

WELFARE, WORK AND WELLBEING

FROM BENEFITS TO BETTER LIVES

BRYCE WILKINSON

FOREWORD BY SUE BRADFORD



**THE
NEW ZEALAND
INITIATIVE**

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2017

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

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ABOUT THE AUTHOR



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Bryce holds a PhD in Economics from the University of Canterbury and was a Harkness Fellow at Harvard University.

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FOREWORD



I have spent much of my life challenging the right of New Zealand politics on its welfare policies and practices, both from long involvement with unemployed and beneficiary organisations and from ten years

as the Green MP responsible for work and welfare issues. It was a considerable surprise to find myself invited to write a foreword to this report.

I accepted the invitation because I believe that, as *Welfare, Work and Wellbeing* suggests, it is past time we found ourselves able to sanely discuss welfare, work and poverty across and beyond traditional sectarian lines.

The greatest common ground here lies in some of the report's overarching propositions. It is indeed true that we have not had a welfare state of which we can be proud for a very long time and that taking employment fully into the equation is essential. So is the suggestion that welfare policy must shift from simply reacting to taking a far more long reaching approach which genuinely achieves durable wellbeing for those affected. The author also gets it right with his assertion that it is not good enough to simply measure the number of people going off working age benefits and count that as a success when there is no assessment at all as to what has actually become of them. Are they sleeping in a bus shelter tonight with no income at all, or have they found a secure, decently paid job? And I would never argue with the notion that welfare policy should empower community capacity and innovation.

It is in conceiving how all this unfolds in practice that considerable differences lie. Much is made here of the investment approach which underpinned the Welfare Working Group's 2011 recommendations and was implemented through a series of legislative reforms outlined in some detail here. As someone who has worked on the frontline of how these changes have affected people in practice, I can assure readers that they are harsh, punitive and

often pointless, frequently leading to deeper poverty, homelessness, and at times life-threatening mental and physical distress. Underpinning the government's programme has been the notion that by using accrual accounting measures, what matters is how much the system can save by keeping or pushing people out of the system. Nothing else counts, literally.

There is no measure of what happens to those who leave the system. There is no way of discovering how many unemployed people simply never approach Work and Income for assistance because they are in fear of the intimidation and personal intrusions implicit in the current regime. The investment approach achieves nothing in itself beyond providing (in some quarters) a sugarcoated excuse for harsh reforms. All the positive results the report sees as possibly arising from social investment, such as making more effective use of government resources, providing better long-term outcomes for people on welfare and improving the way community based social services are funded and delivered would have a better chance of success if the accrual accounting mechanism and its consequential government apparatus were scrapped tomorrow.

The benefits claimed to arise from social investment are illusory. They are not aimed at peoples' real needs in a real economy and in real communities. Current social security legislation, regulation and practice should be thrown out, and a true system overhaul initiated after a major investigation and review undertaken with involvement from all sectors. If this report helps lead to groups as various as the New Zealand Initiative and the organisations with whom I work finding ourselves in the same room seriously sharing analysis and ideas which will lead to the possibility of constructive long term change, that will be a useful contribution in itself.

Sue Bradford
31 October 2017

INTRODUCTION

Work is at the heart of a better quality of life for New Zealanders. Being in paid work rather than on a benefit leads to better health and wellbeing. It brings in extra income, builds pride and connects people to their community.

— Ministry of Social Development (2013)¹

WHY WE ARE IN THE HUNT

This report reviews New Zealand’s benefits system for working-age people (18–64 years).² It follows our earlier reports: *Investing for Success: Social Impact Bonds and the Future of Public Services* (2015), *Poorly Understood: The State of Poverty in New Zealand* (2016), and *The Inequality Paradox: Why Inequality Matters Even Though it has Barely Changed* (2016).

The New Zealand Initiative is addressing these issues because it stands for a free, prosperous, fair, and cohesive society. A good welfare system helps all New Zealanders.

We are at one with those who think how well a community looks after those who cannot look after themselves is a measure of its worth. We want to see New Zealanders with a welfare system they can be proud of. It must care for those who genuinely can’t support themselves. This report agrees with those who think we need to be doing this job better.

Welfare benefits play an important role in this, but policies that increase job and income growth are more important. Civil society – families, friends, neighbours, work colleagues, associations,

societies, volunteers and corporate and private philanthropy – plays a massive role.

Governments must provide a welfare safety net, but that is not where their responsibility ends. They also need to actively help beneficiaries to realise their potential to lead fulfilling and meaningful lives. Passively allowing people to languish on a benefit would not achieve this; nor would the opposite extreme of cutting benefit numbers merely to save government money.

State welfare support is a balancing act. A good system must guard against beneficiaries who could work, but do not. This is a waste of human potential and an unwarranted burden on their fellow citizens. Social cohesion is weakened if taxpayers feel they are being ripped off by those on welfare.³ That dynamic easily leads to a more meagre welfare state. The view that those who can work should work is a mainstream view, in New Zealand and elsewhere.

The welfare system should nourish rather than smother self-help and voluntary and charitable activities. Benefit, education and labour market policies should not unwittingly rupture pathways to fulfilling work. Poor education or health; unduly high housing, transport or child care costs; job-destroying employment laws; and low wage rates relative to benefits are all potential barriers to work. Those on benefits may feel dispirited and trapped that ‘the system’ is against them. Those paying for it may feel aggrieved. Divisions arise.

The trick is to get a laudable balance between the contending considerations. We have not had one in recent decades. It seems nearly everyone agrees with that.

¹ Ministry of Social Development (MSD), “Statement of Intent 2013–2016” (Wellington: New Zealand Government, 2013), 13.

² For a discussion of options to respond to the fiscal pressures of our ageing population, see Bryce Wilkinson and Khyati Acharya, “Guarding the Public Purse: Faster Growth, Greater Fiscal Discipline” (Wellington: The New Zealand Initiative, 2014).

³ A 2014 survey of 1,013 New Zealanders found that only 12% attributed child poverty in New Zealand to systemic failures and lack of government support. See Bryce Wilkinson and Jenesa Jeram, “Poorly Understood: The State of Poverty in New Zealand” (Wellington: The New Zealand Initiative, 2016), 33.

WHAT IS TROUBLING US - AND NEARLY EVERYONE ELSE

Our earlier reports on poverty and economic inequality documented the considerable extent of material hardship, poor educational achievement and health, and child neglect and abuse in New Zealand, despite huge increases in government social spending. A Salvation Army report highlighted this troubling development in 2008.⁴

In 1970, only 2.0% of the working-age population were on a sickness, invalid's, miner's or widow's benefit. In 2012 the corresponding figure was 9.8%.⁵ In June 2017, the proportion on a main benefit was 9.8% (276,331 working-age adults). A much greater number (approximately 500,000) received income support from the Ministry of Social Development (MSD) in the year ended June 2017, or nearly 20% of the working-age population.⁶

Our poverty report, *Poorly Understood*, found particularly high incidences of material hardship in sole-parent, Māori and Pacific households, and higher among children than adults. In 2014, around 80,000 (8%) of those aged 0–17 years were facing severe material hardship; for a less stringent threshold it was 145,000 (14%). Current spending is a better indicator of hardship than current income.

One impoverishing factor is restrictive land use regulation. Both *Poorly Understood* and *The Inequality Paradox* highlighted the disproportionate effect of rising house prices on those on lower incomes.

In 2012, the Children's Commission's Expert Advisory Group identified a compendium of other issues contributing to hardship: low educational achievement and skills; insecure and/or poorly-paid work and benefit levels; parental separation; teen-parent situations; families with debt; gambling, drug and alcohol abuse problems; family violence; chronic and disabling mental or physical health problems; and parental absence due to imprisonment, among others.⁷

Child abuse and neglect is also a much greater concern today. In 2014, child welfare officers handled 146,657 notifications, 22 times more than the 6,607 cases handled in the year ended March 1961. Yet the number of children under age 18 is only 30% higher. The rate of substantiated physical abuse rose from 2.5 children per 10,000 in 1967 to 29 in 2014.⁸ The incidence of child maltreatment in New Zealand is now very high in international comparisons.⁹

Contact with the authorities (MSD's Child Youth and Family (CYF) section) during childhood and early adolescence is a good indicator of abuse or neglect.¹⁰ Robert Templeton et al found that of 62,418 babies born in the year ended June 1991, over 9,000 (14.9%) had been drawn to the attention of the authorities for care and protection reasons before age 18. Ethnically, the incidence ranged between approximately 28% for Māori and 4% for Asian children. Approximately 2,700 (4.4%) had

⁴ It contrasted the big increase in social spending with the "somewhat mixed and in some areas quite disappointing" outcomes. The Salvation Army, "What Does it Profit Us?" State of the nation report (2008), 2.

⁵ The 2012 figure includes those on the domestic purposes benefit. Without that benefit, it would have been 5.7%. This is the last year for which such statistics are available.

⁶ The figure includes the 126,286 who came off their benefit(s) that year, and those getting supplementary benefits and benefits for orphans. Taylor Fry, "Valuation of the Benefit System for Working-age Adults 2016" (Wellington: Ministry of Social Development, 2017), 6.

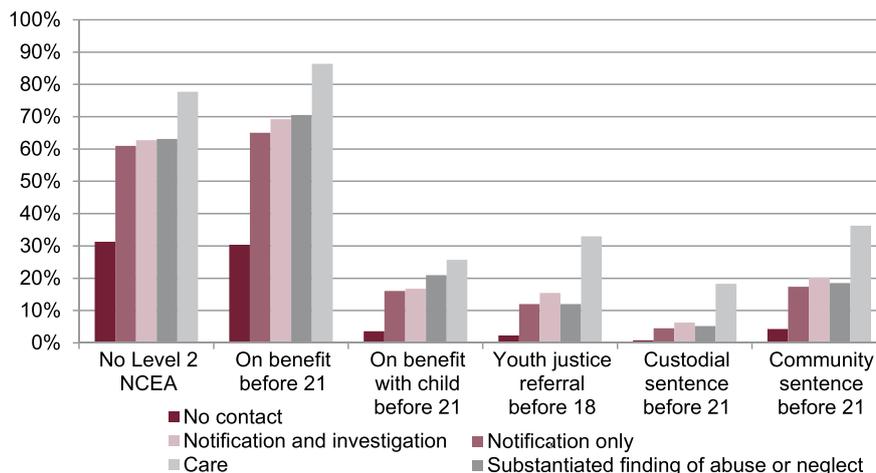
⁷ Expert Advisory Group, "Solutions to Child Poverty in New Zealand: Evidence for Action" (Children's Commissioner, 2012), 13.

⁸ Lindsay Mitchell, "Child Poverty & Family Structure: What Is the Evidence Telling Us?" Report to Family First (2016), 5.

⁹ Dannette Marie, David M. Fergusson, and Joseph M. Boden, "Ethnic Identity and Exposure to Maltreatment in Childhood: Evidence from a New Zealand Birth Cohort," *Social Policy Journal of New Zealand* 36 (August 2009), 154–171, 154.

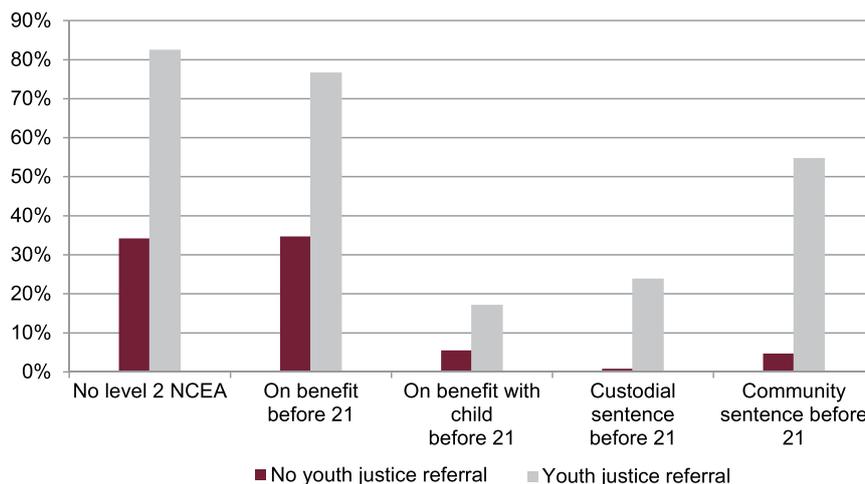
¹⁰ Taylor Fry, "Valuation of the Benefit System for Working-age Adults as at 30 June 2015," MSD, 2016, 9.

Figure 1: Misery at 21 from earlier care or neglect



Source: Integrated Child Dataset. Note: The population is identified using Ministry of Education data on school enrolment since 2006. The analysis uses a research linkage (linkage 5), and it is important to note that data linkage errors mean that the figures should be viewed as estimates.

Figure 2: Misery at 21 from earlier youth justice issues



Source: Integrated Child Dataset. Note: The analysis reflects the population at 30 June 2012 and, in this case, is identified using Ministry of Education data on school enrolment since 2006. The analysis uses a research linkage

come to the attention of the authorities between ages 10 and 16 for youth justice reasons.¹¹

Outcomes at age 21 are dramatically worse for those who had earlier care or protection issues. Figure 1 reproduces Figure 5 from Templeton et al. For example, almost 80% had not achieved NCEA level 2, as against just over 30% for those who had no contact with the authorities for care or protection reasons.

Note from Figure 1 that educational outcomes were very poor even for notified cases that were neither investigated nor substantiated. Notification alone indicates a substantial risk of reduced life opportunities by age 21.

Outcomes at age 21 are similarly poor for those who had come to the authorities' attention by age 18 for youth justice reasons. Figure 2 reproduces Figure 6 from Templeton et al. Over half of those with youth justice issues also had care and protection issues.

¹¹ Robert Templeton, et al. "Research Using Administrative Data to Support the Work of the Expert Panel on Modernising Child, Youth and Family" (2016), 3, 5–8.

