-term service costs, consistent with hypothesis 1a, and to improve the client experience, consistent with hypothesis 1c. One participant summarised these motivations thus: 'It's always about efficiency, right? But in the heart of anything done in our business, particularly in the operational sense, it's always about clients' (personal interview, 2018).

Hypothesis 1a

Before interpreting MSD managers' motivations towards cost savings, it is important to delineate *operational* costs (costs associated with running day-to-day functions of the ministry) from *service* costs (costs associated with providing support to clients). Operational costs comprise approximately 5% of total MSD annual expenditure, over which managers have a large degree of control as – subject to political oversight – they can amend budgets, make investment decisions and adjust operations (Garlick, 2012, p.280). Service costs primarily include entitlements and claims and comprise the remaining 95% of expenditure. Managers have limited control over service costs in the short term, but can exert some control in the medium term by making system adjustments to influence claimant behaviour.

In the recent past, MSD has used digital tools to reduce operational costs by automating simple, non-discretionary routine activities (for example, the Simplification programme started in 2012). However, operational efficiency improvements were reinvested into improving service delivery rather than realised as cost savings: 'the Ministry has identified significant opportunities to gain further administrative efficiencies so staff can spend more time with clients who need more help' (Office of the Auditor-General, 2015, p.30).

There is strong evidence that long-term service cost savings motivate the deployment of digital decision support tools. This motivation first emerged with the social investment approach in 2011, when forward fiscal liability dominated early conceptions of social investment (Boston and Gill, 2017, pp.18–23; Chapman, 2012). As the social investment approach developed through 2014–15, its focus expanded from reducing long-term service costs to include improving client well-being (Boston and Gill, 2017, pp.18–23).

years ago, the most available indicator to measure the course of someone's life was to look at the fiscal impacts to government'; '[Cost] was more about a pragmatic approach of "what can we measure?" rather than combining 28 different indicators to come up with [a well-being measure]'; 'Reduction in future lifetime liability is the single number used right now. You could do it differently in future, and we no doubt will' (personal interviews, 2018).

The dual goals of saving service costs

Two primary managerial motivations emerged for deploying digital decision support tools: to save long-term service costs ... and to improve the client experience ...

Managers in this study frequently cited reductions in service costs – often framed as reduction in forward fiscal liability – as a motivating factor for introducing digital decision support tools. For example, the CSM tool's liability estimator prioritises clients by estimating their lifetime future liability, and places clients with higher liabilities in more intensive case management streams (personal interview, 2018). More intensive case management streams are intended to reduce clients' forward fiscal liability – in other words, to reduce service costs.

Though the political origins of the social investment approach centred on reducing welfare liability, MSD managers commonly claimed that service cost savings were not the ultimate goal, but rather the only available client outcome measure. MSD's predictive risk models generally require one outcome variable, and cost is one metric captured consistently across the system. Although some scholars challenge the suitability of cost as a proxy for well-being (see, for example, Chapple, 2017), almost all participants shared some version of this view: 'It was never about spend. However at the outset of [social investment] a few

and improving client outcomes remain closely linked. Bill English's statement that 'what works for communities works for the Government's books' (2015) typifies the dilemma: it claims a link between cost savings for government and improved outcomes for communities but does not make clear whether communities or government accounts are the primary concern. MSD managers cited both goals interchangeably in interviews.

The use of service costs as a proxy for well-being has two interpretations: first, that MSD has to some extent internalised normative prescriptions of less cost, more efficiency as *prima facie* good; second – and more charitably – that managers are constrained in the pursuit of alternative motivations by system settings enacted during past reforms. For example, even if improving client well-being is the primary motivation, actions are limited by data systems that capture – per the NPM-era Public Finance Act 1989 – cost rather than outcomes data.

Hypothesis 1b

Though digital tools offer managers the capability to audit or even directly manage street-level bureaucratic behaviour, MSD

managers did not cite this as a primary motivation, and hypothesis 1b is not supported. As one manager described, 'our approach [is not] we know what you're doing, we're going to monitor you – it's more, you have skills that can be augmented by analytic techniques that you wouldn't be able to use in any other way' (personal interview, 2018).

Even when digital tools provide the technical capability to assert hierarchies of bureaucratic control, these findings suggest that MSD managers do not intend to exercise these capabilities. Instead, managers deploy digital tools to capture data for informing feedback loops that aid performance management of the welfare system. Managers see administrative data as a potential input for measuring progress towards specific policy or organisational goals, rather than staff performance management.

Hypothesis 1c

The deployment of decision support tools is motivated by a long-standing intent to use digital tools to improve the service experience for clients. While the CSM and MoS tools do not directly reintegrate services, they do help street-level bureaucrats overcome the difficulties presented by a service provider landscape fragmented by NPM reforms: 'Previously, case managers were under pressure to completely understand clients' needs, to completely understand the services on offer, and to match them. This tool says, here are all the services, your job is to put people in those services' (personal interview, 2018).

The MoS tool makes clients less vulnerable to one downside of discretion, the shortcomings of human memory. Managers believe the tool will improve clients' experiences by overcoming street-level bureaucrats' blind spots and biases, ensuring clients are recommended to services they are eligible for. '[The tool] gives the best chance the most appropriate service is being offered', one participant said (personal interview, 2018). Managers also believe digital tools will improve the client experience indirectly by ensuring that case managers spend more time on direct client support, rather than administrative processing.

Research question two: How do managers intend to influence street-level bureaucratic discretion through the implementation of decision support tools?

Managers intend for digital tools to enable street-level discretion. The CSM and MoS tools enhance discretion by providing street-level bureaucrats with improved information, and ensuring that case managers apply discretion to tasks with a greater direct impact on client outcomes. 'We believe [digital tools] would be additional to any other information that service delivery practitioners, social workers, would have available to them. We would not expect the blind application of any information that our tools might generate, so that social workers might be constrained without human decision making involved'; 'We know that people can make better decisions [but] they are stretched for time, there's a lot of data that may be useful but is simply impractical, or impossible to get in the moment'; 'We want to provide evidentially informed information so that suitably skilled and experienced people at the coalface can make better informed decisions' (personal interviews, 2018).

