

# A DECADE OF CONFUSION: THE DIFFERING DIRECTIONS OF SOCIAL SECURITY AND ACCIDENT COMPENSATION 1969 – 1979

*Margaret McClure\**

---

*Overlapping with the implementation of ACC in New Zealand was a parallel review of Social Security, charged with making recommendations for the overall system of social entitlements. The review took place in the context of global economic pressure and changes in family structure during the early 1970s, and represents a marked contrast in tone and ambition from the Woodhouse Commission. This paper contrasts the more modest direction taken by the 1972 Royal Commission on Social Security with the Woodhouse proposals, focusing on such matters as the structure of benefits and the underlying social and community objectives.*

---

The 1970s form a complex, fascinating period in social security and accident compensation. Re-thinking this period five years on from writing a history of New Zealand's social security, I would change the title of my chapter on the 1970s from "Generous Years". After assessing the beginnings of ACC for the Conference *Looking Back on Accident Compensation*, I would no longer consider social security "generous", and would prefer to think of this period as "A Decade of Confusion".<sup>1</sup> While on the one hand the Woodhouse Report set new directions in workers' compensation, the Royal Commission to Inquire into Social Security retained the structures of the past, and then saw its recommendations become irrelevant in the following few years. Social security plunged in new directions as strong-minded politicians, rival beneficiary groups, and fears of rising inflation soon obliterated the cool analysis of the review. Social security policy-making in the 1970s was volatile and irrational, and required fresh reassessments within a brief seven years of the McCarthy Report. The different direction taken in the field of workers' and accident compensation added one more element to the diversity of experiments of the 1970s.

---

\* History Group, Ministry of Culture and Heritage

1 See Margaret McClure *A Civilised Community: A History of Social Security in New Zealand* (Auckland University Press, Auckland, 1988) Chapter 5.

The two Royal Commissions were almost concurrent – with the Woodhouse Report on workers' compensation published in 1967<sup>2</sup> and the McCarthy Report on social security in 1972.<sup>3</sup> Driven by common concerns, the reviews found different solutions. In taking the opportunity to change, the Workers' Compensation Commission was more radical, the Social Security Commission more conservative. Yet both were constrained by their own traditions, and it is surprising how little cross-reference took place between the two systems. This paper gives some background to the choices made within the social security system at the same time as ACC was forging its own path. It describes the distinctive ethos of social security, the decision to continue on a different route from workers' compensation, and briefly traces the period of upheaval that followed.

Two issues stimulated the National Government's decision to hold a Royal Commission of Inquiry into Social Security in 1969. The first was the issue of benefit adequacy. Just as workers' compensation had to address the inadequacy of payments to people in need of compensation, social security needed to review its benefit levels. Through the 1960s the proportion of gross national product applied to social security had diminished. More than before, government was relying on supplementary benefits (discretionary top-ups) to address beneficiary needs. As the unemployment of 1967 shifted more people to the cold fringes of the welfare state, beneficiary groups protested against a level of hardship that they felt was unacceptable, and the demeaning experience of going "cap in hand" to apply for supplementary benefits. By 1969 New Zealand had lost its pioneer status in worldwide social security league tables, and the Social Security Department was gaining a reputation for meanness. Secondly, (in a similar way to the workers' compensation system) social security was confronting new trends in modern life, and needed to become more comprehensive. In particular, social security officers were facing pressure to adapt to changing attitudes to sex and marriage. This meant that the government had to consider the public's demands to change the Department's experiment with a discretionary emergency domestic purposes benefit for sole parents into a formal statutory benefit, equal in standing with other benefits.

Despite common concerns, the approach of each Commission was markedly different. The choice of Woodhouse as Chairman of the Workers' Compensation Commission marked a need for dramatic change. Here was a radical judge with "a messianic streak" who could state that the practices of the past were irrelevant.<sup>4</sup> In contrast Chairman Thaddeus McCarthy made his intentions explicit in his instructions to his Social Security Commission members: "We are not

---

2 New Zealand Royal Commission of Inquiry into Compensation for Personal Injury *Compensation for Personal Injury in New Zealand: Report of the Royal Commission of Inquiry* (Government Printer, Wellington, 1967) [*Woodhouse Report*].

3 New Zealand Royal Commission of Inquiry into Social Security *Social Security in New Zealand: Report of the Royal Commission of Inquiry* [1972] IV AJHR H 53.

