

Prepared by  
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## PREFACE

**Welfare Reform in New Zealand: Moving Toward a Work-Based Welfare System** is written for anyone interested in recent changes in the welfare system in New Zealand. In preparing this report I was afforded the opportunity to review both the substance of the proposed policy changes and the process by which the policy was adopted.

I chose to limit my review to the policy changes as they apply to beneficiaries of the Domestic Purposes Benefit. While the Government reforms also apply to Unemployment beneficiaries and Sickness and Invalid beneficiaries, the DPB program has the most in common with the recent welfare reform initiatives in the United States; the Temporary Assistance for Needy Families Program.

My comments are my own observations and do not reflect the opinions of the public or private sponsors of the Ian Axford New Zealand Fellowship in Public Policy or my host institution, the Department of Social Welfare.

**The Ian Axford (New Zealand) Fellowships in Public Policy** were announced by the New Zealand Prime Minister, Jim Bolger, on 4 July 1995. The Fellowships programme is named after Professor Sir Ian Axford, an eminent New Zealand astrophysicist. The fellowships are a joint public sector-private sector initiative which provide mid-career opportunities to outstanding American professionals to study, travel and gain practical experience in public policy in New Zealand. The fellowship programme complements the long-standing Harkness Fellowships programme which is funded by the Commonwealth Fund of New York. Both programmes are administered by the New Zealand-United States Educational Foundation. The Foundation is primarily responsible for the administration of the Fulbright Programme in New Zealand.

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# EXECUTIVE SUMMARY

Beginning with the passage of the Old Age Pension in 1898, New Zealand has developed an international reputation for progressive social policy. The Social Security Act of 1938 was the policy framework for a comprehensive, modern welfare state that provided social security and protection for generations of New Zealanders. The ability to afford a comprehensive set of social and health services was assured by the Government's active role in the nations economy. An extensive set of tariffs, import licenses, and subsidies for domestic industries and producers provided full employment for generations of New Zealanders and ensured that New Zealanders who were unable to work because of infirmity or circumstance were provided for through the welfare state.

Prior to the passage of the Domestic Purposes Benefit in 1973, widows and sole mothers who worked were provided financial assistance by the Government to supplement their wages and support their families. With the passage of the DPB, the Government set the benefit level sufficiently high that sole mothers were able to stay home to care for their children without engaging in paid employment. This was consistent with the recommendations of the 1972 Royal Commission on Social Security, that DPB beneficiaries should have a benefit sufficient to enable them to "belong and participate" as full members of society.

The economic formula of full employment and a comprehensive welfare state began to unravel in the 1970s as New Zealand lost its economic market for exports to the United Kingdom when Britain joined the European Economic Union. The actions of the Organization of Petroleum Exporting Countries to reduce oil production and increase the cost of petroleum also caused a significant impact on New Zealand's economy. Massive overseas borrowing to finance new energy projects and maintain domestic spending on a comprehensive welfare state compounded the financial difficulties facing New Zealand.

In the economic reforms undertaken by the Government beginning in 1984, New Zealand has seen a virtual transformation of its economy. To address the changing international economic situation, New Zealand went from a protected, state-directed economy to a transparent, free-market approach with an extremely limited role for the Government.

Slow economic and job growth and demographic changes, including a significant increase in sole parents and teenage parents, caused caseloads for unemployment and the DPB to grow steadily through the 1980s and into the early 1990s. With the economy experiencing little or no growth for much of this period, the extensive services and benefits available through the welfare state became more and more difficult to maintain.

To reverse the trend toward higher DPB caseloads, the Government's 1998 welfare reforms require beneficiaries with children over age fourteen to look for full time work. Beneficiaries with children between seven and fourteen are required to look for part-time work, and those with children younger than seven will be required to attend an annual planning meeting to discuss their prospects for future employment.

The Government also will require certain DPB beneficiaries to take part in the Community Wage, a workfare program that requires beneficiaries to engage in unpaid community activities in exchange for their income assistance check.

The Government's 1998 welfare reform proposals have been considered by Parliament during a period of serious economic uncertainty and political instability. The substance of the reforms, particularly the Community Wage, and the process used to implement them has generated questions about the ability of the Government's welfare reform scheme to move beneficiaries currently receiving assistance through the Domestic Purposes Benefit from welfare to work.

# INTRODUCTION

The debate over the proper role of the State in providing income support for members of society has swung between two extremes. At one end of the spectrum is the expectation that the individual is responsible for their own welfare. Poverty is tied to the personal failing of an individual to provide for themselves and their family. The other extreme is that society is responsible for all its members. Society, therefore, is required to redistribute income from members of society who earn income to members of society who cannot or will not provide for themselves.

New Zealand has seen both sides of this debate. In the early 19th century settlers from the United Kingdom who encountered misfortune were expected to rely on themselves or on informal support from family or neighbors. Efforts to assist the disadvantaged were resisted because of the damage State assistance would inflict on the recipient in the form of dependency.

As the result of major economic depressions in the 1880s and 1930s, New Zealand sought to address poverty and deprivation through direct State provision of income support to disadvantaged citizens and through State intervention in and control of the economy to provide stable levels of employment and support to working age New Zealanders.

Following the free market economic reforms beginning in 1984 and continuing into the 1990s, New Zealand has seen the policy pendulum swing again towards the 19th century view of personal responsibility for one's own well-being and an expectation that parents support their families through paid employment.