The focus on supporting street-level discretion and avoidance of binding algorithmic decision making appears consistent across New Zealand government agencies: 'very few agencies use automated execution that doesn't have human decision making', one participant stated (personal interview, 2018). This is consistent with the findings of Statistics New Zealand's recent *Algorithm Assessment Report*, which found that 'humans, rather than computers, review and decide on almost all significant decisions made by government agencies' (StatsNZ, 2018, p.4).

Implications

When considering the potential impact of digital tools on how public services are delivered, there are relatively few empirical studies of how digital tools affect street-level discretion (Buffat, 2015). This research provides an empirical example of welfare system managers deploying digital tools with the intent of positively supporting discretion, building on existing empirical examples from Norway and Denmark (see Hansen, Lundberg and Syltevik, 2018; Høybye-Mortensen, 2013).

The increasing complexity and profusion of digital tools lends greater urgency to understanding their effects. Future research should develop deeper understandings of how digital decision support tools affect, and can be used to enhance, street-level discretion. Two suggestions follow.

First, future research should capture more empirical examples of digital decision support tools being used on the front lines – particularly recent examples of complex, vertically integrated tools rather than simple transactional tools (Buffat, 2015). Research should triangulate perspectives across public systems, and consider longer timescales, including at different stages of policy formulation (Riccucci, 2005, p.5). Future research could also consider how the deluge of front-line data generated by digital tools will change bureaucracies.

Second, future research should define new taxonomies of digital decision support tools. A possible reason for scholarly disagreement on how digital tools influence discretion is the lack of nuance in how digital tools are described. When considered *en masse*, digital tools are a blunt instrument for empirical enquiry. Little research considers the relationship between 'regulation, discretion and impact

Table 2: Potential considerations for a decision support tool typology

Request	What triggers a decision request?
Data inputs	Does the tool rely on existing data or new data? Is human data input possible?
Processing logic	What method is used? Does processing logic transform data inputs? If so, how? How does processing logic differ from current decision criteria?
Outputs	Do the outputs provide information to decision makers, recommend options to decision makers, or directly inform decisions?
Decision	Do decision rights reside with humans, or the tool? If the tool, are the tool's decisions final?

from different kinds of tools' (Høybye-Mortensen, 2013, p.601; Meyers and Vorsanger, 2017). This limits the potential for systematic examination of where and how digital tools are used.

Understanding why digital tools are deployed is crucial to evaluating their potential impact on street-level practice.

Understanding only a tool's technical features is not sufficient. A more useful typology for digital decision support tools may consider the points provided in Table 2.

The relationship between outputs and decisions is perhaps most important: does a tool suggest information, prescribe or

disintermediate street-level decision making? Consideration of the relationship between outputs and decisions should inform the level of scrutiny new tools receive, to reflect the reality that decision-making technologies are not objective artefacts created in vacuums.

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Innovation in Primary Healthcare

can it improve health sector productivity and health outcomes?

Abstract

Health systems everywhere are facing significant challenges – demand pressures from an ageing population, a rise in chronic health conditions, and greater community expectations as more new health treatments are developed. There are three possible responses to this: increasing health funding (increasing inputs), rationing health services (restricting outputs) or increasing productivity through innovation (doing things differently and more efficiently). This article looks at innovation in New Zealand’s primary healthcare sector and recent attempts to measure its impact across the health system.

Keywords innovation, primary healthcare, diffusion, productivity, models of Healthcare, health system impacts

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The performance of primary healthcare is important to the whole health system. Primary healthcare is defined as ‘the professional healthcare provided in the community, usually from a general practitioner (GP), practice nurse, nurse practitioner, pharmacist or other health professional working within a general practice’ (Ministry of Health, 2018).

Primary healthcare is not the place where most health spending occurs; in fact it receives a relatively small proportion of overall health spending. However, more accessible and comprehensive primary healthcare has long been thought of as leading to better population health status at lower cost (for example, as reported by Mays and Blick in 2008). More recent international evidence implies a more nuanced picture: managing cost increases, rather than reducing costs. Kringos et al. (2013) suggest that although strong

primary healthcare is associated with better population health outcomes, lower rates of potentially avoidable hospitalisations and a reduced rate of growth in healthcare spending, it is also associated with higher levels of healthcare spending overall. Other commentators continue to hold that primary healthcare is well positioned to manage down costs and improve health outcomes across the whole health system. Knopf writes: ‘The current expectation is that significant cost savings (change in the slope of the sector’s cost curve) will be made by focussing on increasing and improving services outside the hospital’ (Knopf, 2017, p.28). Kringos et al. recommend further research to ‘explore the relationship between the strength of primary care and overall healthcare spending’ (p.692).

The reason primary healthcare is such a focus for managing costs and improving outcomes across the whole health system is twofold. First, early intervention or prevention has potential to reduce demand for more expensive (often specialist and/or hospital-based) services, by treating the right people in the right place. Second, primary healthcare’s position in the health system makes it well placed to improve the coordination of health services, especially those required to manage chronic health conditions.

Innovation in healthcare, and its role in improving productivity

Significant and sustained productivity gains can be made through process innovations that change how services are delivered. In a survey of empirical studies, ‘innovative activity’ has been found to increase an individual firm’s ability to derive revenue from its inputs (Hall, 2011). However, it is noted that while innovative activity might be relatively easy to define, it is notoriously difficult to measure. Having said that, ‘measuring diffusion in the state sector is often relatively straightforward [compared to the private sector] given the greater ability to directly observe activities or outputs’ (Nolan, 2018). For example, it is possible to use diagnosis and procedure codes contained in public hospital event records to see if there have been changes in the way people with certain conditions are treated over time.