4 Geoffrey Palmer *Compensation for Incapacity: A Study of Law and Social Change in New Zealand and Australia* (Oxford University Press, Wellington, 1979) 60; *Woodhouse Report*, above, 180.

going to turn the world upside down". He was confident of past traditions, and intended to tinker at the edges of the system where change was necessary – to upgrade the system rather than reconstruct it. Most other members of the Commission had conservative leanings. Their Report expressed a fatalistic approach to reviewing the past with the statement that "we, like other countries, are to some extent prisoners of our own history and traditions".<sup>5</sup>

The contributors to each Commission also shaped the different outcomes of each review. Whilst submissions to the Workers' Compensation Commission came from lawyers, professional bodies, insurance companies and trade unions, the Social Security Commission hearings were dominated by ordinary people, beneficiaries, and the lobby groups and charities which supported them. At a time when few official budget studies had been done, these submissions presented the details of benefit inadequacy, "the arithmetic of woe".<sup>6</sup> Their statements contained less analysis, and more sentiment: they described the feelings of people who felt outside the mainstream of New Zealand life, without carpets on the floor, a telephone or car, unable to buy presents at Christmas or afford a bus-ride to their local club. Their case for change rested on the pathos of the weak, on children, lonely old people and sole parents.

### ***I CONCEPTS OF COMMUNITY***

The Social Security Commission was attentive to these accounts, and joined the movement in the Western world in the 1960s to define poverty in a more generous way. The Royal Commission's acknowledgment of the concept of "relative poverty" viewed poverty no longer as a matter of destitution, but as the experience of anyone excluded from the expectations of a wealthy post-war society. The Commission advocated a sociable, egalitarian vision of a united community in which all could share a common culture and experiences. To enable a person to "belong and participate", social security therefore needed to move beyond providing mere subsistence. The McCarthy Report claimed that:<sup>7</sup>

no-one is to be so poor that he cannot eat the sort of food that New Zealanders usually eat, wear the same sort of clothes, take a moderate part in those activities which the ordinary New Zealander takes part in as a matter of course. The goal is to enable any citizen to meet and mix with other New Zealanders as one of them, as a full member of the community – in brief, *to belong*.

The Commission's notion of an inclusive community made it natural to include sole parent families as a category of need within the structure of social security. This was a notable innovation,

---

5 Personal Communication with Alan Nixon (Member of Commission Secretariat) (5 May 1995 - 19 July 2002); New Zealand Royal Commission of Inquiry into Social Society, above, 53.

6 See Gertrude Himmelfarb *Poverty and Compassion* (Vintage Books, New York, 1991) 389. For lack of data, see New Zealand Royal Commission of Inquiry into Social Security, above, 6, 14.

7 New Zealand Royal Commission of Inquiry into Social Security, above, 62.

the result of a more tolerant ethos in the late 1960s in which the breakdown of marriage was seen less in terms of moral fault than in terms of a new environment. The feeling that children should not suffer because of the changing shape of families had been recently reflected in the Status of Children Act 1969. The ethos of tolerance also brought a renewal of a significant principle of social security which derived from an understanding of the hazards of life. From its early foundations in the Depressions of the 1880s and 1930s, social security drew from an appreciation that fate was capricious and that unexpected factors could deny a person their livelihood. Modern life encompassed new hazards, and social security therefore needed to expand to embrace new categories of need. This comprehensiveness paralleled ACC's inclusion of motor accidents as a risk inherent to modern life. The Woodhouse Report's description of a "complicated, uneasy environment" could apply as easily to the shifts in sexual behaviour in the bedrooms of the 1970s as to the threatening character of modern roads.<sup>8</sup> Assessing the rights and guilt of women after marriage breakdown had been a nightmare for Department of Social Welfare officials at the grass-roots level. As in the arena of ACC, the issue looked simpler to deal with if the system concentrated on a person's need, and discarded the concept of fault.