In short, a substantial proportion of the working age population seems likely to be wrestling

with problems that arose during childhood or adolescence.

New Zealand should be doing better. It is a much more prosperous country today. Income per capita is now approaching twice what it was in 1970¹² and the minimum wage is 50% higher, inflation adjusted.¹³ Household durables that were a luxury or unknown are now cheap necessities.

Health should be a positive story. Life expectancy is up¹⁴ and infant mortality is down.¹⁵ Government spending per capita on health care is more than three times greater than in 1970.¹⁶

Yet the proportion of the working-age population on the sickness and invalid's benefit was six times higher in 2012 (5.4%) than in 1970¹⁷ (0.9%) – for no settled reason.¹⁸

¹² Real GDP per capita in the year ended March 2017 was 89%, 137% and 171% higher than in the years ended March 1970, 1960 and 1950, respectively.

¹³ In 1970, the adult male rate was \$5.20 per day, or \$80.59 in June 2017 dollars. The minimum wage in June 2017 was \$126. Of course, households that do little paid work benefit less from higher wage rates.

¹⁴ Life expectancy at birth in, say, 1950 was 77.2 years for men and 82.1 years for women. In 2010, it was 89.8 years for men and 92.5 years for women. Statistics New Zealand, "Online calculator," Website.

¹⁵ The death rate per 1,000 live births was 22.6 in 1960 and 5.2 in 2011, according to the OECD's Factbook series.

¹⁶ Government spending on health care was more than three times higher per capita in 2016 than in 1965. Specifically, it was \$3,363 per capita in the year ended June 2016 and \$1,134 per capita 1970 (both in 2015–16 dollars. Authors' calculations are based on Treasury's long-term fiscal data for public spending on health, and Statistics New Zealand's figures for population and consumer prices.

¹⁷ This Ministry of Social Development (MSD) data series ends in 2012 because of the subsequent changes in benefit categories.

¹⁸ See Moira Wilson and Keith McLeod, "Understanding the Growth in Invalid's Benefit Receipt in New Zealand," *Social Policy Journal of New Zealand* 29:2 (November 2006); Michael Fletcher, "Addressing the Growth in Sickness and Invalid's Benefit Receipt," Report for Treasury (2009); Andrew Morrison, "Welfare Benefits Trends in New Zealand," 2000/13 (Parliamentary Library, 3 August 2000).

The fiscal burden of welfare benefits is significant for taxpaying households. The annual cost of paying working-age benefits exceeds \$7 billion, according to the State Services Commission.¹⁹ On 30 June 2017, 73.6% of those on a main benefit had been on one for longer than one year.²⁰

Individuals who rely enduringly on a benefit can find themselves in a corrosive situation:

[O]ngoing reliance on welfare support can have a potentially corrosive impact on childhood and family outcomes and ... is associated with the limiting of opportunities across the life span ... Just as concerning is the evidence for a link between the intergenerational transmission of welfare dependency ... and the development of structural or concentrated poverty ...²¹

Ministry of Social Development's (MSD) fact sheets show the distribution across benefits categories of the 203,773 working-age beneficiaries in June 2017 who had been on a main benefit for longer than one year (see Figure 3). For example, at June 2017, 88,349 (43%) of the 203,773 were receiving the supported living payment.

The main benefits categories (since 2012) comprise:

- Jobseeker Support (those who should be seeking and finding jobs);
- Supported Living Payment (those who are permanently and severely restricted in their ability to work (more than 15 hours a week) for at least two years, or caring for someone);

¹⁹ This figure excludes administration costs, accommodation supplements, in-work tax credits, and much else. All up, Treasury's long-term fiscal series puts the spending at around \$10.5 billion. State Services Commission, "More Effective Public Services Result 1: Reducing long-term welfare dependence," Website (3 May 2017). Annual government spending on social services more generally is around \$34 billion (Productivity Commission, "Better Social Services," (2015) Overview, 5).

²⁰ MSD Benefit Fact Sheet June 2017.

²¹ Dannette Marie, David M. Fergusson, and Joseph M. Boden, "Ethnicity and Pathways to Welfare Independence in a New Zealand Birth Cohort," *Policy Quarterly* 7:2 (May 2011), 15.

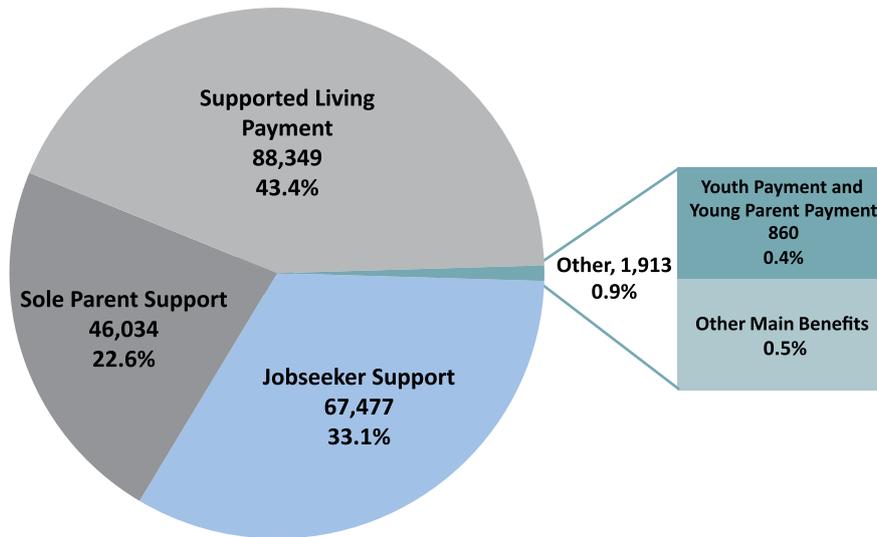
- Sole Parent Support;
- Youth Payment and Young Parent Payment; and
- ‘Other Main Benefits’, which exclude Youth Payment and Young Parent Payment.

Almost half (47%) of all 116,776 jobseekers had a health condition or disability in June 2017. Their work obligations were deferred for up to six months in most cases.

Understandably, the largest proportion of people on benefits for more than one year are supported living payment recipients (43%), followed by jobseekers (33%) and sole parents (23%).

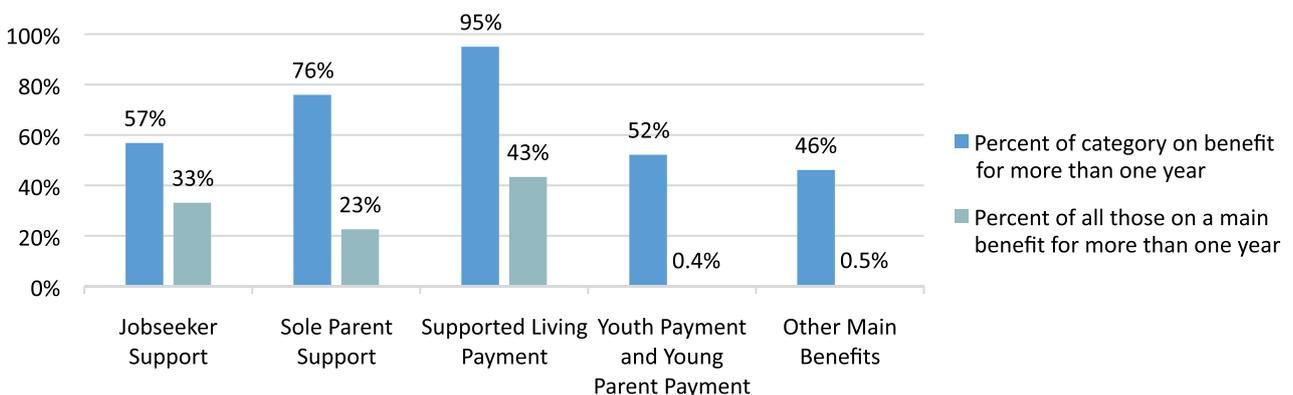
Figure 4 replicates the proportions in Figure 3, but sets them alongside the proportions of all those in each category who have been on a benefit for more than one year. For example, 95% of those receiving a Supported Living Payment in June 2017 had received it for more than one year, but, as shown in Figure 3, these accounted for only 43% of those who had then been on a main benefit for more than one year. The next highest proportion for a main category was 76% for Sole Parent Support, and 57% for Jobseeker Support. Imagine the fortitude needed to conscientiously seek work for more than a year, and keep up your spirits. Tens of thousands of people were trying to do just that.

Figure 3: Working-age benefits longer than one year (June 2017)



Source: MSD, National Benefits spreadsheet (June 2017).

Figure 4: Proportions of recipients on a benefit for more than one year (June 2017)



Source: MDS fact sheet (June 2017).

Chapter 2 in this report documents evidence of the prevalence of low self-esteem and life satisfaction among the unemployed (also see above). Who could be surprised? Importantly, this is intrinsic to the unemployment situation rather than the personality of the person. On the evidence, most people experience a slump in self-assessed wellbeing after being made redundant.

The 'Other' main benefits category in Figure 3 formed only 0.9% of the longer duration total, but 52% of those on Youth Payment and Young Parent Payment had been on the benefit for more than a year.

Do not be misled by the small proportion (0.4%) in the youth and young parent payment category. In time, a continuing trickle through such a pipeline of misery can fill a reservoir.

As will be seen in chapter 1, actuaries have been estimating the evolving future fiscal cost of working age beneficiaries for several years now. In their 2016 report, Taylor Fry estimated the future fiscal cost of beneficiaries in June 2016 who first entered the benefit system through this pipeline to be \$26 billion (34% of its estimate for all those of working age on a benefit in June 2016). For the larger group of working age beneficiaries in June 2016 who first entered the benefit system as teenagers, the estimated future fiscal cost was \$57 billion (75% of the total).²²

There is overwhelming evidence of self-perpetuating, intergenerational benefit dependency. Troubled parents beget troubled youths who disproportionately become long-term, high cost, beneficiaries. Taylor Fry found that 9 out of 10 of those on a youth benefit in June 2014 were from beneficiary families. More generally:

... inter-generational correlations are very strong. ... Nearly three quarters (74%) of all beneficiaries up to age 25 had a parent on benefit while they were a child, and just over a third (35%) had a parent on benefit throughout their teenage years.²³

²² Taylor Fry, "Valuation of the Benefit System for Working-age Adults 2016," op. cit. 14, 59.

²³ Key Findings – Highlights p 5 from Taylor Fry "2014 Benefit System Performance Report for the year ended 30 June 2014", MSD, February 2015, 46–47. Downloaded from <http://www.msd.govt.nz/documents/about-msd-and-our-work/newsroom/media-releases/2015/taylor-fry-key-findings.pdf>

Taylor Fry's 2016 report concluded that the number entering the benefits system at a young age was an indicator of both intergenerational benefits transmission and family vulnerability, "including abuse and neglect in childhood and youth."²⁴

Its 2016 report calculated that long-term beneficiary families were 1.5 times more likely to have a history of youth justice or criminal conviction. Young adult beneficiaries with a history of neglect or abuse were 1.6 times more likely to come from a long-term beneficiary family. They were also 1.7 times more likely to have a youth justice or criminal record.²⁵ It added that mental illnesses afflict younger beneficiaries disproportionately.²⁶

Reflecting the accumulated misery, one-fourth of all beneficiaries in 2015 had criminal convictions (40% of males). This 25% group accounted for 32% of the overall fiscal cost.²⁷

Taylor Fry also projected that for every 100 people under age 25 entering the benefit system after June 2017, 67 will have had a parent on a main benefit, 32 will have come to the authorities' attention for child care or protection reasons and 15 to have had youth justice event or an adult criminal conviction.²⁸ It illustrated the breadth of this inter-generational pipeline to benefit dependency by pointing out that parents on a main benefit in June 2014 were supporting around 200,000 children (19%) under age 18.²⁹

²⁴ Taylor Fry, "Valuation of the Benefit System for Working-age Adults as at 30 June 2015," op. cit. 9.

²⁵ Taylor Fry, "Valuation of the Benefit System for Working-age Adults 2015," op. cit. Table 4.2, 65.

²⁶ Taylor Fry, "Valuation of the Benefit System for Working-age Adults 2016," op. cit. iv. The report finds that the illness itself does not affect the duration on a benefit independently of the age effect.

²⁷ Taylor Fry, "Valuation of the Benefit System for Working-age Adults as at 30 June 2015", op. cit. 10, 62.

²⁸ Taylor Fry, "Valuation of the Benefit System for Working-age Adults 2016," op. cit. 20.

²⁹ Taylor Fry, "2014 Benefit System Performance Report for the year ended 30 June 2014," op. cit. 43.

On these figures, roughly 70,000 of these children could be on a benefit by age 25.³⁰ Tyler Fry estimated that, in June 2016, the lifetime average cost of benefits to those entering the benefit system aged 15–19 was \$159,000; for those entering for the first time when aged 20–24 it was \$80,000.³¹ So if nothing is done, billions of dollars of future working age benefit spending is in the child-rearing pipeline, along with much misery and unfulfilled potential.

These estimates focus on benefit costs. The fiscal costs are much greater if state spending on the police, corrections and health care is included. The Productivity Commission’s 2015 report found that lifetime spending on the 10,000 highest cost cases could average \$500,000, with a combined cost of \$6.5 billion. It concluded that major wellbeing and fiscal gains should be possible with a better approach.³²

New Zealand does indeed need to do better.

WHAT THIS REPORT IS ABOUT

This report reviews and evaluates government initiatives to help benefit dependent people (or who may be in the future) lead more independent and fulfilling lives.

Chapter 1 reviews the government’s initiatives to address the issues facing the benefits system in New Zealand.

Chapter 2 argues that New Zealand is neither alone nor an early mover in helping people move from benefits to work. It also comments on outcomes in New Zealand to date.

Chapter 3 asks what is missing from the government’s approach. What else could and should be done to realise more of its potential.

A final section sums up the report and our recommendations.