Table 1: Models of innovation in primary healthcare

Innovation in the delivery of primary healthcare	Example
An open access model	Nirvana Health (the primary care provider contracted to Total Healthcare PHO) operates a model involving low fees, walk-in visits and accessible hours in its 35 VLCA practices (as mentioned above, low fees in exchange for higher capitation payments are a feature of VLCA practices). Nirvana Health and its subsidiaries are for-profit businesses, and this service delivery model (or model of care) is most often associated with a corporate ownership model.
An acute demand management system	Canterbury DHB provides resources for primary healthcare to do ‘whatever it takes’ to provide services in the community for individuals ‘who might otherwise visit the emergency department or be admitted to hospital’, backed up by comprehensive IT support.
A multi-disciplinary team-based model/practice transformation	Health Care Homes (HCH) better manages the mix of acute, routine and preventive treatments by changing the input mix (e.g. staff time, practitioner tools and business activities) to ensure the right mix of staff to focus more on proactive and preventive care and on patients with more complex needs. This is combined with ‘lean’ business processes against a set of standards and criteria that was developed by the HCH Collaborative network in 2016. Practices which use this service delivery model of care can have different ownership models (e.g. community ownership or GP ownership)

Source: adapted from Downs, 2017

Innovation in healthcare has been characterised as the ‘introduction of a new concept, idea, service, process, or product aimed at improving treatment, diagnosis, education, outreach, prevention and research, and with the long term goals of improving quality, safety, outcomes, efficiency and costs’ (Omachonu and Einspruch, 2010, p.5). The Productivity Commission has sought to understand innovative activity in primary healthcare in New Zealand. This has involved looking at whether the authorising environment is conducive to innovation, what innovations (particularly new service models) have emerged, whether and how new service models have diffused across the sector, and what impact they may have had on improving outcomes, efficiency and costs. The next sections describe what the commission has found.

The policy environment appears to have been conducive to innovation
The adoption of the Primary Health Care

Strategy in 2001 signalled a shift to a new way of working. The Primary Health Care Strategy organised services around the needs of an enrolled population and required community involvement in governance and decision making, which allowed more flexibility in the range of services provided.

Not-for-profit ‘primary health organisations’ (PHOs) were set up as the local delivery structures under the Primary Health Care Strategy. Funded by government through district health boards (DHBs), they are required to provide a set of essential primary healthcare services to an enrolled population. This entailed a shift in government funding from fee-for-service payments (per patient per consultation) to capitation funding (a flat rate per head of enrolled population, weighted by age and gender). Patient co-payments (the fee that patients pay each time they use a medical service) still exist, but the strategy restricted the level of fees that health practitioners could charge as

co-payments. ‘Very low cost access’ (VLCA) practices, in high-needs locations, receive higher capitation payments than other practices in exchange for having their co-payments (or fees) capped at a lower rate.

The Primary Health Care Strategy has encouraged the development of several different models of care, and a range of service innovations, such as online and telephone services, integrated or team-based work, new and expanded health workforce roles, coaching and self-management, group consultations, and changes to business organisation and processes.

... there are continuing funding (and pricing) issues to be resolved for new service innovations such as telephone triage and online consultations, as these innovations currently risk cutting some general practice funding streams.

Downs (2017, pp.46–50) identified three distinct ‘models of innovation’ in primary healthcare: an open access model such as that used by Nirvana Health; an acute demand management system, such as that operated by Canterbury DHB; and a multi-disciplinary team model known as Health Care Homes (HCH) (see Table 1). Each of these is substantially different from the traditional general practitioner model (usually owned by one or more GPs).

Taking these three models, the drivers of innovation appear to be quite different. The acute demand management model seems to have been driven by pressure on hospital services, while the HCH model is also attractive in areas where there is a shortage of primary care doctors and/or growing demand from the enrolled population.

With respect to the authorising environment, Middleton et al. in research conducted for the commission concluded that the ‘stable structure of the New Zealand Health system ... DHBs [being] in place since 2001 and the current

configuration of PHOs ... since around 2012 ... provided supportive conditions for innovation to emerge from the middle of the system’ (Middleton et al., 2018, p.44). This is not a driver of innovation per se, but an absence of a barrier. Middleton et al. also found that PHOs were facilitators of innovation, sometimes acting alone and sometimes working with DHBs.

Overall, diffusion is unclear but barriers to innovation remain

The commission spoke with several health sector leaders, as part of its inquiry into state sector productivity, and the general

view was that there is a lot of innovation in primary healthcare but that the diffusion or spread of specific innovations is unknown and likely quite uneven.

All the stakeholders the commission met pointed to examples of innovation in primary healthcare that they knew of, but they voiced a range of views about the diffusion of innovation. Many stakeholders felt that the diffusion of innovation was poor. Other stakeholders felt that diffusion was initially slow (after the implementation of the Primary Health Care Strategy) but had increased. This view was supported by Middleton et al.’s comment that ‘injections of funding support at key stages have supported incremental progress towards new models of care’ (Middleton et al., 2018, p.4). Still other stakeholders felt that diffusion could be hidden as it is often locally driven, and local leaders may prefer to describe what they are doing in ways that will differentiate their services. Downs also noted that ‘innovative changes to primary care delivery appear not to be driven by government per se. Rather, most initiatives are driven by local

leaders who are inspired to change the way care is delivered’ (Downs, 2017, p.43).

Middleton et al. also identified barriers to innovation. Persistence with ‘fee-for-service’ patient co-payments was considered to be a barrier: they noted that ‘practices that rely on patient co-payments have continuing incentives to maintain patient volumes in traditional face-to-face interactions’ (p.4). One stakeholder told the commission ‘co-payments kill innovation’. This would suggest that innovations involving a shift away from face-to-face interactions should be easier to implement in VLCA practices, for they receive a higher proportion of their funding from capitation than from fees. However, the cap on fees raises the issue of the adequacy of the capitation payments. Regrettably, some practices with high numbers of patients from very deprived neighbourhoods (including VLCA, and not for profit practices) report that they are struggling financially.

In addition, there are continuing funding (and pricing) issues to be resolved for new service innovations such as telephone triage and online consultations, as these innovations currently risk cutting some general practice funding streams.

Conversely, the injections of funding support identified by Middleton et al. (2018) may have supported progress toward new models of care, although the evidence for this is less certain.

The Health Care Home model: a process innovation in primary healthcare

The Health Care Home model was adapted by Pinnacle Midlands Health Network PHO, from a model used by Group Health in the United States. It first began operating in three practices in Hamilton in 2011 and it is now being implemented in more than 128 general practices across New Zealand (Ernst & Young, 2017, p.9). Although that seems like a fairly rapid rate of expansion, the first three or four years saw the establishment of relatively few new HCH practices, and most of this expansion has occurred after the New Zealand Health Care Home Collaborative was established in 2016. Since then, expansion of the model has been quite rapid.