The legislative changes made as a result of the McCarthy Report derived from its idealistic concept of community and a heightened intolerance of hardship. One policy-maker has called this the final high point of nineteenth century hubris and its faith in progress and expansion.<sup>9</sup> Heedless of economic clouds ahead, the Commission felt that it could raise the levels of benefit adequacy, and nudge the poor towards the rich. Benefit levels were raised and the gap narrowed between work and benefits, so that the married rate for beneficiaries became 80 per cent of a labourer's wage (single benefits were 60 per cent of this amount). The Domestic Purposes Benefit (DPB) became a statutory benefit (rather than a discretionary benefit), coming under the same uniform method of assessment as other benefits. At the same time the Commission thought social security needed to retain the complex traditional structure it had inherited from 1938. This meant flat-rate means-tested benefits for most categories of need (age benefits between 60 - 65 years, invalidity, widows, sickness and unemployment, DPB, and so on), and on the other hand universal benefits for the family benefit and for superannuation after the age of sixty-five.

## **II OPPOSING THE SOCIAL INSURANCE OPTION**

In its move to comprehensiveness, social security paralleled the introduction of ACC. It was in its concept of need and the decision to retain its traditional flat-rate benefits, that social security differed most from ACC principles. New Zealand's social security payments have always been granted at a defined flat rate, assessed without reference to individual contributions and funded (at

---

<sup>8</sup> *Woodhouse Report*, above, 51.

<sup>9</sup> Personal communication with John Jensen (Ministry of Social Development) (19 July 2002).

least in part) by taxation. This is the most significant challenge to face in any attempt to integrate social security and ACC.

It is interesting how cursory each Commission seems to have been in assessing the direction chosen by the other. Woodhouse dismissed flat-rate benefits as inappropriate and unacceptable, and gave no consideration to this style of income support.<sup>10</sup> In this realm ACC was less radical than in other directions it took – we could say that like the Social Security's Royal Commission, the creators of ACC were constrained by the tradition and ethos they understood. ACC's choice of earnings-related benefits was closely allied to its own goal of recompense for harm done, although this went against the major pattern of income support in New Zealand, and was a direction which had been strongly resisted by New Zealand legislators since 1898. Social insurance had been advocated in the late nineteenth century, but dismissed as an unworkable ideal because workers' employment was often irregular, and insurance payments over a whole lifetime were unaffordable. Prime Minister Massey advocated the idea of social insurance through the Reform Government's long period of office (although he took no initiatives to introduce a change), and then found that the onset of the Depression lessened the willingness of employers to contribute to their workers' welfare. A social insurance or earnings-related scheme was promoted briefly by Nash in 1937 and quickly discarded by left-wingers in the Labour Party because it seemed more closely linked to a British class-based structure and less closely allied to concepts of citizenship.

The Social Security Royal Commission spent more time looking at the earnings-related option than the Workers' Compensation Commission had spent examining alternatives because it knew that a social insurance structure was the choice of most countries in shaping their social security. But the Commission's review of overseas patterns assured it that only flat-rate benefits could fit the ethos and goals of social security. The focus of the McCarthy Report was on dealing with need and concentrating on the most extreme needs: social security's role was to intercede in the plight of the person who could not belong in ordinary New Zealand society, and to direct all its funding in that direction. The Report interpreted need in terms of a person's actual requirements – the number of children in a household, the level of rent, the stage in a life cycle, the need for medical attention, and so on. A further move upwards to restoring people to a former way of life was seen as luxurious.<sup>11</sup>

The Social Security Commission's understanding of equity therefore differed from ACC's notion of equity rooted in a person's contribution, worth, skills or experience. To echo market rates of income would be to assume that these were justly paid in the first place.<sup>12</sup> The concept of equity in social security policy-making was to judge one person's situation within the needs of the wider community, not in relation to the degree of harm suffered. Its vision was one which obscured

---

10 New Zealand Royal Commission of Inquiry into Social Security, above, 99-102, 179.

11 New Zealand Royal Commission of Inquiry into Social Security, above, 63.

12 New Zealand Royal Commission of Inquiry into Social Security, above, 170.

differences, concentrated on ordinariness, and had little in common with the ACC principle of giving recognition to each person's skill, experience and status, and to an individual's right to retain his or her place in a diverse community. The Commission had little sympathy with the idea of coping with a person's past and future expectations. It understood the calamity faced by people who faced a dramatic change in their lifestyle, but expected them to buy their own security. Preserving a former level of comfort was not the task of the wider national community, but the job of the individual to organise privately. In this light it could not justify the State's decree "that Citizen A must lower his current standard of living in order to maintain Citizen B at a standard which is better than A is able to reach". In other words, "the community is hardly obliged to keep a retired skilled worker in a larger car than a retired semi-skilled worker, or a retired officer manager in smoked salmon because he was accustomed to it".<sup>13</sup>