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³⁰ This assumes an ongoing proportion of beneficiaries to the total population of 9.8%. The proportion of children of beneficiaries who might become beneficiaries themselves is $0.098 * 0.67 / 0.19 = 35\%$.

³¹ Taylor Fry, “Valuation of the Benefit System for Working-age Adults 2016,” *op. cit.* Table 4.3, 60.

³² Productivity Commission, “More Effective Social Services” (Wellington, 2015) overview, 3.

CHAPTER ONE

THE QUEST TO REDUCE BENEFIT DEPENDENCY

[The] scale and consequences of long-term benefit receipt are deeply concerning ... [The welfare system] is not sustainable, it does not provide equal and fair opportunities for those people on different benefit types and it is associated with poor social outcomes.

— Paula Rebstock, Welfare Working Group (2010)³³

How can government help benefit-dependent people gain independence?

The National-led government put this question to officials in 2008, only to find they had little or no idea. Previous governments had not made it a priority³⁴ as voters had not required them to. As then Finance Minister Bill English said, “Borrowing and committing billions of dollars on good intentions has been the post-war model.”³⁵

Years earlier, Treasury’s 2002 Post-Election Briefing observed that government agencies are generally poor at evaluating, reporting and monitoring their own activities. This was partly due to lack of expertise, ill-allocated expertise, resistance from interest groups, and cost and time factors. This

briefing left unsaid that if a minister insisted on rigorous analysis, expertise could be hired.

In a 2016 paper, Superu head Len Cook examined the reasons for such neglect. One was public pressure on politicians to ‘do something’ in response to the latest media furore. It can lead to ill-justified, reactive policies. The political commitment to these policies weakens agencies’ incentives to assess them rigorously.³⁶

Ill-justified spending is an irresponsible use of taxpayers’ money. The government set up a Welfare Working Group in 2010 to advise it how to reduce long-term benefit dependency among working-age people. Its recommendations in 2011 centred on creating a more work-focused benefits system. There is bipartisan expectation that those on benefits but able to work should not be on a benefit. Labour’s Working for Families programme in the mid-2000s recognised this in seeking to make sure that there was a financial incentive to work.

What is new is the much greater statistical focus on finding risk factors and what works, even if it means spending more in the short term to help people get off benefits sustainably.

³³ Paula Rebstock, “Long-Term Benefit Dependency: The Issues” (Wellington: Welfare Working Group, 2010), 1.

³⁴ For example, the then-Minister for Social Development and Employment’s publication “Opportunity for All New Zealanders” (2004) reviewed all the main components of annual social spending of \$78 billion. It identified residual unsatisfactory outcomes in each case, for which the posited remedy was yet more spending. The efficacy of existing spending was not considered.

³⁵ Bill English, “The welfare system should be reducing misery rather than merely servicing it,” Annual John Howard Lecture (Melbourne: Menzies Research Centre, 25 June 2015).

³⁶ Len Cook, “What Makes Evaluation ‘Fit for Purpose’” (Wellington: Superu, 28 October 2016).

TOUGHER WORK TESTS 2012–2013

The reforms of 2012–13 were motivated by the concern that benefits system was “creating too many vulnerable people and trapping them in a life of limited choices, poverty and poor health.”³⁷

The government said it was reforming welfare by:

- ensuring those who can work, do work and supporting them to do so
- targeting resources at those most at risk of long-term welfare dependence
- helping young people to make better choices and to stay in education, training or work
- simplifying the benefit system
- clamping down on welfare fraud.³⁸

The first stage of reforms in 2012 included greater work obligations for sole parents and mandatory wraparound services for young people and teen parents on a benefit. Most radically, benefits to young people would be managed by paying providers directly essential costs like rent and power.

The second stage of reforms began in 2013. Seven benefits categories were merged into three based on varied work expectations: jobseeker support; sole parent support; and supported living payments for people severely restricted by illness, injury or disability (see Figure 3 and accompanying text).

These reforms also increased the obligations of beneficiaries and their partners. Sole parents were expected to seek part-time work when their youngest child turned five (reduced to three years by the 2015 Budget). Beneficiaries who have an additional child face job seeking/preparation obligations when the baby turned one.

Beneficiary parents were also obliged, among others, to enrol their child in early childhood education (and later school) and with a primary health provider for up-to-date core health checks.

Jobseekers were expected to be drug-free and engaged in jobseeking and job preparation.

Graduated sanctions were imposed on beneficiaries failing to meet these obligations. Beneficiaries with dependent children could lose up to 50% of their benefits, sometimes even up to 100%.

Many trial programmes to improve outcomes are underway or being developed.

SOCIAL INVESTMENT APPROACH

The last National-led government brought its various social initiatives under the “Social Investment Approach” (IA) umbrella. English explained it as being willing to spend more today to get better results tomorrow for the most vulnerable New Zealanders, lowering future fiscal costs.³⁹

A special purpose Social Investment Unit (SIU) was set up in April 2016 to drive IA. The IA’s approach to social services was to have:

- 7.1 A particular focus on vulnerable or high-risk groups.
- 7.2 Investing up-front to support people most at risk of poor outcomes later on in life.
- 7.3 Greater input from outside the public sector in analysis, innovation and service provision.
- 7.4 Working with local organisations to purchase outcomes for and on behalf of communities.
- 7.5 New citizen-centred services that cut across existing departmental service channels.⁴⁰

³⁷ Paula Bennett, “Welfare reform,” Press release (Wellington: New Zealand Government, 29 February 2012).

³⁸ Ibid.

³⁹ Bill English, “The welfare system should be reducing misery rather than merely servicing it,” *op. cit.*

⁴⁰ Social Investment Unit (SIU), “Implementing Social Investment,” Cabinet Paper (December 2015), 2.

The government's response to a Productivity Commission's report on how to achieve more effective social services gave a slightly different description.

Social investment is about putting the needs of people who use public services at the centre of decisions on planning, programming and resourcing by:

- focusing on long-term outcomes
- setting clear, measurable goals for helping people who rely on public services⁴¹
- enabling people to work together when needed to improve outcomes
- using information supported by technology, to understand the needs of people and what services they are receiving
- systematically measuring the effectiveness of services, so we know what works well and what doesn't, and know what to change
- focusing on what needs to happen to achieve outcomes, and who is best placed to do that.⁴²

Each item seeks better longer-term outcomes by focusing on the needs of the individual. Good fiscal outcomes should follow from good individual outcomes.

The New Zealand Labour Party's Manifesto 2017 described its social investment approach as being "about investing in our people for the betterment of all". It added that this "requires a long-term outlook combined with greater inputs into public services".⁴³ Back in 2000, Steve Maharey, then Minister of Social Services and Employment, described Labour's social investment model as

involving "community, strong institutions and a dynamic market economy."⁴⁴

LENGTHENING THE FOCUS – THE ACTUARIAL APPROACH

A broad goal of IA is to assemble and use the data spread across government departments about individuals to answer questions such as 'what works, for whom, where and at what costs'.⁴⁵ The integrated data infrastructure (IDI) enables 'at risk' factors to be assessed statistically. It also allows the efficacy of trials to be assessed while preserving anonymity.

Data sharing also gives social service providers much better information about the history of individual clients. English expressed this aspiration as:

Working out what information the policeman can share with the nurse and what they can share with the social worker, and whether the teacher is allowed to know any of it ... when you see these bad cases where there's been terrible things happen to kids, often people knew the story in bits, but no one could see the whole story, and if they could've, they could have saved that child.⁴⁶

The potential privacy issues are troubling. Clear, transparent, credibly enforced rules about data sharing will be necessary.

A novel aspect of IA is to employ actuaries to project future benefits spending on existing beneficiaries under current policies, and express this as a fiscal liability in current dollars.

This approach was informed by the actuarial

⁴¹ This seems at odds with a client centred approach where individuals are helped to achieve their own goals.

⁴² New Zealand Government, "Government Response to Recommendations from the Productivity Commission Report on More Effective Social Services" (Wellington: 2017), 1.

⁴³ New Zealand Labour Party, "Social Development," Manifesto 2017, 1. Accessed October 2017 at https://d3n8a8pro7vhmx.cloudfront.net/nzlabour/pages/8578/attachments/original/1504834539/Social_Development.pdf?1504834539

⁴⁴ Steve Maharey, "Social Welfare in New Zealand," Speech, 15 September 2000, 8. Downloaded October 2017 from <https://www.beehive.govt.nz/speech/Social-Welfare-New-Zealand>.

⁴⁵ Social Investment Agency, "What is social investment?" Website.

⁴⁶ RadioNZ, "Agency information sharing not a risk – English" (19 April 2016).

approach used by insurers and the Accident Compensation Corporation (ACC).

The 2012 ‘pre-reform’ baseline valuation by actuary Taylor Fry put the future fiscal liability of those receiving a main working-age benefit in 2010–11 at \$78 billion.⁴⁷ It also assessed the likely future fiscal costs of different categories of beneficiaries.⁴⁸ Each category represented a common set of characteristics. The actuaries had to assess the likely time on the benefit for those in each category. To do that they had to assemble a lot of data, and analyse it for general features and tendencies.

Reducing benefit dependency would reduce future spending on existing beneficiaries. That reduces the calculated actuarial liability.

The fiscal focus of the actuarial liability imposes a long-term perspective and ensures that high cost

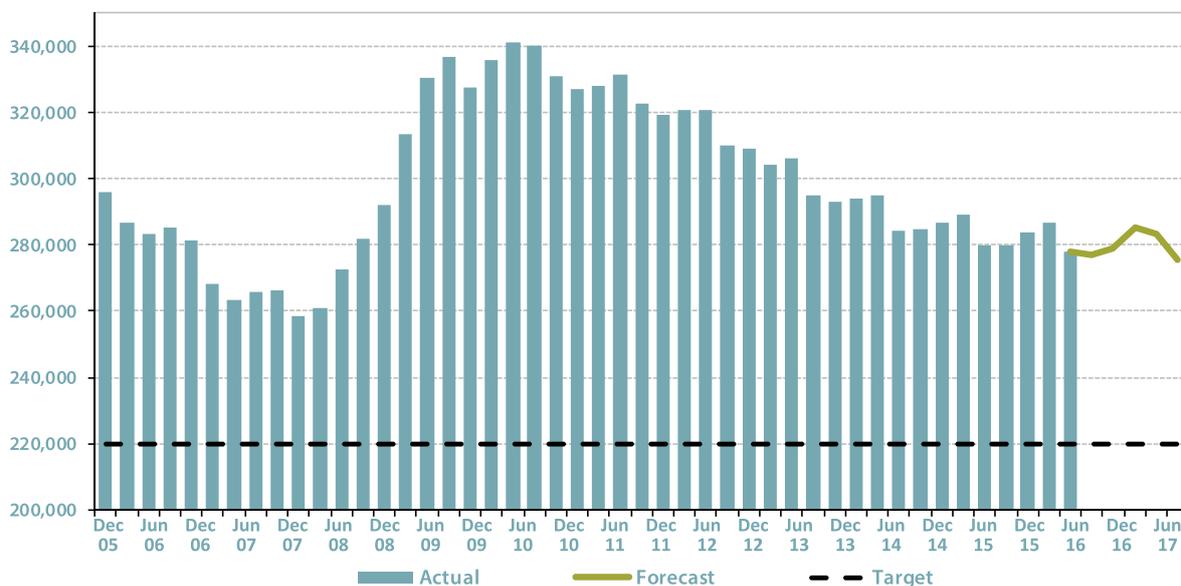
but near-intractable cases are not dumped into the ‘too hard’ basket.

Valuations have since been done annually – the latest being the June 2016 valuation. It put the liability in 2015–16 at \$76 billion, excluding subsidies for income-related rents. The valuations included informative findings of associative risk factors (see Introduction.)

CHALLENGING GOALS FOR LEAD AGENCIES

IA builds on the Better Public Services (BPS) programme launched in 2012. BPS sets challenging timeframes for challenging targets and assigns accountabilities to lead government agencies, which should publish publicly accessible progress reports annually.

Figure 5: Progress to beneficiary number target (2005–18)



Source: State Services Commission, “Better Public Services Result 1: Reducing long-term welfare dependence,” Website (3 May 2017).

⁴⁷ Taylor Fry, “Actuarial Valuation of the Benefit System,” NZSA Conference 2012 (19 November 2012). Tier 1 benefits (main benefits) accounted for \$53 billion; tier 2 (primarily accommodation supplement) for \$14 billion; and tier 3 (primarily non-recoverable hardship assistance) \$4 billion. The rest (\$7 billion) was mainly MSD expenses.

⁴⁸ Ministry of Social Development (MSD), “Key Findings and Background Facts” (Wellington: New Zealand Government, 2012).

Early BPS targets aimed at reducing long-term benefit dependence, reducing assaults on children, increasing infant immunisation, increasing educational participation and achievement, reducing recidivism and violent crime, and improving the community’s interactions with government. There is also a social housing target.

Most relevant to this report is the target to reduce long-term benefit dependence. The ambitious Results 1 target is, from June 2014, to “reduce [MSD] working-age client numbers by 25% (from 295,000 to 220,000) and achieve an accumulated actuarial release of welfare liability of \$13 billion by June 2018.”⁴⁹ Figure 5 shows the State Services Commission’s (SSC) progress on the first goal. Despite material reductions, the pre-2011 trend decline has not accelerated.