Cain and Mittman (2002) present ten critical dynamics of innovation in

healthcare: relative advantage; trialability; observability; communication channels; groups with similar characteristics; the pace of innovation and reinvention; cultural and social norms; opinion leaders; compatibility with existing technologies; and dependence on related infrastructure. Middleton et al. use a different model of innovation, but they also argue that HCH

appears to include several of the attributes of innovations that are known to increase the likelihood of adoption, for example, the ... ability to customise the model to a local area (the potential for reinvention), the observability and relative advantage of being an HCH, and the way it can be broken down into manageable parts and implemented incrementally. (Middleton et al., 2018, p.42)

Does HCH, as an example of a primary care innovation, make a difference?

The commission wanted to know whether the change in the input mix – specifically, the number of doctor and nurse face-to-face consultations and telephone consultations and triage – resulted in more efficient use of general practice resources, and how the change in input mix affected patient experiences with primary care. Additionally, the commission was interested in the impact of a primary care innovation on secondary care: for example, the impact on emergency department (ED) presentations, acute admissions, the length of stay in hospital, ambulatory sensitive hospital admissions or readmissions. Significant differences in these variables could indicate an improvement in resource use/productivity of the health system overall and an improvement in patient outcomes from avoided hospital care.

Detailed analysis of data from the implementation of HCH in 11 general practices – members of Compass Health PHO in the greater Wellington region – was conducted for the Productivity Commission by researchers at AUT (Dasgupta and Pacheco, 2018). The data covered 342,136 individuals registered in 58 Compass Health practices (HCH and non-HCH practices) and was matched

with data on the same individuals from Capital and Coast District Health Board.

The researchers developed four empirical models, ranging from a baseline regression model to more detailed models that controlled for socio-demographic factors (age, sex, ethnicity, New Zealand deprivation quintile), practice-specific time trends, and anticipatory and post-intervention effects. These models did not take into account that HCH practices vary in their levels of ‘maturity’ (measured by a maturity matrix that assesses each practice’s level of adherence to the core model on a scale of 1–4 across four domains and a number of service elements and characteristics). But they did allow for the comparison of practices whose enrolled

care. The researchers found that the implementation of HCH resulted in a drop in the likelihood of an individual experiencing an ED event by 0.1 percentage points per practice quarter. This is statistically significant at the 5% level (Dasgupta and Pacheco, 2018). However, there were no significant impacts on any of the other hospital-related events (acute admissions, the length of stay in hospital, ambulatory sensitive hospital admissions or readmissions).

It is worth noting here that for some practices the post-implementation period has been quite short. Of the 11 Compass Health HCH practices for which data was extracted, five had been working with the HCH model for either 18 or 15 months,

... the commission found that there is enough data to analyse activity in primary healthcare in the Wellington region ... and that it is possible to use administrative data while also preserving patient privacy and confidentiality.

patient populations have statistically similar characteristics. (It is important to compare statistically similar populations, as comparing HCH practices against the mean of all practices risks creating misleading results, either positive or negative.)

Next, a difference-in-difference analysis was applied across each of the four models, and a supplemental analysis matched these results with a propensity score.

There was insufficient data at the practice level to answer the first question about the nature/extent and impact of the change in input mix. The addition of other practice level data (e.g. wait times, patient/staff ratios, staff turnover, patient experience, numbers of telephone consultations, phone call abandonment rates etc.) would have enabled a deeper analysis of the productivity of general practices.

The data did enable an assessment of the impact of HCH practices on secondary

two had been using it for six months, and four had been using the model for three months only. Therefore, although the analysis looked at hospital-related events and practice activity pre and post the implementation date, regardless of when that date was, a longer-term study using more data would be needed to identify any longer-term impacts of the HCH model.

Further research and evaluation is possible, and necessary

Few of the innovations described above (the use of the HCH model in different DHBs and PHOs, other innovations used in different practices, PHOs and DHBs, or the Primary Health Care Strategy itself) have had recent, comprehensive evaluations, and some have had none. Downs noted that ‘the three models described in [her] report all hold promise but need much more rigorous evaluation’ (Downs, 2017, p.52). She also noted that a system-wide evaluation of the Primary Health Care

Strategy had not occurred since Victoria University of Wellington and CBG Health Research evaluated its results between 2003 and 2010, and she felt that this was an important gap. This gap may be in the process of being filled, as the commission has heard that the Ministry of Health and the Health Research Council have now jointly funded research to take an in-depth look at new models of primary healthcare, and the Health Services Research Centre has won a five-year programme grant to look more broadly at progress in primary healthcare.

In addition, an evaluation (and follow-up evaluation) of the Pinnacle Midlands Health Network HCH practices in their DHBs (Waikato, Bay of Plenty and Lakes) between 2011 and 2016 was completed by Ernst & Young (Ernst & Young, 2017, 2018). This study used a matched open cohort and multiple logistic modelling, and it suggested that the HCH model has enabled general practices to treat more patients and is associated with significantly lower ambulatory sensitive hospitalisations and presentations to ED services than in non-HCH practices.

The research conducted for the commission (Middleton et al., 2018; Dasgupta and Pacheco, 2018) is intended to add to the existing body of knowledge. One study contributes by describing the recent environment of primary healthcare in New Zealand and identifying barriers to and enablers of innovation and its diffusion, while the other contributes an empirical analysis of the short-term impact of the HCH model on a range of health-related events in secondary care.

In commissioning the AUT research, the commission found that there is enough data to analyse activity in primary healthcare in the Wellington region (and likely in other regions as well) and that it is possible to use administrative data while also preserving patient privacy and confidentiality. The real issue is to develop relationships and establish trust that data will be kept confidential and used for research purposes.

In addition, the difference-in-difference analysis undertaken by the AUT researchers provides a rigorous methodology for statistically similar practices to be compared with each other, to assess the

impact of an innovation in primary healthcare. This methodology could be reused to update this research, and to include a wider range of factors and a longer time frame, when more data becomes available.

Conclusion

The demand pressures on the health sector are real, and innovative new models of primary healthcare offer opportunities to address them. The work undertaken for the commission should be seen as a starting point for a deeper exploration of the motivations for, barriers to and enablers of innovation in primary healthcare. Further, the impact of innovation can be measured using standard empirical techniques and routinely collected data if the relationships can be built to enable its use.