The Royal Commission was also aware of problems in social insurance systems overseas, where the sense of contract made between the individual and the state through insurance payments made changes difficult to introduce in the decades that followed, and the system as a whole was therefore less flexible. And countries with social insurance systems were usually forced to maintain a parallel system of flat-rate benefits for people who were unable to contribute regular payments.<sup>14</sup> For a country to be able to retain a high 80 per cent of former earnings to contributors, recipients on the lower, secondary system could find their minimal benefits squeezed further.

A social insurance scheme would also be far more costly than the flat-rate system. In a structure where people were to receive a high proportion of their former income and were not to be means-tested, no-one would receive less than the current flat-rate benefit, and many would get more. The problem with social security was the size of the population it served, for whereas the new ACC payments would cost the country \$5 million more a year, a switch in social security to a similar social insurance system was calculated to cost an additional \$320 million a year. However, if the flat-rate payment system was retained and benefits simply nudged higher to a more comfortable level, the cost would be only \$100 million in additional funding.<sup>15</sup>

### **III DISCARDING THE ROYAL COMMISSION**

Perhaps the most important point about the Royal Commission on Social Security was its irrelevance to the decade of the 1970s. The events that followed can be read as a cautionary tale suggesting that social security policy is not determined by the rational methods of Royal

---

13 Arthur Seldon *The Great Pension 'Swindle'* (Tom Stacey, London, 1970) 88, cited in New Zealand Royal Commission of Inquiry into Social Security, above, 171, 182.

14 New Zealand Royal Commission of Inquiry into Social Security, above, 140.

15 New Zealand Royal Commission of Inquiry into Compensation for Personal Injury *Compensation for Personal Injury in New Zealand: Report of the Royal Commission of Inquiry* (Government Printer, Wellington, 1967) 22; New Zealand Royal Commission of Inquiry into Social Security, above, 31-32, 174.

Commissions. The following years brought a series of reversals. Whilst social security benefits became more generous in 1972, the National Government failed to index benefits against wages or the cost of living, and the inflation of the 1970s soon negated benefit increases. Labour's new superannuation scheme ignored the Commission's arguments against social insurance, whilst National's swift reversal of this scheme, and the introduction of universal superannuation at the age of 60 years defied the Commission's recommendations that means testing remain for those under 65 years. As numbers of Domestic Purpose Beneficiaries grew, the apparent consensus on the rights of sole parents fragmented, and the concept of fault soon re-surfaced. By the end of the decade the sense of community extolled by the Royal Commission had dissipated.

Income support for the aged suffered the most dramatic changes. The Royal Commission had recommended that the dual structure of benefits for the old be maintained, with means testing for those below the age of 65, and universal benefits after 65 years. From the point of view of ACC, the Labour Government's experiment with superannuation is the most significant move in this decade. The establishment of a social insurance scheme in 1974 was a completely new departure in New Zealand's social security policy, taken without reference to the conclusions of the McCarthy Report. Advisers were from Treasury and private insurance companies, and none of them were women. Only one Department of Social Welfare adviser was brought in at the final planning stages.

The Labour Government's new scheme, called New Zealand Superannuation, related superannuation income strictly to an individual's own earnings and contributions; its principles were those of saving and self-sufficiency rather than redistribution, and far closer to ACC principles. In excluding those who could not work or whose work was paid irregularly, and women who had worked unpaid at home, it was out of kilter with the inclusive mood of the 1970s. The scheme was introduced in 1974, but because it was difficult to understand and granted rewards to only part of the population, it was easily open to attack. Robert Muldoon recognised the potential for political power if he attacked it successfully, and drove off in another direction.

On National's return to power in 1975 the government moved to sweep aside Labour's experimental insurance scheme and introduce Muldoon's universal superannuation plan. This scheme, too, ignored important Royal Commission recommendations by discarding the means test for the aged. The new National Superannuation was extraordinarily popular, for it replaced the previous two-tiered system with a single superannuation benefit; it was easy to understand; it applied equally to men and women at the age of 60, regardless of work experience, and it was generous. The level of payment for married couples was set at 80 per cent of the average ordinary weekly wage before tax and was to be indexed to wage rises.