The reduction in actuarial liability by June 2018 is likely to be less than half the \$13 billion target, and the accumulated actuarial release from 30 June 2014 to 31 March 2017 is \$4.7 billion. (see Figure 6).⁵⁰

Taylor Fry’s 2016 valuation put the *cumulative* reduction in the liability “over the five years of

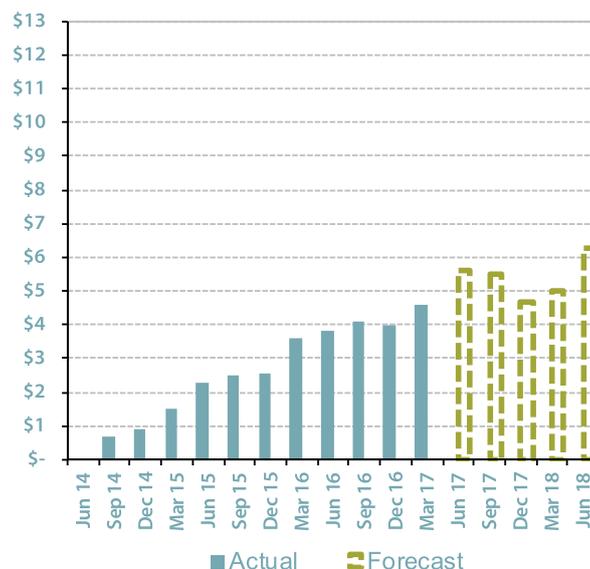
change considered to be under management influence” at about 17.5% of the value of the liability in 2011, or \$13.7 billion. That is equivalent to 1.3 million fewer years on main benefits in the lifetimes for those who were on a benefit for the 2012 valuation. It assessed that over three-fourths of this reduction was attributable to policy and operational changes.⁵¹

BPS targets other than the actuarial release target may not align well with IA. They invite agencies to focus on easy cases rather than the most complex cases. Easy cases can be lifted across the arbitrary boundaries the targets create without much regard to costs and enduring fiscal or wellbeing benefits.

TARGETING FISCAL LIABILITY OR WELLBEING DIRECTLY?

The goal of reducing the fiscal liability forces a focus on better sustainable outcomes for the most complex and potentially costly cases. That is a virtue of a long-term measure. Of course, the overlap with wellbeing will be imperfect. Measures

Figure 6: Progress to actuarial release target (2014–18)



Source: State Services Commission, “Better Public Services Result 1: Reducing long-term welfare dependence,” Website (3 May 2017).

⁴⁹ State Services Commission, “Better Public Services Result 1,” op. cit.

⁵⁰ Ibid.

⁵¹ Taylor Fry, “Valuation of the Benefit System for Working-age Adults 2016,” op. cit. 11, (also iii and 32) and Anne Tolley, “2016 valuation of the benefit system for working-age adults,” Press release (Wellington: Ministry of Social Development, 17 May 2017).

of the wellbeing of those exiting the benefit system need to be monitored on an ongoing basis to keep the fiscal goal aligned with wellbeing.

With this need in mind, the last National-led government approved a Welfare Reform Evaluation Plan to consider options for broader goals.

Questions it considered include:

- How sustainable are employment outcomes?
- Where clients have obtained work, have their earnings improved over time?
- Where clients have obtained work, has their income improved over time?
- To what extent are clients who have moved into work financially better off than they were on benefit alone?⁵²

The Ministry for Vulnerable Children, established in April this year, was developing a model based on economic and social measures of wellbeing, in contrast to the fiscal liability model.⁵³ Facets of wellbeing can be assessed, but how to weight them is troublesome. That difficulty impairs accountability compared to the pursuit of a fiscal measure.

Some statistics tracking the outcomes of people who leave benefits have been published, and more are being collected.⁵⁴ They will help inform outcome assessments, but more attention to tracking outcomes from interventions is needed.

SIDESTEPPING SILOS

Government departments are organised functionally. For example, welfare, health, education, corrections are separate agencies, each with its own budget and area of expertise.

These departments are adopting elements of IA to help improve their own activities. The Social Sector Board's briefing in December 2016 to the incoming Minister of Social Investment included an appendix summarising how IA was being applied in the public sector by the Ministries of Justice, Social Development, Education, Health, and Te Puni Kokiri, among others. These initiatives use data and analytics to better understand the issues and make evidence-based investment decisions.

The Department of Corrections' 2015–16 Annual Report shows its response to IA. The department is more pro-active about reducing recidivism.⁵⁵ Employment support is now a core service involving employers. Director of Offender Employment and Reintegration Stephen Cunningham says:

[If] we do not proactively engage with employers we limit our ability to secure employment opportunities for ex-offenders. Over the past two years, employers have become a key stakeholder group for Corrections. In that time, 44 employers across New Zealand have offered some 350 positions to offenders.⁵⁶

By May 2017, the department had established arrangements with 100 employers.⁵⁷

⁵² Ministry of Social Development (MSD), "Welfare Reform evaluation plan – July 2013," updated to March 2015, *Insights* (Wellington: New Zealand Government, 2013), 13.

⁵³ Social Sector Board, "Briefing for the Incoming Minister Responsible for Social Investment" (2016), 10. (The incoming Labour-led government in 2017 plans to rename the ministry as the Ministry for Children.)

⁵⁴ Taylor Fry, "Off-Benefit Transitions: Where Do People Go?" (Wellington: Superu, 2017).

⁵⁵ Department of Corrections, "What Corrections Does – Change Lives, Shape Futures," 2015–16 Annual Report (Wellington: 2016).

⁵⁶ Stephen Cunningham, "Employment as a Factor in Desistance from Crime," *Practice: The New Zealand Corrections Journal* 5:1 (July 2017).

⁵⁷ Department of Corrections, "What Corrections Does – Change Lives, Shape Futures," op. cit.

This functional structure is at its best in delivering services independently of those offered to the same individual by other agencies. That serves best those with straightforward needs.

But this structure does not serve those with complex cross-agency needs satisfactorily, as the Productivity Commission notes. There is no single agency to coordinate all the services or offer the best mix to an MSD client.

The Productivity Commission's verdict is that the system "too often performs poorly for those in society with complex needs that span across silos". Currently this relatively small group is experiencing consistently poor outcomes for health, education, benefit dependency and crime. They can experience "a cycle of disadvantage that persists across generations".⁵⁸ A better system would empower those who are competent to coordinate the services they need. Those who can't need "navigators" who can understand their needs and help them.

So how small is the group? Superu reports that 18% of New Zealanders aged 15 and above are experiencing multiple disadvantages⁵⁹ – and urges helping individuals within their family context. More serious cases are likely to be those who were abused or neglected as children. Taylor Fry report that people with a CYF history for care and protection or youth justice incidents make up about 15% of the general population, but 38% of the welfare population in their age cohort and 47% of that cohort's fiscal liability.⁶⁰

⁵⁸ Productivity Commission, "More Effective Social Services: Cut to the Chase," (2015) 2.

⁵⁹ Multiple disadvantage is defined to be lacking in three or more of eight aspects of life domain wellbeing (education, health, income, housing, material wellbeing, safety, and social connectedness). The proportions of those 15 years and older and lacking in each of these aspects are 19.2, 11.6, 6.8, 25.2, 25.4, 20.8, 8.0 and 14.7%, respectively. Superu, "Families and Whānau Status Report" (Wellington: 2017), 9, 92. In 2016, New Zealand's population aged 15 and over was 3.7 million, 18% of that was over 670,000 people.

⁶⁰ Taylor Fry, "Key Findings" in "Valuation of the Benefit System for Working-age Adults as at 30 June 2015," op. cit.

A young person going off the rails might come to the attention of the police and the Department of Corrections, but effective action might mean addressing family, health and education issues. More broadly, preventive action to reduce recidivism might require pooling expertise and funding across the Department of Corrections, Ministry of Education, and Ministry of Social Development.

The government has made a major effort to increase the ability of state agencies to coordinate service delivery for those needing multiple cross-agency services. It has created two new ministerial portfolios, a Minister Responsible for Social Investment and a Minister for Vulnerable Children. The latter was served by a new ministry of the same name.⁶¹ It created the cross-agency Social Impact Unit (SIU) in 2016, which was replaced by the Social Investment Agency (SIA) in 2017. The *Public Finance Act* was amended to provide a new multi-category appropriation facility.⁶² It aims to facilitate cross-agency funding of cross-agency initiatives.

The Ministry for Vulnerable Children was focused on prevention and early intervention for vulnerable children and young adults by integrating cross-government service delivery "horizontally and vertically, rather than operating in silos."⁶³

The outgoing government's initiatives responded to the problem that complex cases account for most of the actuarial liability. Even so, their effectiveness was far from assured, Silo actions will continue to be core business for long-standing state agencies. Conflicts over priorities between them and the new Ministry seem likely. It will likely take considerable ongoing Ministerial direction, energy and oversight to make a cross-agency approach work well.

⁶¹ As already mentioned the incoming Labour-led government is removing the "Vulnerable" word.

⁶² Treasury, "What is Changing in the Public Finance Act: Multi-Category Appropriations" (2013).

⁶³ Ministry of Social Development (MSD), "Investing in Children Programme," Website.

TAPPING INTO NON-GOVERNMENT EXPERTISE

On society's toughest social problems, the state sector does not have all the answers.⁶⁴

IA broadens opportunities for funding and delivering social services. Measuring the effectiveness of social programmes allows private charities and providers to contribute. As long as providers can prove the worth of their activities it shouldn't matter whether they are public or private.

The government already funds about 2,000 non-government organisations (NGOs) through MSD.⁶⁵ It is pursuing several pilots and initiatives involving private delivery agents and local communities to get better outcomes for individuals. These initiatives may incorporate IA features.

Space does not permit detailed discussion of all pilots and initiatives. Here is a list of some of them:

- Place-based initiatives;
- Social impact bonds;
- Tamaki regeneration;
- Social sector trials;
- Children's teams;
- Whānau Ora; and
- Enabling Good Lives.

Of these, Place-based initiatives come closest to illustrating IA. Local governance boards, in a step towards devolution, provide integrated social services to improve outcomes for vulnerable children in local communities. They are being trialled in South Auckland, Northland and

Tairāwhiti. The government hopes to cede more control in due course.⁶⁶

Social impact bonds were discussed in-depth in an earlier report.⁶⁷ The pilot bond is still in its early stage. Some countries are well ahead of New Zealand.

Tamaki Regeneration is Auckland's biggest housing project. Tamaki is a poor region with many dilapidated state houses. The project aims to replace around 2,600 state houses with 7,500 new homes.⁶⁸ There are lesser known IA aspects to the project.

Social sector trials are location-specific collaborations between local and central government agencies to improve outcomes for troubled youth aged 12–18. In 2016, Minister for Social Development Anne Tolley said 11 out of the 16 pilots would “transition to new community-led models with a less narrow focus for the delivery of services by the end of the year, using evidence of what has worked in each location and with less central government involvement.”⁶⁹

Children's teams provide vulnerable children with a single point of contact (a lead professional) to coordinate social services. The lead professional could be “anyone from a police officer, to a social worker, a paediatrician or any professional who would have the most to do with that child.”⁷⁰

The Whānau Ora programme arranges navigators to assist families (whānau) receive the social

⁶⁴ Bill English, “The welfare system should be reducing misery rather than merely servicing it,” *op. cit.*

⁶⁵ Richard Wood, “Where now for essential social services,” *Stuff* (29 May 2015).

⁶⁶ New Zealand Government, “Government Responses to Recommendations from the Productivity Commission on More Effective Social Services” (Wellington: 2017), 8.

⁶⁷ Jenesa Jeram and Bryce Wilkinson, “Investing for Success: Social Impact Bonds and the Future of Public Services” (Wellington: The New Zealand Initiative, 2015).

⁶⁸ Treasury, “Briefing for the Incoming Minister of Housing: Monitoring Housing New Zealand Corporation and Tamaki Redevelopment Company [2013]” (20 March 2013).

⁶⁹ Anne Tolley, “Social Sector Trials lead to local-led models,” Press release (Wellington: Ministry of Social Development, 5 May 2016).

⁷⁰ Stacey Kirk, “Faces of Innocents: Children's teams – the ambulance at the top of a precarious cliff,” *Stuff* (31 July 2016).

services they need.⁷¹ Te Puni Kokiri commissions outcomes from non-government commissioning agencies. The Productivity Commission said it has “much potential” but lacked good governance.⁷² The auditor-general was similarly supportive while noting scope for improvement.⁷³

Enabling Good Lives makes services for disabled persons more self-directed and individualised.

CONCLUDING COMMENT – GOOD FOCUS BUT EARLY DAYS

The 2009–17 initiatives are far-reaching but are in line with long-standing state support arrangements for the unemployed; those with sickness, disability and invalidity; and sole parents. This is about getting better results within the long-established benefits system.

The goal of helping more people achieve independence is laudable, and the strategy of

giving more resources to those facing the biggest problems makes sense.

The organisational effort is large, both in terms of public sector structure and focus and in terms of private sector involvement. The set-up costs and effort is considerable. Many trials will likely produce disappointing, if informative, outcomes. That is part of finding out ‘what works’.

The implementation of IA is still in its infancy.⁷⁴ Much of the activity to date has been inside Wellington bureaucracies. Many problems and challenges relating to structure and capacities have to be overcome before a provider-centred system really has a ‘what works’, client-centred focus. It will not be achieved without ongoing commitment at ministerial and cabinet level.

The estimated cumulative \$13.7 billion reduction in fiscal liability to June 2016 is the best, albeit tentative, indicator of how the degree to which long-term benefit dependency has been reduced in five years.

**THE
NEW ZEALAND
INITIATIVE**

⁷¹ Whānau are defined sufficiently broadly to include all ethnic groups, but operationally focus on at risk Māori and Pacific groups.

⁷² Productivity Commission, “More Effective Social Services” (2015), 20.

⁷³ Controller and Auditor-General, “Whānau Ora: The First Four Years” (Wellington: 2015).

⁷⁴ Social Investment Unit (SIU), “Briefing for the Incoming Minister Responsible for Social Investment: Hon Amy Adams” (28 February 2017), 5.

CHAPTER TWO

FULFILLING WORK IS BETTER FOR WELLBEING

One of the most robust findings in the economics of happiness is that unemployment is destructive to people’s wellbeing.

— Jan-Emmanuel de Neve and George Ward⁷⁵

Reducing the number of beneficiaries that are reliant on welfare provision will, in many cases, lead to improved outcomes – both in terms of individual wellbeing and poverty relief, but also improved fiscal, social and economic performance.