There is still more work to be done, but there is some evidence that innovation in primary healthcare delivery has the potential to drive both productivity improvement and better outcomes across the wider health system.

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Russell Wills, Bernice Gabriel and
Kay Morris Matthews

The Ngātahi Project

competency development for the vulnerable children's workforce

Abstract

Ngātahi is a three-year project aiming to identify and embed the additional competencies needed for the children's workforce to work with families experiencing intimate partner violence, child abuse and neglect, mental illness, addictions, poverty and poor supports. Māori tamariki (children) and whānau are over-represented in this client group. Collective impact, appreciative inquiry and a robust tikanga inform the project. A formal Treaty of Waitangi partnership with the local iwi, Ngāti Kahungunu, provides cultural leadership at all levels of the project. Twenty-seven agencies or services representing 441 practitioners have engaged in the project in Hawke's Bay. The three priorities for competency development identified are: engaging effectively with Māori (EEWM), mental health and addictions (MHA) and trauma-informed practice (TIP). Within the TIP work stream, addressing practitioners' burnout, fatigue and vicarious trauma is the first priority. The three work streams are currently developing curricula and identifying leaders to deliver training locally, and delivering activities to embed the new competencies into practice and metrics to demonstrate the impact of the new competencies on practice and on outcomes. Qualitative interviews demonstrate high commitment from the workforce and its leaders, consistent priorities for development of additional competencies and important lessons learnt. We suggest that this model may be helpful for policymakers considering other collaborative activities to address 'wicked' or complex problems, and offer some lessons learnt to date.

Keywords innovation, collaboration, intersectoral, children, Māori, workforce

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Hawke's Bay District Health Board and is the Ngātahi project manager. Kay Morris Matthews is Research Professor at the Eastern Institute of Technology and an independent evaluator of the Ngātahi project.

Introduction

As the intention of this article is to describe the practical actions undertaken in this project and the policy lessons stemming from them, its treatment of the relevant academic literature is necessarily brief.

In 2015 an expert panel reviewed New Zealand's then statutory child protection service, Child, Youth and Family (Modernising Child, Youth and Family Panel, 2016). There were a number of reasons that the care and protection system failed vulnerable children and their families, and recommendations were made to address these issues.

Children of parents with mental illness, with addictions and in violent

- changes to expectations and monitoring of all agencies with a part to play in supporting such families.

In addition to these structural changes, the expert panel acknowledged

the need for a shift from rules, compliance and timeframe-driven practice to professional judgement based on an evidence-based understanding of the impact of trauma on children and young people, the science of child development and attachment, and best practice approaches. (Ministry of Social Development, 2017, p.65)

Methods

Funding was obtained in 2016 from the Hawke's Bay District Health Board, Ministry of Social Development and Lloyd Morrison Foundation to progress the project. Royston Health Trust provided additional funding in 2018. Funding allowed a senior psychologist at the Hawke's Bay District Health Board's Child, Adolescent and Family Service (CAFS) to be appointed as project manager in March 2017 (Bernice Gabriel), initially at 0.8 FTE (full-time equivalent) in year one, reducing to 0.5 FTE in years two and three, an administrator to be appointed 0.5 FTE in years two and three, and senior clinician-teachers to be brought in for specific modules, and supports the evaluation, catering and stationery. Costs of most venue hire, projector and computer use, staff and most tutor attendance at training, additional administration and the project sponsor's (Russell Wills) time are supported in kind.

Tikanga

The Hawke's Bay District Health Board has a formal Treaty of Waitangi relationship with the mana whenua in Hawke's Bay, Ngāti Kahungunu Iwi Incorporated, through its Māori Relationship Board. The DHB's Māori Health Unit provides cultural advice to its services and programmes. The Ngātahi project sponsor involved the Māori Health Unit from the outset of the programme. Tikanga for the programme was developed in partnership with the Māori Relationship Board and kaupapa Māori providers through two hui. Programme reporting includes twice-yearly reports to the Māori Relationship Board.

Collective impact, appreciative inquiry and adaptive leadership

Collective impact (Kania and Kramer, 2011) is a framework for addressing complex social problems in a collaborative way. The agencies and services agreed that our common agenda was to identify and improve the competencies our workforce believed they needed to identify and address the complex social issues they faced every day in practice. We agreed on mutually reinforcing activities to achieve this, measures to demonstrate whether we

The project ... assumes that developing the skills of a diverse workforce, with different cultures, languages, registration and continuing professional development requirements, is not a simple, 'technical' problem, but an adaptive problem ...

relationships ('vulnerable children') are at high risk of poor health, education and social outcomes. Māori are highly over-represented among these families/whānau. The government accepted all of the panel's recommendations.

A new programme was created to reform the way these families are supported (Ministry of Social Development, 2017). It included:

- changes to legislation and accountabilities of ministry chief executives;
- dissolution of Child, Youth and Family and creation of the Ministry for Vulnerable Children Oranga Tamariki (later renamed the Ministry for Children Oranga Tamariki);
- implementation of ten multi-agency children's teams throughout New Zealand;
- additional funding; and

There are now many reports (Office of the Children's Commissioner, 2000, 2003; Laming, 2003; Smith, 2011) that recommend a focus on additional knowledge and skills ('competencies') for practitioners working with vulnerable families. These competencies include the ability to identify vulnerable whānau and families, assess both strengths and risks, formulate an assessment, design and implement a plan with families, and work collaboratively with the agencies involved. The Ministry of Social Development's Children's Action Plan Directorate therefore began a programme of work to develop a vulnerable children's core competency framework, in partnership with sector leaders from education, health and social services. Hawke's Bay is piloting the Ngātahi project, using the draft framework.

were indeed improving the competencies and outcomes for families, that the Hawke's Bay District Health Board would be the backbone organisation for the project, and strategies to communicate our decisions and actions to all interested stakeholders.

Appreciative inquiry (Cooperrider and Whitney, 2001), as applied to this project, assumes that the solutions to improving the quality of service we deliver to our families lie within our workforce already: our practitioners understand the workload and the competencies they need, including those they do not yet have. We have local people who are excellent practitioners and leaders, and good relationships with national expert practitioners on whom we can call if necessary. We simply needed to provide a system to support them to identify and address those development needs.