The generosity of Muldoon's scheme broke right away from the concept of need, and was organised without reference to the Department of Social Welfare ("the Australians thought we were

crazy", remembers one Department of Social Welfare official).<sup>16</sup> It ignored the findings of the first large-scale survey of the living conditions of the elderly, which claimed that most old people lived in comfort.<sup>17</sup> It also ignored research on the needs of families at a time when Brian Easton was arguing that 29 per cent of children lived at a standard of living beneath the income level of age beneficiaries.<sup>18</sup>

The Royal Commission's tolerant concept of a unified community also came under attack as demand for the domestic purposes benefit escalated. In the early 1970s the no-fault concept had received the support of the Justice Department and the Department of Social Security, but what seemed acceptable in theory became a tense issue in practice. As numbers rose quickly, the public was alarmed at the speed of change, and feared the end of marriage as an institution. Women were still poor on the Domestic Purposes Benefit, but the new benefit allowed a woman to be the one to leave a marriage, reversing the traditional position of men. The concept of no-fault – when it involved the sexual freedom of men and women – was far more difficult to maintain than ACC's acceptance of the hazards of road accident and work-place.

As the numbers of sole parents continued to rise the Domestic Purposes Benefit aroused the envy of two-parent working families; women resented a husband's wages being diverted (as it seemed) to the woman next door, and felt far from neighbourly. The grudging attitudes of two-parent working and middle-class families should have exposed how little assessment had been done on family needs. It was only in the mid-seventies (rather than during the process of the Royal Commission) that researchers were beginning to show that families were often less advantaged than elderly people who had held centre stage in social security for decades. Rises in the family benefit in 1979 did little to resolve this problem: by 1983 their value in proportion to wages was close to the nadir of the 1960s. The comparative needs of young and old still needed to be addressed.

Readjustments of superannuation levels saved \$114 million in 1979, but by 1981 New Zealand's spending on superannuation totalled 17.3 per cent of total government spending, compared to 11.1 per cent of spending in Australia and 11.3 per cent in Britain. As the large voting bulk of the aged captured policy, superannuation cut across everything. With more competition for funds as the price of oil rose and national resources became scarcer, the earlier mood of generosity was dissipated, and the unified community which the Royal Commission had advocated became divided by rivalry. The old disparaged the rights of Domestic Purpose Beneficiaries and the unemployed, and yet the apparent scandal of these beneficiaries obscured the seizure of wealth by the "deserving

---

16 Personal communication with Alan Nixon (Member of Commission Secretariat) (5 May 1995 - 19 July 2002).

17 New Zealand Department of Social Welfare *Survey of Persons Aged 65 Years and Over: Report of Results Relating to Social Security Benefit Rates* (Government Printer, Wellington, 1975).

18 Brian Easton "Poverty in New Zealand: Estimates and Reflections" (1976) 28 *Political Science* 129.



class of the old", a powerful constituency which was "broad, articulate, effective and above all respectable".<sup>19</sup> Within seven years of the Royal Commission the system had become more disordered, divisive and expensive than before, and marked by the imbalance of its treatment of different groups in the community.

#### **IV CONCLUSION**

In 2003 an imbalance persists, both within the social security system itself, and between the social security and accident compensation systems. In the 1960s and 1970s ACC and social security were each tightly encapsulated within their own distinctive ethos and legislative framework, each derived from a different tradition. It is surprising that while contests escalated between the rival groups appealing for social security in the 1970s, there was no sense of contestation between the two parallel systems of income support. Anomalies between the treatment of accident and illness (between the man who fell out of the apple tree and the man who ate the fruit) have become more apparent. The growing difficulty of maintaining ACC payments in recent years, and the "dropping off" of some of its recipients into the cheaper social security system has forged some ad hoc links between the two systems. Future reviews of ACC should bring a more radical reappraisal of the rights and needs of the whole community – workers and non-workers, young and old – and a more coordinated approach to income support.

---

19 See Michael Katz *In the Shadow of the Poorhouse: A Social History of Welfare in America* (Basic Books, New York, 1986) 267; Margaret McClure *A Civilised Community: A History of Social Security in New Zealand* (Auckland University Press, Auckland, 1998) 202-206.