— Treasury⁷⁶

What is the relationship between wellbeing and work? What can be gleaned from the overseas literature and experience? What can be said from the New Zealand experience to date? This chapter briefly looks at answers to these questions.

With respect to overseas experience, New Zealand is far from alone in attempting to reduce benefit dependency to a remarkable degree. It is not a first mover. Nor have the overseas initiatives always come from conservative or ‘right-wing’ governments or politicians.

In the United States, the *Personal Responsibility and Work Opportunity Reconciliation Act 1996* was passed under President Bill Clinton, a Democrat, to “end welfare as we know it and transform our broken welfare system by promoting the fundamental values of work, responsibility, and family.”⁷⁷ Clinton was emphatic about the work focus: “The best antipoverty program is still a job.”

In the United Kingdom, a similar charge was led by Labour Prime Minister Tony Blair in 1999:

We are getting people back into work. The New Deal embodies the new ethic at the heart of our reforms – mutual responsibilities. It means government offering real opportunities, but people having an obligation to take them or risk losing benefits.⁷⁸

Such initiatives by progressive leaders should not be a surprise. In democracies, political leaders must respond to evolving public opinion. If a growing proportion of voters think the welfare state is being abused, politicians must take heed.

Critics rightly ask whether tougher benefits eligibility helps some but hurts others more. The ‘what works best’ question is how to design schemes to achieve the first while guarding against the second.

⁷⁵ Jan-Emmanuel de Neve and George Ward, “Does Work Make You Happy? Evidence from the World Happiness Report,” *Harvard Business Review* (20 March 2017).

⁷⁶ Treasury, “The New Zealand Benefit System: Key Problems and Options for Reform,” Report to the Welfare Working Group (Wellington: New Zealand Government, 2010), 5.

⁷⁷ Bill Clinton, “Statement on Signing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996,” The American Presidency Project (22 August 1996).

⁷⁸ Tony Blair, “Child Poverty Speech” (Toynbee Hall, London: Beveridge Lecture, 18 March 1999).

WELLBEING LITERATURE – INVOLUNTARY UNEMPLOYMENT IS THE PITS

The growing literature on wellbeing reflects international interest on the topic. The UN Sustainable Development Solutions Network has produced annual World Happiness Reports since 2012. The 2017 edition had a chapter on the determinants of self-reported life satisfaction, based on surveys from Australia, Britain, Indonesia and the United States. Another chapter explored the effect of work on happiness. Interesting findings included:

- Having a job is of “overwhelming importance” for happiness.
- People don’t adjust much to prolonged unemployment; they don’t get less unhappy the more it continues.
- Unemployment leaves scars. Re-employment does not fully restore happiness to the pre-unemployment level.
- Job security matters. Rising unemployment is also negative for those who remain employed.
- Greater happiness is associated with these job characteristics: high pay, work-life balance, autonomy, job security, social capital, and health and safety risks.
- Manual workers have lower levels of happiness than most other workers.
- Mental illness is more important than low income for unhappiness in Australia, Britain and the United States.
- The key childhood factors for predicting an adult’s level of happiness are the mental health of the mother and the social ambience of the primary and secondary school.⁷⁹

⁷⁹ John Helliwell, Richard Layard, and Jeffrey Sachs (eds), “World Happiness Report 2017” (United Nations, 2017), 5–6.

An (unsurprising) conclusion is the attributes of the job matter for people moving from benefits to work. Unsatisfactory work may or may not be better for wellbeing than not having a job at all. But if it is a stepping stone to a better job, it should be a step to greater wellbeing.⁸⁰

The role of mental health is striking. Eliminating depression and anxiety disorders has a far greater effect on wellbeing than other identified factors, including poverty and unemployment.

In 2012, Stanford University sociologist Cristobal Young reviewed the literature on the factors behind low wellbeing when unemployed. He also used US panel data to find that the biggest factor was non-pecuniary; being out of work strikes at the core of self-esteem, social status, value to others, and purpose.

The non-pecuniary benefits of (meaningful) work are so great, says Young, that getting people into work would do more for their wellbeing than paying them for not working. But since those whose wellbeing would improve the most from such work are least capable of doing effective job search and work preparation, they need help to get jobs.

In contrast, people in work can experience large annual income fluctuations without much effect on wellbeing. Income is welcome, but is not essential to wellbeing. A higher rate of benefit should raise short-run wellbeing for beneficiaries, but helping them into sustainable fulfilling work should produce greater gains.⁸¹

Being out of the labour force (as distinct from being out of work) does not necessarily reduce wellbeing. “People who exit the labor force do not experience a decline in well-being, despite giving up their earnings ... Labor force exits seem, for the most part, voluntary transitions that fit with people’s

⁸⁰ Sue Richardson and Lauren Miller-Lewis, “Low Wage Jobs and Pathways to Better Outcomes,” Working Paper 02/29 (Treasury, 2002).

⁸¹ Maharey, op. cit. 9: “Ideally a welfare system should ensure that person is always better off if they are working than if they are not”.

current life goals.”⁸² Examples include fulltime parenting and resuming studies.

Many unemployed people do quit the labour force, permanently or temporarily. In 2014, around 15% of those exiting the Jobseeker benefit quit the labour force.⁸³ What this does to their wellbeing partly depends on their subsequent social status.

Rainer Winkelmann at the University of Zurich used German panel data to explore the marked variations in the degree of unhappiness among the unemployed.

[T]he most unhappy unemployed people, generally those who are the least employable or who suffer most from feelings of psychological scarcity, have more difficulty finding a job on their own, although they would have the most to gain from a new job.⁸⁴

The stronger the social work ethic, the greater is the wellbeing loss from unemployment. The wellbeing of the unemployed rises in weekends and upon retirement, while loss of work more adversely affects the wellbeing of those who have a strong work ethic or have strong Protestant values.⁸⁵

Since wellbeing loss is not closely associated with duration of unemployment, wellbeing policies need not focus on the long-term unemployed. (Note that the goal of reducing the fiscal liability would be concerned about duration.)

DID U.S. WELFARE-TO-WORK WORK?

Multiple initiatives in the United States since the 1970s have encouraged those who can work to work. Policies reflected public concern about benefit dependency, particularly the growing numbers of benefit-dependent sole mothers with dependent children. The federal *Family Support Act 1988* stressed to states and counties the importance of moving people from benefits to work.

Some of the initiatives dramatically reduced benefits rolls. Wisconsin was a standout example. Its welfare caseload fell by 22.5% from 1986 to 1994. Michael Wiseman of George Washington University attributes this to a combination of factors: restricted eligibility; strong economic growth; and large spending on benefit-to-work programmes.⁸⁶ Wisconsin’s sole parent beneficiary caseload fell from 96,000 to 4,000 in the same period.⁸⁷

The catalyst for these changes were parents who repeatedly told Governor Tommy Thompson they wanted to get off welfare – and they wanted better lives for themselves and their children. Thompson set out to help them by changing the state’s approach.

⁸² Cristobal Young, “Losing a Job: The Non-Pecuniary Cost of Unemployment in the United States,” *Social Forces* 91:2 (December 2012), 609–634, 625.

⁸³ Statistics New Zealand, “Linked Employer-Employee Data (LEED),” Website. Some may have died, gone overseas, retired, or formed a relationship with a working partner.

⁸⁴ Rainer Winkelmann, “Unemployment and Happiness: Successful policies for helping the unemployed need to confront the adverse effects of unemployment on feelings of life satisfaction,” *IZA World of Labor* 94 (2014), 9.

⁸⁵ *Ibid.* 1, 6.

⁸⁶ Michael Wiseman is professor of public policy, public administration and economics at George Washington University. Michael Wiseman, “State Strategies for Welfare Reform: The Wisconsin Story” (Madison, Wisconsin: Institute for Research on Poverty, University of Wisconsin, 1995).

⁸⁷ There was a 96% drop in this caseload. Tommy Thompson, “Welfare Reform,” The New Zealand Centre for Political Research (17 August 2008).

The most important thing we did was to change the message that we sent. Instead of saying “You are not able, we must take care of you for ever”, we said “We believe in you – we believe you share the same values, hopes and dreams that all of us have and we believe that you are able to support yourself; we believe that no matter what troubles you have, what difficulties you face, you can overcome those problems and difficulties and you can succeed. We as the government are here to help – as your partner.”

...

Wisconsin Works built the expectation of work and personal responsibility into the welfare system. We invested in childcare, transportation, and job skills training to make it not only easier for mothers to go to work, but to keep that employment. The message we sent was clear: “Government is not here to take over your lives, it is here to help you so that you take over your own life and become whatever you want to become”.⁸⁸

Informed by such experiences, the federal government passed the *Personal Responsibility and Work Opportunity Reconciliation Act* in 1996. The Act ended the federal cash-based Aid to Families with Dependent Children programme, and required states to develop their own programmes to shift beneficiaries into work using federal grants (Temporary Assistance to Needy Families (TANF)).

The Act’s provisions included:

- ending welfare as an entitlement program;
- requiring recipients to begin working after two years of receiving benefits;
- placing a lifetime limit of five years on benefits paid by federal funds;
- aiming to encourage two-parent families and discourage out-of-wedlock births; and
- enhancing the enforcement of child support.⁸⁹

⁸⁸ Ibid.

⁸⁹ Wikipedia, “Personal Responsibility and Work Opportunity Act,” Website.

After the 1996 Act, the number of federal welfare recipients fell from a peak of 14.2 million in 1994 to 6.3 million in 2000 and to a 30-year low in 2002, surprising sceptics and advocates alike.⁹⁰ The reduction continued through subsequent economic downturns to 4.6 million in 2012.⁹¹

Overall, labour force participation by single mothers rose from 44% in 1994 to 66% in 2001 – the greatest rise among all female groups. Earned income rose by more than benefit receipts fell. The poverty rate for single-mother households fell to historical lows by the late 1990s.⁹²

Research has tried to isolate the contribution of the benefit-to-work programmes to such outcomes. In particular, the Department of Health and Human Resources conducted a National Evaluation of Welfare-to-Work Strategies (NEWWS) from the mid-1990s to the mid-2000s to assess the effectiveness of 11 mandatory programmes in seven locales.⁹³ It tracked the progress of single-parent families over five years in the 1990s and found the programmes had achieved many of their primary goals:

All the programs increased people’s employment and earnings and decreased their receipt of welfare, thus resulting in gains in people’s self-sufficiency. Notably, mothers who were single parents achieved these benefits with few concomitant indications of harm or benefit to the well-being of their children. Despite these successes, however, none of the programs met FSA’s implicit goal of making people materially better off. The NEWWS programs generally did not increase income

⁹⁰ Rebecca Blank, “Was Welfare Reform Successful?” *Economist’s Voice* 3:4 (March 2006), 2. “Even the strongest supporters of welfare reform in 1996 would not have dared forecast the steep declines and continued low levels of welfare caseloads a decade later.”

⁹¹ See Max Ehrenfreund, “How welfare reform changed American poverty, in 9 charts,” *The Washington Post* (22 August 2016).

⁹² All the statistics in this paragraph are from Rebecca Blank, “Was Welfare Reform Successful?” op. cit.

⁹³ Office of the Assistant Secretary for Planning and Evaluation, “The National Evaluation of Welfare-to-Work Strategies” (8 December 2005).

or reduce poverty. Indeed, some of the more disadvantaged program enrollees were made worse off financially.⁹⁴

University of Wisconsin Chancellor Rebecca Blank noted in 2006 that the stress levels of working sole mothers were not being measured. However, “most research suggests that there do not appear to be large positive or negative effects on children as a result of welfare reform.”⁹⁵

James Ziliak’s literature survey in 2015 found lower disposable incomes for lower income sole mothers, but the real story is of limited evidence due to lack of follow-up.⁹⁶

Veronique de Rugy and Andrea Castillo, researchers at George Mason University’s Mercatus Center, consider in a 2016 paper that much more needs to be done. The proportion of Americans deemed to be living in poverty rose in the 2007 recession, showing that some of the gains were cyclical rather than structural. President Barack Obama materially relaxed the work incentives from 2012, likely increasing the structural problem. In their view, the welfare reforms to date to have only “yielded moderate gains”.⁹⁷

⁹⁴ Gayle Hamilton, “Moving People from Welfare to Work: Lessons from the National Evaluation of Welfare-to-Work Strategies” (Manpower Demonstration Research Corporation, 2002), 62.

⁹⁵ Rebecca Blank, “Was Welfare Reform Successful?” *op. cit.* 3.

⁹⁶ James Ziliak, “Temporary Assistance for Needy Families,” Working Paper 21038 (NBER, 2015).

⁹⁷ Veronique de Rugy and Andrea Castillo, “US Antipoverty Policy and Reform” (Arlington, Virginia: Mercatus Center, George Mason University, July 2016), 3.

NEW ZEALAND EXPERIENCE

As already mentioned, IA is still in its formative stages.

The best systematic evidence of progress from recent policy measures is the estimated cumulative \$13.7 billion reduction in the fiscal liability to June 2016 attributed to policy measures.⁹⁸ That points to increased independence (i.e. reduced reliance on benefits), but this is not a measure of wellbeing.

Our first conclusion from researching the effect on wellbeing on moving from a main benefit to work is that more and better data is needed. Currently it is very limited.