The project also assumes that developing the skills of a diverse workforce, with different cultures, languages, registration and continuing professional development requirements, is not a simple, 'technical' problem, but an adaptive problem (Heifetz, 1994). The solutions were not self-evident at the beginning. Leaders and experts did not have all the answers. Instead, we would have to mobilise the workforce through agreed goals and values, ask questions rather than propose answers, challenge old beliefs, experiment, and learn as we went along.

Hawke's Bay District Health Board Child, Adolescent and Family Service (CAFS)

The Hawke's Bay District Health Board's CAFS is a multidisciplinary team of 30 staff working with children and young people with moderate to severe mental illness and their families. Many of these children and young people have experience of abuse, neglect and parental violence, and developmental issues such as foetal alcohol spectrum disorder. CAFS staff work with the most complex of these children and families and accept referrals from all the other 26 agencies or services involved in the Ngātahi project.

CAFS staff completed their competency assessment against the Ngātahi framework and the *Real Skills Plus CAMHS* (child and adolescent mental health services) competency framework (Werry Workforce

Whāraurau, 2014) early in 2017, ahead of the rest of the workforce. Priorities for staff development were identified and experienced clinician-trainers recruited to deliver training for CAFS. Trainers were asked to give particular thought to integrating clinical and cultural competence, prioritise examples of practice with Māori tamariki and whānau, and advise on subsequent activities to support CAFS staff to integrate the new competencies into everyday practice. Māori Health Unit staff assisted with briefing the trainers. CAFS Māori staff attended the training. Peer review groups, including those Māori staff, now meet regularly to review cases and are the primary

children's workforce competency framework and some were moved between tiers. The revised competency framework included 289 competencies in three tiers: foundation, practitioner and leader of practice. The original six domains and 12 sub-domains from the framework were retained. The full framework is available on request if required.³

A Survey Monkey tool was created from the framework for practitioners to identify the competencies they did not need (N/A), already had (Y), needed and partially had (P) or needed and did not yet have (N). Staff completed the tool online or on paper between 1 July and 30 September 2017; paper copies were entered into the Survey

... cultural and resource support was provided by institute's Māori and indigenous research professor, David Tipene-Leach, and Dr Anne Hiha, a senior Māori educationalist and member of the evaluation team.

mechanism to integrate the new competencies into everyday practice. In addition, external supervision by experienced clinician-trainers is currently provided to further embed the training into practice.

Five training sessions have been completed to date: assessment and formulation; attachment and trauma; emotional regulation/dialectical behaviour therapy;¹ acceptance and commitment therapy;² and family therapy supervision.

Wider workforce

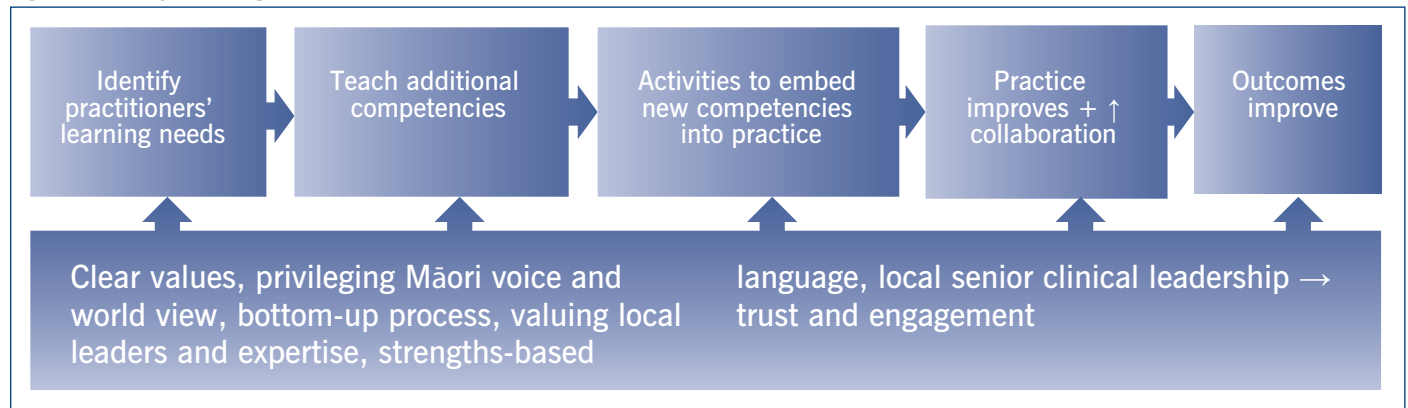
In May 2017 a one-day hui involving of 72 leaders from health, education and social services, including kaupapa Māori, mainstream, government and non-governmental organisation (NGO) services, was held by the Hawke's Bay District Health Board. The hui agreed on the competencies and tiers of competency that each sector required of its staff. Some competencies were added to the original vulnerable

Monkey tool by a data administrator. Results were copied into the IBM Statistical Package for the Social Sciences (IBM, n.d.) and analysed, with a focus on the number of staff in each service and across all services recording P and N responses (see Table 1). Most practitioners also entered demographic data, including discipline and years since graduation.

Ethical approval

Ethical approval was granted by the Eastern Institute of Technology Hawke's Bay Research Ethics and Approvals Committee. Locality assessment approval was provided by the Hawke's Bay District Health Board. This project was carried out under the aegis of the Eastern Institute of Technology's research protocol for working with Māori. In addition, cultural and resource support was provided by institute's Māori and indigenous research professor, David Tipene-Leach, and Dr Anne Hiha, a senior Māori educationalist and member of the

Figure 1: Theory of Change



evaluation team. This included guidance regarding safe and respectful practice with Māori participants. Cultural practices such as karakia, mihi, the sharing of food and the offering of koha were used as appropriate to researchers and participants.

Qualitative research

Eastern Institute of Technology was contracted to independently interview project staff, leaders and practitioners in year one of the project (2017) to understand the process to date, assess manager and staff engagement, what had worked well and what could be improved in this first phase of the project, and identify any additional themes that would inform the next steps (for details see Morris Matthews, Hiha and Bevin, 2017). The project manager and project sponsor have also kept logs of lessons learnt, which are reported below.

Theory of Change

Our theory of change is essentially as shown in figure 1 above.