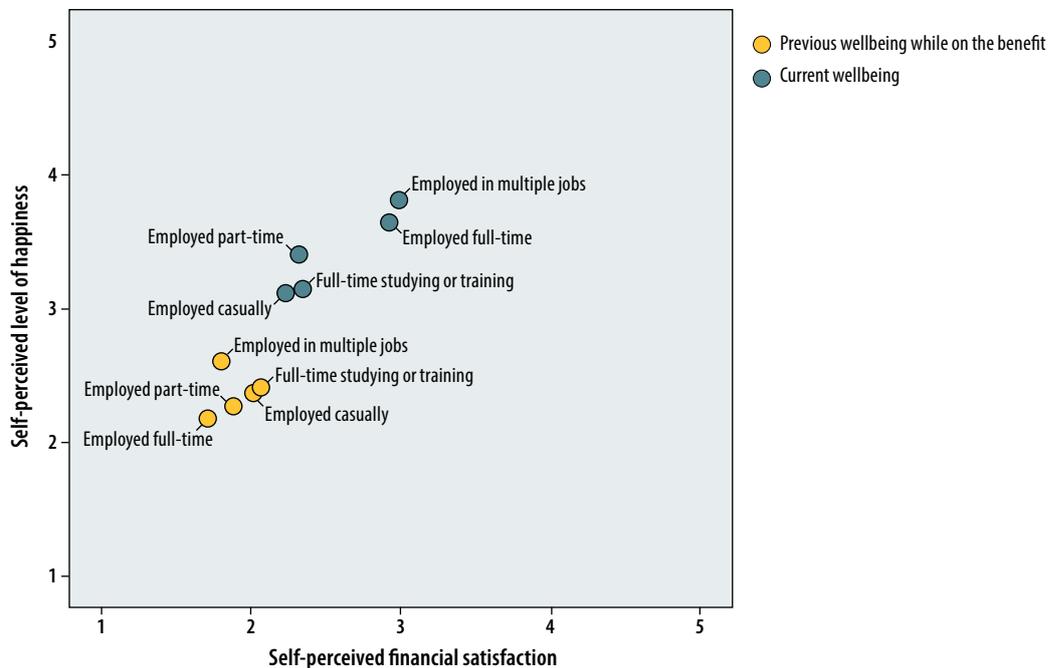
Obviously, many pathways exist out of frequent or long-term working-age benefit dependence. Some are likely to be welfare enhancing, some not. Getting a good permanent job should be; going to

prison should not. We need statistics that consider these nuances.

The most direct evidence of wellbeing gains from coming off a benefit has been assembled by Alicia Sudden for a master’s thesis at the Victoria University of Wellington. Her online questionnaire in 2015 attracted 234 respondents who were in work but had been on a benefit before.⁹⁹ Responses from this self-selecting sample showed major gains in self-assessed happiness and financial satisfaction from employment (blue dots in Figure 7) compared to being on a benefit (yellow dots).

The biggest gains in both dimensions were reported by those with full-time jobs and with multiple jobs. Although those employed casually reported the smallest gains, their gains in happiness were greater than pecuniary gains – both absolutely and in relation to the proportionate movements for the full-time and casually employed.

Figure 7: Wellbeing gains ex-benefit



Source: Alicia Sudden, “Putting wellbeing back into welfare: Exploring social development in Aotearoa New Zealand from beneficiaries’ perspectives,” Master’s thesis (Wellington: Victoria University of Wellington, 2016), 103.

⁹⁸ This gain should not be attributed to the SIA since it is still in its infancy. It more likely arises from administrative measures in response to the government’s BPS targets.

⁹⁹ Alicia Sudden, “Putting wellbeing back into welfare: Exploring social development in Aotearoa New Zealand from beneficiaries’ perspectives,” Master’s thesis (Wellington: Victoria University of Wellington, 2016), 43.

These findings are plausible given the literature on this topic (see above). But they are only indicative given how little we know about the representativeness of the sample or even the duration of the time on a benefit and off it.¹⁰⁰

In the absence of better systematic information, we have to resort to anecdotes even though they leave the reader to judge how representative they might be.

There are several sources of insightful anecdotes. Sudden's thesis includes six in-depth interviews and four sketches. The Family Centre Anglican Social Services has published 60 interviews of resilient sole parents.¹⁰¹ The government's reports on BPS targets include supporting case studies.

One of Sudden's case studies was insightful on the barriers imposed by fear of coming off a benefit and gains from a successful transition to work:

I was terrified for starters. If something went wrong it was up to me. But then the benefit's sort of more cushy. If something goes wrong you can go in to WINZ [Work and Income New Zealand] and they can make it better. So it was scary. But I had more money, and I could spend it, and there was no one keeping an eye on me. I did feel better.

— Sarah, interview¹⁰²

Another case study conveys the loss of purpose and structure that can accompany unemployment:

As much as I try to get out every day, not having somewhere to go, to work to uni or something, it's actually kind of depressing and isolating in itself again ... If I go out, there is no purpose of me leaving the house ... And it's awful. I like to have a schedule, but at the moment there is no need for a schedule. So it's really depressing.

— Stephanie, interview¹⁰³

Sudden's interviewees "felt an overall improvement in personal wellbeing, when compared with being out of work." Furthermore, "often it was the job itself that positively contributed to wellbeing, as well as feelings of independence and freedom."¹⁰⁴ Only two of those interviewed gave financial gain as the primary motivation for employment.¹⁰⁵

The following quote from the Family Centre's report echoes the work preferences of sole parents in Wisconsin while emphasising the importance of economic considerations and therefore choice:

Most sole parents in this study preferred to be employed, but needed flexible employment hours that did not compromise their responsibilities as parents. They also needed good quality childcare covering the full hours of employment and travel to and from work. Their willingness and ability to work longer hours would be enhanced by reducing abatement rates for the DPB and increased provision of tertiary and vocational training allowances as suggested earlier.¹⁰⁶

¹⁰⁰ Eighty-nine percent of respondents were women, 69% without a partner, 50% had been on jobseeker support, and 44% on sole parent support. Alicia Sudden, "Putting wellbeing back into welfare," op. cit. 102.

¹⁰¹ Charles Waldegrave, et al. "Resilience in Sole Parent Families: A Qualitative Study of Relational Resilience in Māori, Pacific and Pakeha Sole Parent Families" (Lower Hutt: Family Centre Social Policy Research Unit, 2011).

¹⁰² Alicia Sudden, "Putting wellbeing back into welfare," op. cit. 97.

¹⁰³ Ibid. 50.

¹⁰⁴ Ibid. 102.

¹⁰⁵ Ibid. 65. Sudden's interpretation appears to be that benefits are not more generous for ideological rather than electoral reasons. The abstract of her thesis includes the following judgments: "The welfare system is failing to adequately support those facing hardship or facilitate positive off-the-benefit transitions. Instead, it is fostering the neoliberal assault on citizenship and social rights, and deepening the growing inequalities within New Zealand society." As mentioned in the Introduction, that the current system is failing is common ground.

¹⁰⁶ Charles Waldegrave, et al. "Resilience in Sole Parent Families," op. cit. 8. Since the report was published, the Domestic Purposes Benefit (DPB) has been replaced with the Sole Parent Support, which faces greater work obligations. Working for Families has also been introduced to address abatement rates.

Kapiti Youth Support (KYS) provides another case study. In 2008, a local school referred a violent youth aged 15 to KYS to address his anger issues. KYS found he was from a gang-related home involving physical, emotional and sexual abuse. It has been mentoring him for a decade now, off and on, and building trust. Now aged 24, he has an apprenticeship and a steady relationship with a young son. He has not had an anger incident for three years. KYS believes he is on his way to being a great dad and partner, and supporting himself and his family without gangs or violence.

Such cases demonstrate that young people should not be written off. But helping them through adverse experiences requires expertise, time, patience, trust and money. The ability of government agencies to tick all these boxes systematically and repeatedly is limited (see chapter 3).

CONCLUSION – PROMISING BUT NOT EASY

The potential for major wellbeing gains from moving people out of work into satisfying jobs is clear but far from easy. Despite the international experience and research, no straightforward solutions exist. The US experience shows sustained enforced conditions can have dramatic effects on caseloads. But the paucity of good evidence

on the wellbeing of those moved off a benefit is disappointing. New Zealand should take heed of that, and aim to do better.

Professor Paul Gregg, University of Bath, was an architect of welfare-to-work reform in the United Kingdom. In an independent report for the Department for Work and Pensions in 2008, he asserted that well-designed programmes could raise the wellbeing of people moving from welfare to work.¹⁰⁷

But he also identified the design risks that needed to be minimised from the outset:

[Design risks] cover ignorance on behalf of claimants about what is expected of them, severe hardship among those sanctioned and the possibility that conditionality leads to people being directed to inappropriate courses or jobs.

There is also the risk that conditionality pushes people outside of the benefit system entirely, leading to their disconnection from both work and welfare, and that the system fails to recognize the wider contributions that claimants are making, principally as carers. I feel that the proposals made here strike the right balance between maximising the opportunities and objectives of an active welfare system, and minimising the risks from conditionality among vulnerable groups.¹⁰⁸

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¹⁰⁷ Paul Gregg, “Realising Potential: A Vision for Personalised Conditionality and Support,” Report to the UK Department of Pensions (Surrey, England: 2008).

¹⁰⁸ Ibid. 6.

CHAPTER THREE

DOING BETTER – WELFARE POLICY

NEEDS MATES

There is more to wellbeing than a benefit.

The welfare state faces inherent problems from political and bureaucratic realities: unclear goals, short political time horizons, inadequate information, and bureaucratic dictates, among others.

These inescapable limitations of government action matter less when other institutions of civil society are strong, effective and resilient. Policy should strengthen rather than undermine the capacity of local communities, private social service providers, employers – and above all the family unit.

Benefits policy also needs policy mates. It is harder to help people achieve independence if other policies are working against them. Economic growth encourages job creation. In 2010, Treasury identified the importance for future benefits receipt of education, health and labour market regulation policies.¹⁰⁹ Sadly, today we need to add housing policies.

This chapter discusses the limitations of government action in New Zealand; examines some indicators of family strength; reviews new developments; and examines education and the labour market from this perspective.

GOVERNMENT CAN'T DO EVERYTHING WELL

The welfare system cannot escape harsh financial trade-offs between fiscal cost, 'generosity' of the base benefit level, and number of eligible people – leaving no one happy. Different people have different interests in these matters so benefit levels and eligibility criteria will always be a political football.

Social norms affect these trade-offs. A strong work ethic among peers implies a big drop in social status if one is unemployed; an 'entitlement' ethos might not. Benefits could be higher in the former situation for the same fiscal cost. Similarly, a strong social norm about marriage and family responsibility could reduce the fiscal cost of given benefits eligibility conditions.¹¹⁰

IA could easily produce better outcomes than the status quo, but disappointing ones relative to its potential if political and bureaucratic obstacles are not minimised. System design should anticipate such obstacles and seek to minimise the risks they pose.

Here is a list of the potential challenges within the scope of IA.

- new ministers may have a shorter-term focus, helping the least employable to get sustained fulfilling work is hard.

¹⁰⁹ Treasury, "The New Zealand Benefit System: Key Problems and Options for Reform," op. cit. 7.

¹¹⁰ While social norms are not a short-term government control variable, they do evolve through time and differ across countries. See, for example, OECD's charts on ex-nuptial birth rates across the OECD and since 1970. OECD, "SF2.4: Share of births outside of marriage," Charts SF2.4.A and SF2.4.A (2016).

- inability to agree on the overriding objective (e.g. fiscal vs independence vs immediate wellbeing);
- pressure on politicians from important constituencies to maintain problematic programmes;
- political difficulties in defending trials that do not work. If finding out what works is risky, public agencies will be reluctant to innovate and experiment;
- political difficulties with defending programmes that give priority access to resources, such as social housing, to those the community considers least deserving of support;
- bureaucratic difficulties and obstacles (ongoing silo issues, internal conflicts of interest between own-provision and external supply, contracting difficulties, lack of expertise, information difficulties, and difficulties in overseeing regional programme fragmentation);
- misdiagnosis of problems due to the difficulties of distinguishing between correlation and causation;
- overreliance on early intervention – some people are assisted unnecessarily while some ‘late developers’ miss out; and
- lack of trust about data security and privacy, leading to unreliable or incomplete data.¹¹¹

Continuing annual actuarial valuations by independent actuaries would guard against such disappointing outcomes. Disappointing fiscal outcomes would become evident from the pattern in the ongoing valuations. They are likely to be accompanied by disappointing independence outcomes.

Lack of a clear, measurable, overriding goal is potentially a major issue. The goal of greater independence, in the sense of fewer people on state benefits, would be well-aligned with the goal

of reducing long-term fiscal costs. But if the goal is greater wellbeing, the alignment with greater independence is less clear because paid work may be unfulfilling or relationships with employed partners unsatisfactory. A related aspect is that mental illness greatly reduces wellbeing, whether in work or on a benefit. A focus on improving wellbeing by better addressing mental illness issues is different from a welfare-to-work focus.

The Productivity Commission’s assessment of the existing problems with social service delivery led it to 89 findings and 61 recommendations, including:

- giving recipients of services greater choice over “what, who, when, where and how”;
- improving service delivery for those with complex needs who find it hard to coordinate and access services;
- improving commissioning and contracting processes;
- applying IA at a cross-programme and cross-agency level;
- creating a system that learns, innovates and uses data; and
- monitoring programmes and system performance better.

Recommendations for enhancing the IA approach included the need to:

- refine the welfare liability measure to better reflect wider costs and benefits;
- ensure future liability was not reduced by depriving people of all services;
- extend the IA’s application at a cross-programme, cross-agency level;
- widen public access to an extended client-oriented database.

In our view, these considerations have merit. We also support appointing commissioning agents who are free of any conflict of provision as between private and government social service providers.

¹¹¹ New Zealand Labour Party, Manifesto 2017, op. cit. 5 pinpoints the privacy issue.

In its response, the government largely supported the 61 recommendations.¹¹² It only partly agreed with widening the benefits liability measure beyond the fiscal proxy, seeing the fiscal measure as being generally adequate. It agreed with the remaining three of the four bullet points above.

The government was cautious about the speed and extent of devolution and rejected the commission's devolution models. Nor did it agree that commissioning agents should be independent of state agency providers, preferring transparency about in-house provider costs. It only partly agreed that NGOs should be 'fully funded' for services commissioned by state agencies. It did not specifically agree that government should fully fund only those programmes that can be evaluated. It also rejected the proposal of a ministerial committee to lead the changes, aided by a Transition Office.

In short, the government's response was supportive in spirit but cautious in scope and timing.

FAMILY SUPPORT IS BEDROCK

... our most vulnerable children have the best chance of leading a full and happy life if they live within families that give them life-long, stable, loving relationships and if they belong to communities which cherish them.

— Ministry of Social Development¹¹³

Family strength and resilience is a vital asset when bad things happen. Kinship matters at times of illness, violence and child abuse. Former Children's Commissioner John Angus says, "Most

social services are delivered by family members and informal community groups," not government or organised groups.¹¹⁴

Differences in family structure are strongly associated with incidence of poverty, hardship, family violence and child abuse.¹¹⁵ Children raised in sole-parent families have been found to do less well on average "across a range of measures of wellbeing than their peers in two-parent families." In addition, parental separation is "associated with an array of adverse outcomes for children."¹¹⁶

Family structures have changed greatly in New Zealand since the 1960s.¹¹⁷ During the 1950s and 1960s, the nuclear family (mother, father and children) was the norm. In 1971, only 5% of all households were single-parent households, which were likely due to the death of a spouse rather than divorce or ex-nuptial birth.¹¹⁸ By 2006, 21% of households with dependent children were single-parent households, up from 8% in 1981.¹¹⁹

Divorce rates have risen markedly since the 1950s and 1960s, and step-families have become much more common. By the mid-2000s, 1 in 5 children (that is around 200,000) had probably lived in a step-family household by age 17.¹²⁰

Divorce and marital property laws and public policies towards financial assistance for single parents and family maintenance accompanied

¹¹² Ministry of Finance, "Government responds to Productivity Commission on social services," Press release (Wellington: New Zealand Government, 17 May 2017).

¹¹³ Ministry of Social Development (MSD), "Expert Panel Final Report: Investing in New Zealand's Children and Their Families" (Wellington: New Zealand Government, 2015), 3.

¹¹⁴ John Angus, "More Effective Social Services," Submission to the Productivity Commission (2 December 2014), 3.

¹¹⁵ See, for example, Lindsay Mitchell, "Child Abuse and Family Structure," op. cit. and Ross Mackay, "The Impact of Family Structure and Family Change on Child Outcomes: A Personal Reading of the Research Literature," *Social Policy Journal of New Zealand* 24 (March 2005), 111–133.

¹¹⁶ Ross Mackay, "The Impact of Family Structure and Family Change on Child Outcomes," op. cit. 111.

¹¹⁷ See, for example, New Zealand Families Commission, "New Zealand Families Today" (2013), Table 1.

¹¹⁸ Jo Cribb, "Focus on Families: New Zealand Families of Yesterday, Today and Tomorrow," *Social Policy Journal of New Zealand* 35 (June 2009), 7.

¹¹⁹ Ibid. 10.

¹²⁰ Ibid. 13, citing Pool, et al. (2007).

these changes.¹²¹ In her book *Family Matters*, UK sociologist Patricia Morgan’s review of statistical trends using all the standard indicators concluded that “the [traditional] family is now in a worse state in New Zealand than almost anywhere else.”¹²²

Correlation is not causation. University of Otago researchers’ Dannette Marie, David M. Fergusson, and Joseph M. Boden list of the factors causing poor outcomes for children included “parental alcohol and drug abuse; parental criminality; and loose or unstable family structure, often involving teen parenting, sole parenting or serial changes of adults responsible for performing a care-giving role to children in a family.”¹²³

Marie et al also explored the role of socioeconomic factors and family dysfunction in the high incidence of maltreatment among a cohort of Māori born in Christchurch in 1971.¹²⁴ They found allowing for these factors reduced the role attributable to ethnicity but did not eliminate it. Physical punishment and inter-parental violence was more evident among those with a stronger Māori cultural identity, but the researchers cautioned against generalising this finding to all Māori.¹²⁵ Family instability and dysfunction lead to greater benefit dependence among Māori than non-Māori, and increase the risk of “adverse outcomes later in life.”¹²⁶

On a more positive note, sole-parent households do not necessarily in themselves limit life options for their children; they get tainted because

dysfunction is more common in sole-parent households.^{127 128}

High household stress, family instability, and multi-partner instability are associated with behavioural problems among children aged 9.¹²⁹ Children with a mother living with a cohabiting partner fare the worst, while children cared for by married parents or a married parent and step-parent do the best. Unmarried, cohabiting arrangements are less stable.¹³⁰

Having more children while on a benefit and outside a stable relationship, or when the additional child will induce a benefit dependent situation in the first year, is a material cause of financial distress, hardship and behavioural problems, says Lindsay Mitchell.

A 2004 Treasury paper on theories of the family and policy concluded that the “pervasiveness of the family makes it crucial to devising policy.”¹³¹ A 2015 AEI/Brookings report on reducing poverty and increasing opportunity also stressed the importance of strengthening families “in ways that will prepare children for success in education and work” by:

- promoting cultural norms supporting parenthood and marriage;
- encouraging delayed, responsible childbearing;
- improving access to effective parenting education; and

¹²¹ Ibid. 13.

¹²² Patricia Morgan, “Family Matters, Family Breakdown and its Consequences,” New Zealand Business Roundtable (2004), 3.

¹²³ Dannette Marie, David M. Fergusson, and Joseph M. Boden, “Ethnic Identity and Exposure to Maltreatment in Childhood,” op. cit. 156.

¹²⁴ A particular concern is that Māori children are roughly twice as likely to be abused or neglected as other children. The incidence of sole-parent households is also particularly high among Māori. Ibid. 155.

¹²⁵ Ibid. 154, 166–167.

¹²⁶ Dannette Marie, David M. Fergusson, and Joseph M. Boden, “Ethnicity and Pathways to Welfare Independence in a New Zealand Birth Cohort,” op. cit.

¹²⁷ See, for example, Charles Waldegrave, et al. “Resilience in Sole Parent Families,” op. cit.

¹²⁸ Veronica Jacobsen, Lindy Fursman, John Bryant, Megan Claridge, and Benedikte Jensen, “Theories of the Family and Policy,” Working Paper 04/02 (Wellington: Treasury, 2004), 79.

¹²⁹ Paula Fomby and Cynthia Osborne, “Family Instability, Multipartner Fertility and Behaviour in Middle Childhood,” *Journal of Marriage and Family* 79:1 (February 2017), 75–93.

¹³⁰ Elizabeth Tomson and Sara McLanahan, “Reflections on Family Structure and Child Well-being: Economic Resources vs Parental Socialization,” *Social Forces* 91:1 (September 2012), 45–53., 45–46.

¹³¹ Treasury, “Theories of the Family and Policy,” Working Paper 04/02 (Wellington: New Zealand Government, 2004), 81.

- helping the least-educated to prosper in work and family.¹³²

To some extent, government should strengthen the family unit through social welfare initiatives, but local communities are likely to have more influence independently.

FAMILIES ARE EMBEDDED IN LOCAL COMMUNITIES

Local communities know themselves best. Their problems are not all the same, even if it looks that way to Wellington.¹³³ Economic growth, unemployment, and ethnicity vary across regions.

Local services can be more trusted, accessible and private for locals. Staff are likely to have stronger relationships and networks within the community, and know more than state agencies about policy outcomes.¹³⁴

The Productivity Commission urged greater devolution to encourage innovation and improve outcomes in social services.¹³⁵ Greater ‘localism’ is particularly useful where recipients need someone they can trust to access and coordinate cross-agency services on their behalf.¹³⁶

Closer connections between local employers, who want a growing and prosperous community, and schools and social service providers would reduce benefit dependency. Employers naturally want

to hire capable people living locally. Higher local incomes mean more customers.

Local churches, sports clubs, iwi, hapu and voluntary organisations are vital social capital of local communities.¹³⁷ The scope of their activities is vast.¹³⁸

New Zealanders score well internationally in commitment to such activities. The 2016 World Giving Index ranked New Zealanders fourth in willingness to help a stranger and donate time and money to worthy causes.¹³⁹ We also score highly in related metrics of the OECD’s Better Life Index.¹⁴⁰

Local communities can also act through local councils to reduce youth unemployment. Auckland Council’s City of Manukau Education Trust (COMET Auckland) is an intermediary between the council, employers, the education sector, and skills and training providers.

COMET started the Youth Employability Programme (YEP) in 2014 in response to “business and industry concerns that young people may not be developing the soft skills needed to succeed in the workplace.”¹⁴¹ YEP is being extended to Gisborne, Hawkes Bay, Porirua, Taranaki, Taupo and Wairarapa.¹⁴²

Local Government New Zealand (LGNZ) oversees the Mayors Taskforce for Jobs that was set up in 2000. All mayors in the country participate. It aims to see everyone under 25 years in “appropriate education, training, work or other positive activity

¹³² AEI/Brookings, “Opportunity, Responsibility, and Security: A Consensus Plan for Reducing Poverty and Restoring the American Dream,” Working Group on Poverty and Opportunity (2015), 5.

¹³³ The McGuiness Institute demonstrated material differences in the mixes of concerns around the country. McGuiness Institute, “TacklingPoverty2016: Methods, Results and Observations,” Working Paper 217/01 (2017).

¹³⁴ These points were made by Richard Wood, “Where now for essential social services,” op. cit.

¹³⁵ Productivity Commission, “Better Social Services,” (2015) Overview, 10.

¹³⁶ These cases are “quadrant D” in the Productivity Commission’s taxonomy.

¹³⁷ Ngai Tahu’s trades training and apprenticeship programmes illustrate iwi activities.

¹³⁸ See, for example, Volunteer New Zealand, “Statistics on Volunteering,” Website.

¹³⁹ See Charities Aid Foundation, “World Giving Index 2016,” Website.

¹⁴⁰ See Volunteer New Zealand, “Statistics on Volunteering,” Website, and OECD, “Better Life Index,” Website.

¹⁴¹ COMET Auckland, “Skills Auckland: Youth Employability,” Website.

¹⁴² Lyn Grieveson, “Lack of ‘soft skills’ holds young Kiwis back,” *Newsroom* (3 July 2017).

in their communities.”¹⁴³ The taskforce informs all mayors about initiatives in other councils.

The New Zealand Initiative has advocated giving local communities greater scope for solving their own problems through geographically defined Special Economic Zones (SEZ).¹⁴⁴ More recently, the McGuinness Institute recommended local ‘demarcation zones’ to address poverty.¹⁴⁵

Devolution must, of course, come with commensurate accountability to local communities.

NOURISHING HARD AND SOFT WORK SKILLS

Compulsory state education must ensure every child capable of doing so acquires the social, literacy and numeracy skills necessary for productive adult living. That should include an ability to contribute to the social good through productive work.

Our education system is falling well short of this aspiration. A survey of 254 employer members by the Employers and Manufacturers Association (North) (EMA) found that 34% were ‘very dissatisfied/dissatisfied’ with the literacy and numeracy skills of school leavers, and 14% with tertiary graduate skills.¹⁴⁶

National Certificate of Educational Achievement (NCEA) passes are not a reliable indicator of work capability. That’s why timber processing company Juken’s mill manager, Paul Jordan, recruits more selectively.

We’re talking about the ability to comprehend written instructions, keep themselves safe, follow simple recipes for manufacturing and measure sizes and volumes, and maybe do a little bit of conversion on that ... [Those are] very fundamental literacy and numeracy skills that sometimes are completely absent, and others – they need to be brushed up on.¹⁴⁷

He did add that the situation has improved somewhat in recent years.¹⁴⁸

Lack of literacy and numeracy is one thing, inability to work well with others is another. Deficient soft skills are of even greater concern to employers.

The EMA found that 62% of surveyed employers were ‘dissatisfied/very dissatisfied’ with school leavers’ self-management skills compared to 24% for tertiary graduates. On teamwork and communication skills, 47% of employers ‘were dissatisfied/very dissatisfied’ with school leavers, compared to 20% for tertiary graduates. On problem-solving skills, 59% of employers were ‘dissatisfied/very dissatisfied’ with school leavers’ compared to 22% for tertiary graduates.¹⁴⁹

The pains horticulturalists face in hiring local unskilled labour illustrate the importance of ‘soft skills’. James Dicey, past president of the Central Otago Wine Growers Association, says:

Usually in a van of 10, if you can fill a van, two people won’t turn up to work the first day, another two people will last a couple of hours, the next two people won’t turn up the following day, then two of those people will see the harvest out, then when we offer them winter pruning work maybe one or two will do that.¹⁵⁰

¹⁴³ See “Mission & Objectives” in Local Government New Zealand (LGNZ), “Mayors Taskforce for Jobs,” Website.

¹⁴⁴ Eric Crampton and Khaati Achyria, “*In the Zone: Creating a Toolbox for Regional Prosperity*” (Wellington: The New Zealand Initiative, 2015).

¹⁴⁵ McGuinness Institute, “Demarcation Zones for Public Policy,” Proposal to Bill English (20 December 2016).

¹⁴⁶ Employers and Manufacturers (Northern) (EMA), “Employers Survey 2015: Advocacy & Industry Relations” (Auckland: 2015), 9.

¹⁴⁷ John Gerritson, “NCEA benchmarks slammed by report,” RadioNZ (7 March 2016).

¹⁴⁸ Ibid.

¹⁴⁹ Employers and Manufacturers (Northern) (EMA), “Employers Survey 2015,” op. cit. 10–11. Interestingly, a recent OECD survey has ranked New Zealand quite highly in adult problem-solving skills. Education Counts “Adults at Work: Survey of Adult Skills (PIAAC)” (Wellington: Ministry of Education and Ministry of Business Innovation and Employment, 2016), 7.

¹⁵⁰ Adriana Webber, “Growers back PM on NZers’ poor work ethic,” RadioNZ (6 September 2016).