Results

Qualitative research

Key themes from staff interviews have included:

- *High levels of engagement of managers and staff*
Both groups agreed that the competency framework worked well to identify the competencies staff needed. While the 289 competencies initially looked onerous to assess, most staff took only an hour to do so and most found the process helpful.
- *Value of clinical leadership*
There was high agreement that the project manager, due to her clinical

credibility and general approach, made the process accessible and understandable and generated high trust in the process, and that these factors were likely to generate more accurate and reliable responses that would in turn lead to training that would be of value.

- *High levels of practitioner stress*
High levels of burnout, fatigue and vicarious trauma were noted in many interviews. Self-care competencies were identified as a high need by many staff, which was a gap in the competency framework.

Lessons learnt

Bicultural approach

- Tamariki Māori are 70% of the target population for this project so it was agreed that tikanga Māori and Māori voices would be privileged, particularly those of mana whenua. Initial face-to-face meetings with Māori leaders to agree on tikanga and values provided wise advice and guided the development of the project.

Engagement, values and language

- Initial face-to-face engagement with managers and practitioners is crucial and needs to be led by people who enjoy a high degree of trust and credibility in the region.
- Presenting to all staff in a service before mapping the competencies was crucial to get consistent messaging out and to stress values and philosophies.
- Neutral, non-judgemental language was more successful in engaging staff: e.g., 'mapping/needs analysis' of competencies rather than 'performance appraisal'; 'additional' needs, rather than 'deficits'.

- The importance of trust and confidentiality with practitioners was stressed.
- There was honest and open acknowledgment of NGOs' difficulty with sharing resources and intellectual property in an environment of competing for funds from the same funding pool.

Reliability of competency mapping

- Competency mapping was more reliable when done with a senior staff member who is trusted and knows staff well.
- For the leaders of practice tier, it would have been helpful to remind practitioners (in person and in Survey Monkey) to answer N/A if not applicable to their role.
- Self-assessment on mapping is not enough. Most people tend to underestimate their competencies and a very few overestimate them.

Pioneering

- Many of the lessons above were learnt from early adopter services and agencies, which changed our subsequent messaging and prevented lessons from having to be repeated.
- Dedicated administration and event co-ordination is crucial.

CAFS training

- Five training sessions were attended by 140 CAFS and NGO staff working in child and adolescent mental health. Key lessons from focus groups following these training sessions included:
- Insights into the work of staff from other agencies, and the rapport and collegiality of joint training, were highly valued.

- Free, mandatory, high-quality supervision was highly valued and contributed to improved practice.
- Early indications of changed practice were reported, along with barriers to and enablers of changing practice.

Priorities for competency development

In the final analysis, 441 practitioners from 24 agencies or services mapped their competencies against all 289 competencies. A further three agencies have since engaged and agreed to map competencies for their staff. The number and proportion (out of 441) of practitioners identifying that they needed but did not have (N) or partially had (P) each competency was ranked. Only those competencies with more than 25% responding N or P were further analysed. Competencies scoring highly were then grouped into themes that are naturally practised and taught together (Table 1).

The competency with the greatest number of practitioners identifying themselves as N or P was: 'Has an awareness of the legislation relating to addiction issues' (258; 59%). Addiction and mental health competencies were the highest-ranked by the sector overall.

Next steps

Work stream development

On 6 November 2017, sector leaders met again to agree on the training and development priorities for the Ngātahi project in 2018 and 2019. Because staff release time is limited and there is a large workforce to put through the training, three areas were prioritised: engaging effectively with Māori (EEWM), mental health and addictions (MHA) and trauma-informed practice (TIP). Self-care was agreed as the first priority of the trauma-informed practice work stream.

Sector leaders joined or nominated staff to join one or more of the three work streams. Work stream members agreed on chairs, membership and terms of reference, and committed to attending and contributing to their work streams. They are empowered to recommend what will be taught, how and by whom, follow-up activities to embed the new competencies into practice, and how each competency should be assessed. We aim to use a mixture

Table 1: Highest-ranked competencies by theme (range, number responding N or P and %)

Competencies (theme)	Number	%
Mental health and addictions	113–258	26–59%
Working effectively with Māori	110–220	25–50%
Trauma-informed practice	112–196	26–45%
Professional practice, self-care, UN Convention on the Rights of the Child	109–178	25–41%
Child health and development, engaging effectively with children and young people	110–164	25–37%
Assessment, formulation, treatment planning	114–163	26–37%
Networking, liaison, legislation, policy, information sharing	110–148	25–34%
Child protection, family violence	115–142	26–32%
Engaging families, whānau and caregivers	111–127	25–29%

of local tuakana (expert teachers) wherever possible and external trainers where local expertise needs to be augmented, in a train-the-trainer approach to develop local capacity. EEWM work stream members are supporting the other two work streams by advising on the cultural competency aspects of the training.

Table 1 and the detailed analysis suggests that for each programme of learning, up to 250 practitioners may wish to attend training and enter a programme to embed the new competencies into practice. Our experience in teaching assessment of child protection and family violence is that this is best achieved in small groups of no more than 20, particularly when role play is involved, so we may expect registrations for up to 12–15 courses for each theme. The estimated number of registrants for the EEWM and MHA training programmes is 250 for each. The competency survey did not allow the estimation of the likely number of registrants for the self-care training, but the research interviews indicate that this will be high-demand training and we estimate approximately 300 registrants. This could mean in total approximately 800 registrations and 40 training programmes for groups of 20 people.

Pedagogy

At the time of writing (November 2018), all three work streams have agreed that the knowledge content for each work stream can best be met through online learning. We have partnered with Werry Workforce Whāraurau (<https://www.goodfellowunit.org/werry>), who are specialist online content developers for the

primary care workforce in New Zealand. For the mental health and addictions online learning, the workstream agreed that their Foundations in Infant Child and Adolescent Mental Health online programme offered an excellent foundation-level introduction to the area. Werry's Childhood Trauma Workforce Development online programme offers a solid understanding of childhood trauma, and we have asked national experts in the field to write a further module specifically focused on self-care. Our EEWM work stream agreed that the Mauri Ora online programme (<https://members.mauriora.co.nz/mauriora-courses/>) offers excellent foundation-level knowledge for this area of practice. All offer free registration, flexible use, and a multiple choice test and certificate on achieving a standard. Local leaders told us that this accountability was highly desirable to them.