To report on such ‘attitude gap’ challenges and youth unemployment in South Auckland, MBIE and MSD funded the Auckland Co-design Lab¹⁵¹ and the Auckland Council Southern Initiative.¹⁵²

Anecdotally, employers say they struggle to find local candidates with the “right attitude”. On the other hand, young people report that the experience of applying for jobs and encountering workplace culture is like entering a foreign country, with unfamiliar and invisible practices, language and rules.¹⁵³

Overall, “Attitude Gap Challenge: A South Auckland Employment and Skills Challenge” makes for a sad, but insightful, reading. Firms cannot deliver products and services to customers without reliable, productive employees who can work together. Failing to understand these things and what paid work entails, many unskilled youths in South Auckland do not know what to put on a job application or how to conduct themselves in a job interview. Lack of confidence means candidates are not willing or able to put themselves forward and demonstrate competencies. Obviously, they have not learnt many work-related ‘soft skills’ at home or at school.

The Attitude Gap report concluded that the high youth unemployment rates in South Auckland cannot be explained by low educational attainment alone.¹⁵⁴ And with such gaps being self-reinforcing, both parties are frustrated.

Employers interviewed about industry training schemes echoed the attitude problem in a Ministry of Education survey:

All employers interviewed are looking for people with the right attitude. For some employers particular qualifications are a requirement, while for others they are considered a bonus. Many employers prefer to employ older workers because they tend to have better work ethic, a proven work history, and are more likely to stay with the company. However, benefits of employing young people included willingness to work at lower rates of pay and providing a youthful dynamic in the workplace.¹⁵⁵

Employers can and do help, although the problem needs identifying and addressing much earlier. A large employer we spoke to, and who wishes to remain anonymous, offers structured on-the-job training, including basic literacy. For this employer, lack of soft skills, including attitude, is a bigger barrier to employment than an immediate lack of aptitude. New Zealand’s largest alcohol beverage company, Lion, has worked with the Sustainable Business Council on a Welfare to Work scheme to help sole mothers lacking work experience and self-confidence to get work.¹⁵⁶ Longveld Engineering’s experience with its workplace literacy programme is that “It’s commercial but it’s also very social ... if you fix families, in the context of everyday life, with work, then it’s hugely valuable.¹⁵⁷ The Warehouse Red Shirts in Schools targets Year 11 to 13 students at risk of dropping out of school, or not progressing to work or further education. The Warehouse has partnered with Service IQ, an industry training organisation, to help students earn NCEA credits in the workplace and practical transferable workplace skills, such as health and safety and customer service.

¹⁵¹ “The Auckland Co-design Lab is part of an emerging global movement. Central and local governments around the world are investing in labs and using them as a public policy tool to explore new ideas and responses to complex social issues.” Auckland Co-design Lab, “What we do,” Website.

¹⁵² “The Southern Initiative (TSI) champions, stimulates and enables social and community innovation in South Auckland.” Auckland Council, “The Southern Initiative,” Website.

¹⁵³ Auckland Co-design Lab, “Attitude Gap Challenge: A South Auckland Employment and Skills Challenge” (2016), 5. See also the Executive Summary.

¹⁵⁴ Ibid. 5.

¹⁵⁵ Ministry of Education, “Industry Training Review: Results of the Employer Interviews & Survey” (2012), 21.

¹⁵⁶ Sustainable Business Council, “Social Impact” (September 2016).

¹⁵⁷ Ibid. 25.

Overall, New Zealand has high participation rates in informal avenues of learning work skills. Only four OECD countries have a higher participation in ‘learning from others’ and only three for ‘learning by doing’.¹⁵⁸ Yet the results leave much to be desired.

MORE SUPPORTIVE PUBLIC POLICIES

IMPROVING THE PATHWAY FROM SCHOOLS TO VOCATIONAL WORK

The Attitude Gap report found “a lack of responsibility, accountability, and coordination amongst the multiple players in the education to employment journey and all have a part to play in building a robust roadmap.”¹⁵⁹

The Ministry of Education survey in 2012 of employers involved in industry training too echoed the theme:

A relatively high number of respondents (80 employers) would like careers advice in schools to improve. Many felt that schools focus on channelling students into university education and students are not made aware of careers in agriculture, the trades, or industries that do not require a degree.¹⁶⁰

All in all, this is a grim picture. As the New Zealand Labour Party’s Manifesto 2017 declares:

Education gives young people the freedom and opportunities to be the best they can be and provides the best pathway to stable employment.

Clearly something is wrong. This problem is not a lack of publicly funded courses, programmes or pathways to vocational employment.

Careers.govt.nz has information on job opportunities; skills shortages; employer expectations for various professions; pre-trade training; apprenticeships; industry training organisations; and Youth Guarantee initiatives. Options for high school and school leavers include vocational pathways, trades and service academies, Gateway work experience, and free courses.

A greater focus on career counselling in schools might help. Counsellors should be given access to IDI information about the post-school career paths of past students with similar capabilities and interests.

More research is needed on pathways from school to paid work in New Zealand. It should be informed by experiences and practices in other countries. The OECD has produced many reviews of vocational education and training (VET) arrangements in Europe. Arrangements in Switzerland and Germany are particularly strong.¹⁶¹ In 2012, the US-based National Center for Education and the Economy (NCEE) published a comparison of VET arrangements in Germany, Singapore and Switzerland.¹⁶² NCEE gave Switzerland, where youth unemployment is among the lowest of developed countries, the gold star for VET in 2015.¹⁶³

¹⁵⁸ See Education Counts, “Skills at Work,” Website, Figure 20.

¹⁵⁹ Auckland Co-design Lab, “Attitude Gap Challenge,” op. cit. 7.

¹⁶⁰ Ministry of Education, “Industry Training Review,” op. cit. 55.

¹⁶¹ See OECD reviews of vocational education and training. OECD, “Learning for Jobs: Pointers for Policy Development” (May 2011).

¹⁶² National Center for Education and the Economy (NCEE), “Statistics of the Month: Vocational Education and Training Systems for the 21st Century in Switzerland, Germany and Singapore” (24 November 2011).

¹⁶³ Nancy Hoffman and Robert Schwartz, “Gold Standard: The Swiss Vocational and Education Training System” (Washington, DC: National Center for Education and the Economy, 2015).

REDUCING JOB-DESTROYING REGULATION

Many employment laws and regulations, though well-meaning, raise the wage and/or non-wage costs of hiring labour – making it harder for the least employable to find work or remain in work.¹⁶⁴

Laws and regulations that make it harder for the long-term unemployed to get paid work reflect political pressures. The interests of those struggling to get a job offer are different from those with a job. The former want a better chance of getting work, the latter more pay and better conditions. The former is more dispersed and few, the latter are better organised and more numerous. The former has no voice, the latter are heard by politicians who must count heads to be elected.

Hikes in the minimum wage rate are a case in point. In the short-run they benefit those whose wage rates are lifted and retain their jobs. Student workers from well-off families could benefit. They don't help those who couldn't get work before and have even less chance at the higher rate. As a welfare policy measure, they are ill-targeted. They make it harder to reduce the inter-generational benefit dependency. Politicians know this, but they must count heads. Those for whom helping the least well off is a priority need to resist regulatory measures that make the job harder.

Consider the Employment Standards Legislation Bill 2016, whose purpose was to:

... strengthen enforcement of employment standards. Employment standards are requirements such as the minimum wage, annual holidays and written employment agreements. They protect vulnerable workers and help to ensure workplaces are fair and competitive.¹⁶⁵

¹⁶⁴ Statistics New Zealand measures non-wage labour costs as those due to annual leave and statutory holidays, superannuation, Accident Compensation Corporation (ACC) employer premiums, medical insurance, motor vehicles available for private use and low-interest loans. In 2014, non-wage labour costs had a base weight of 17% in SNZ's Labour Cost Index. See Statistics New Zealand, "Labour Cost Index (All Labour Costs): June 2015 quarter: Definitions," Website.

¹⁶⁵ Ministry of Business Innovation and Employment (MBIE), "Strengthening enforcement of employment standards," Website.

Note that the interests of the unemployed are not mentioned. What political processes deem 'fair' to those with jobs may be unfair to the barely employable, who include ex-prisoners and those likely to fail drug tests.

The government silo mentality is part of the problem. WorkSafe New Zealand administers health and safety laws and regulations, interprets laws and regulations, and monitors workplaces. With workplace safety as its priority, if workers with a drug problem get fired, so be it.

An in-principle solution to the silo problem is to require more rigorous cost-benefit justifications of agencies' activities. That should help show up where, for example, a safety regulation being pursued in one silo is only achieving, say, a third of the safety benefits that could be obtained for the same cost in, say, road safety.¹⁶⁶

The regulatory problem of ridiculously high house prices in Auckland due to an artificial shortage of land has already been mentioned. Our earlier reports, *Poorly Understood* and *The Inequality Paradox*, have documented that this is hitting the least well-off hardest.

The New Zealand Initiative has proposed elsewhere the creation of Special Economic Zones to free up local communities to better create jobs and address problems. Struggling areas need to be able to cut through red tape that blocks investment for no good reason, local or national.

¹⁶⁶ The New Zealand Initiative's 2015 research note "A matter of balance: regulating safety" provides one such example.

CONCLUSION - A HOLISTIC APPROACH IS NEEDED

Welfare policy needs policy mates, but the hydra-like arms of government pull in contrary directions.

Welfare is hard enough to get right without the handicaps of perverse accompanying policies. High house prices benefit homeowners. Working-age people on benefits commonly don't own homes. A school system that produces a long-tail of underachievement in education, while doing well in international comparisons for all others, perpetuates educational disadvantage.

Employer reports of prevalent deficiencies in skills, motivations and work-readiness among the least employable youth point to a deeper problem from school to a vocational career.

Labour market policies that prioritise the interests of those who already have jobs over those who are struggling to get a job offer don't help either.

Larger private employers are helping the marginally employable unemployed into sustainable jobs, but they are not social welfare agencies. If they do not perform their top priority – delivering goods and services at competitive prices – they cannot sustain even their existing workforce.

Welfare policy should enhance resilient families and local communities, rather than crowd them out. It should not be the first line of defence against individual calamity. Personal savings, investment in personal and social capital, prudent insurance policies, good diet and exercise – all are things the state needs to nurture for welfare reasons. The Productivity Commission's recommendations can help fix IA's implementation challenges.

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CHAPTER FOUR

CONCLUSION AND RECOMMENDATIONS

New Zealanders have not had a welfare state to be proud of for a long time.

There is too much reliance and focus on the benefits system and not enough on less direct but ultimately more enduring supportive factors for reducing misery.

Facilitating job growth and access to jobs is a critical factor. Higher productivity is fundamental too – to increase incomes per capita. Reducing the ‘long-tail of underachievement’ in education is another. More affordable housing through lower land values due to the release of land rather than government subsidy is a third. This report has largely taken these things as givens. But they should not be forgotten.

The initiatives of the last five years demonstrate the importance of statistical analysis and information. We now know for sure that the benefits system is under real strain from the growth of inter-generational welfare dependency. Many caught up in this vicious cycle were abused or neglected as kids and have multiple disadvantages.

One eternal response to welfare misery is to increase benefits. That would certainly help many in the short term. The trade-off problems are greater fiscal costs and “making work pay”.

But higher benefit levels cannot fix the massive increase in the proportion of working-age adults on welfare since 1970. Nor can they alone solve entrenched problems in parenting, education, crime, drugs, and family violence and abuse.

A continuing focus on finding ‘what works’ is needed. No one says this is easy. But if the focus is not maintained, the misery will continue. The prime focus of welfare policy must be to help people improve their lives.¹⁶⁷

Along the way, welfare policy should strengthen, not undermine, the capacity of families, communities, and private social service providers. IA’s openness to involving NGOs is one of its biggest strengths. We concur with the Productivity Commission that central government should devolve power to increase innovation and investment.

¹⁶⁷ Maharey, op. cit.

Following is a summary of our recommendations:

- Welfare policy must continue to shift its focus from palliative, reactive measures to better long-term outcomes for those languishing on welfare.
- It is not enough to measure the people shifted from benefits to work. Regular surveys of post-benefit wellbeing are needed. What is not measured is too easily ignored.
- The actuarial liability approach embodies that longer-term focus, albeit imperfectly, and should be maintained.
- Privacy must be credibly protected. Arrangements for sharing sensitive personal information must be clear, transparent and well-enforced.
- Benefits support needs to become more client-centred. Navigators are needed to help those with complex needs to get the social services they most need.
- Welfare policy should seek to strengthen the married family unit, not weaken it. The effects of financial incentives that weaken it need to be minimised.
- Welfare policy must empower local community capacity and innovation. Greater devolution of social services delivery should be aligned with capacity building and incentives structures.
- Commissioning agents must be independent of departmental social service delivery operations. This will shift the focus to clients, reduce silos, and facilitate entry by private social service delivery agents.
- Benefits policy needs other policy mates. The mismatch between the skills and attitudes of youthful would-be workers and their needs to be addressed.
- The pipelines connecting schools to post-school vocational training and jobs need to be strengthened. We need to learn from countries that have done better for school leavers.
- The causes of absurdly high housing costs must be addressed.
- Labour market regulation can easily benefit those with jobs by making it harder for would-be workers to get a job. Labour market regulation should be reviewed from this perspective.
- A focus on improving productivity growth is as fundamental as access to jobs.

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Nearly everyone is dissatisfied with New Zealand welfare system. Are more generous benefits the answer?

This report argues that government responsibilities go much deeper. Governments must not be content to leave people languishing on a state benefits long-term. They must actively help people to better realise their potential to lead meaningful and fulfilling lives.

That task is straightforward for most beneficiaries, but very difficult for those with multiple complex problems. A daunting intergenerational pipeline of misery and disadvantage now exists in New Zealand. Only determined long-term action can hope to thwart this cycle. The challenge for the new government in 2017 is to build on and improve the previous government's work to make a difference – its so-called Social Investment Approach.

This report documents the problem, reviews the former government's initiatives, and makes forward-looking recommendations.

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