Practical skills will be developed through one-day wānanga (workshops). Leaders agreed that this was the best balance of adequate time to model and practice new skills and impact on service delivery. At the time of writing we have delivered two pilot mental health workshops. We are testing different numbers (12 and 18 so far) of participants and surveying attendees so we can continuously improve content and teaching. All wānanga are co-taught by tuakana in clinical practice and tikanga Māori to ensure both clinical and cultural competency, with a learner teacher (teina) in attendance to grow a sustainable tuakana workforce.

The new competencies will be embedded in wānanga ita (learning circles), using a peer coaching methodology. To

date, two wānanga have been held and four wānanga ita of six–nine members each established. By December 2019 we expect 27 wānanga to be completed covering all three workstreams, and 54 wānanga ita established for around 400 practitioners.

Managing the impact of turnover of leaders and staff

In the 14 months since we mapped competencies in our 441 staff and 24 agencies, turnover has been up to one third of agency leaders and one third of staff in some agencies. We also have three new agencies which have engaged. Informal discussions suggest that this rate of turnover is a little higher than usual, but it needs to be accounted for in planning for introducing new staff and managers

minutes for all work stream meetings, and communicate each work stream's decisions and actions to the other work streams and to the steering group. They also produce a regular newsletter sent to all practitioners, and communicate with funders and agency executives. A communications strategy to share the recommendations with service leaders, practitioners and our community is currently being worked through in partnership with our Māori Health Unit and kaupapa Māori providers. Feedback will be sought from all stakeholders and included in the curriculum.

Potential for scaling-up

Hawke's Bay is the first region to undertake workforce development across the vulnerable children's workforce at this

(Eppel, Matheson and Walton, 2011) note that complexity theory suggests that it will be impossible to predict the exact effect on families and children of the programme as there are too many confounding variables. Like them, we also found that our system is beginning to self-organise – e.g., into wānanga ita – and surprises have occurred – e.g., the high turnover of staff and leaders. Working across the socially constructed boundaries between the health, education and social service systems required a deep understanding of the cultures of each system – for example, finding language that engaged (and did not disengage) diverse practitioners. It was not possible to fully design the process at the beginning; design and implementation are continuous and iterative, as each informs the other.

Following Hughes and Smart (2012), we have focused on the outcomes of this process, rather than inputs or outputs. Measurement is based on evaluation rather than reporting; we have shared accountability for delivery; and we are focused on delivery over the medium term, rather than the short term. We aim to deliver practical, 'real', intermediate goals (a workforce with given competencies) rather than unachievable and unmeasurable goals (safer children and families). In the vulnerable children's workforce there is a culture based on common values, such as children's right to be safe, which has allowed us to make mistakes, learn and move on.

We would also agree with Ryan et al.'s (2008) analysis of the important roles in successful inter-sectoral collaboratives in New Zealand. We have found no shortage of 'public entrepreneurs', frontline leaders in small agencies used to working collaboratively and seeking new opportunities to do so. Similarly, we engaged 441 'fellow-travellers', like-minded people keen to join and support a project that fits their values. The project sponsor filled Ryan et al.'s 'guardian angel' role – finding dedicated funding, managing the authorising environment, mentoring, advising and advocating – freeing up the project manager and other leaders to lead and deliver the project.

Burnout, fatigue and vicarious trauma were common in this workforce and require a comprehensive plan to address

The Ngātahi programme demonstrates the potential impact of a collective impact, appreciative inquiry, adaptive leadership, tikanga-informed approach to addressing a 'wicked problem'.

into the programme, and for mapping the competencies of newly appointed staff. This is likely to be after around three months of practice, when staff should have a clearer sense of the competencies they have to effectively engage, assess and support vulnerable families and those they would like to develop further.

Evaluation of training and practice change

Eastern Institute of Technology has been appointed as the independent evaluator and 'critical friend' for the programme, with an emphasis on mātauranga Māori. All lessons learnt and outcomes will be assessed by the independent researchers, and disaggregated by ethnicity. We are particularly interested in indicators reflecting improved outcomes for tamariki Māori specifically.

Communications

The project's sponsor, project manager and administrator attend and take the

scale and in this way, so we have agreed to undertake the programme in partnership with the Ministry for Children Oranga Tamariki and share the lessons we learn with all relevant ministries and other regions. The original proposal has been discussed with and is supported by leaders in Oranga Tamariki, the Ministry for Social Development, Hawke's Bay District Health Board, the Ministry of Education and non-governmental social services in Hawke's Bay working with vulnerable children, who have a well-established history of collaborative working. We believe that this project could become a template for development of the vulnerable children's workforce nationally.

Discussion – policy implications

The Ngātahi programme demonstrates the potential impact of a collective impact, appreciative inquiry, adaptive leadership, tikanga-informed approach to addressing a 'wicked problem'. Eppel and colleagues

(Best Start Resource Centre, 2012). Burned-out workers cannot achieve the best results for very vulnerable families and children. The trauma-informed practice online learning and wānanga will address both personal factors (e.g., improving practitioner resilience) and factors in the work setting (e.g., adequate resources, effective leadership, open and honest communication).

Finally and importantly, Ngātahi offers a model of public sector partnership with iwi to improve outcomes for tamariki and whānau Māori. The project leaders engaged with the Hawke's Bay District Health Board Māori Health Unit from the outset. The Māori Health Unit enabled discussions with iwi leaders, kaumātua and

kaupapa Māori providers. A specific tikanga was established for the project, which has informed all aspects of delivery. Iwi-mandated leaders are partners in all decision-making groups. Decision making has privileged Māori world views and voice. This in turn led to high engagement of both Māori and non-Māori practitioners across diverse disciplines and seems likely to lead to improved clinical and cultural practice.

We believe Ngātahi offers a new approach to inter-sectoral collaboration in Aotearoa New Zealand.

traumatic stress and borderline personality.

2 Acceptance and commitment therapy is an evidence-based approach for young people experiencing anxiety, depression and/or addiction.

3 From Dr Russell Wills, Ng tahi project sponsor, Russell.wills@hbdbh.govt.nz.

Acknowledgments

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