This paper reviews the historical development of income support in New Zealand and examines the current policy debate over changing income support into a workbased welfare system.

# WELFARE IN NEW ZEALAND

## THE EARLY DEVELOPMENT OF THE WELFARE STATE

In reviewing attempts to modify the income support programs in New Zealand it is helpful to place the proposals in an historical context. The social welfare system that operates in New Zealand is the culmination of over one hundred years of policy development. It is characterized by its pragmatic, comprehensive, and relatively conservative approach to the specific experience that is unique to New Zealand and its people.

European settlers arrived in New Zealand in the mid-nineteenth century. The early settlers from the United Kingdom came to New Zealand seeking a new beginning in a new land. They were motivated by an opportunity to escape poverty or the fear of poverty in Britain, seek an improved living standard, and to find a better, more humane, more egalitarian society in the new land. Early settlers in New Zealand relied on mutual aid and informal local community support for those in need. From its beginnings New Zealand lacked an affluent or wealthy class who could donate charitable funds to fund health care, poverty, or education. The government maintained the idea that social welfare was primarily a function of the extended family in its 1846 Ordinance which made “near relatives” liable for the support of destitute persons.

The New Zealand Company established settlements around New Zealand as a means to alleviate the economic and social ills of industrialized and over-crowded England and to provide the framework and structure for the new colony.

The early years of the colony were characterized by the search for gold, the harvesting of forest products such as the Kauri tree and gum, and the development of agricultural products. Prior to the advent of refrigeration in the 1890s, wool was New Zealand’s principle export. With refrigeration, the export of meat and dairy products were to become major components of the economy. It would set an economic trend of dependence on international exports that continues as a cornerstone of New Zealand’s economy to this day.

After early prosperity resulting from the 1860s gold rush and state borrowing for infrastructure development in the 1870s, New Zealand entered a period of severe economic contraction. From 1879 through the 1890s New Zealand was held in the grip of a severe economic depression. The situation was so bleak that in 1880 a group of unemployed workers in Christchurch drew up a petition to the President of the United States asking for help to emigrate to America. The unemployed began demanding “work not soup” from the government of the day. The severity of the economic situation changed the popular notion that poverty was a personal failing based on a person’s character. Increasingly, a government solution to the poverty and deprivation faced by New Zealanders was demanded.

## STATE PROVISION OF BENEFITS TO THE POOR

### THE OLD AGE ACT, 1898

The severe depression of the 1880s and 90s brought home the message that,

*“(it) was becoming obvious to even those legislators steeped in the tradition of the poor law that poverty could not be dealt with from the resources of voluntary charitable organizations, that destitution was, in most cases, beyond the control of the individual sufferer, and that public funds must be used to alleviate distress. The problem was too big and hardship too severe for anything but State action.”*

Report of the Royal Commission on Social Security (RCSS), 1972

Between 1896 and 1898 three Old Age Pension bills, each more restrictive than its predecessor, were introduced in the House of Representatives. Opposition to the legislation was based on the concern that it would give rise to increases in taxation and would have a demoralizing effect on society by encouraging idleness and undermining the self-reliance of the people (RCSS, 1972).

In November 1898 the Old Age Pensions Act was enacted by the Liberal government of the day. The legislation:

- Provided a small pension to persons aged 65 and over, with a means test.
- Included a twenty five year residency test.
- Specifically excluded Asians from coverage.
- Provided for pensions paid out of general revenue with no participant contribution required.

The very restrictive eligibility standards were designed to ensure that only Pakeha (European) residents of New Zealand were eligible for assistance. Maori, while not specifically excluded, were immediately disadvantaged because, in most cases, they had no way to prove their age and they were deemed to own a share of ancestral lands. For a young colony made up of recent immigrants, the 25 year residency requirement was an especially strict standard.

Nevertheless, with the passage of this legislation, New Zealand joined Germany (1889) and Denmark (1891) as the third country in the world to establish a separate welfare program for the elderly.

The passage of the Old Age Pensions Act, 1898 set the precedent for future developments in social welfare policy. It established New Zealand as a policy innovator and trend setter. The 1898 Act marked the point when New Zealand recognized the principle of State responsibility for the relief of individual poverty within the community. It combined the notion of State responsibility to address poverty experienced by its citizens with a targeted and limited, benefit structure. Thus, the earliest welfare policy in New Zealand combined the humanitarian desire to aid the destitute with the expectation that it be targeted only to the most needy.

From 1898 until the 1930s, income support programs were gradually expanded to other groups of the “worthy poor”.

#### THE WIDOWS PENSION ACT, 1911

Widows with children were provided payments under the Widows Pension Act of 1911. The expansion of coverage included a means test to ensure only truly destitute widows would qualify.

#### THE MINERS PHTHISIS ACT, 1915

The next group to be covered by State assistance were miners who were totally incapacitated by pneumoconiosis. This constituted the first coverage of invalidity based on persons incapacitated by specific disabling conditions. Eligibility for assistance was based on the medical condition, a residency test, and an occupational connection (mining) to the condition.

#### PENSIONS FOR THE BLIND, 1924

Pensions were provided for the blind beginning in 1924. Initially, it was only available for individuals who lost their sight while in New Zealand. This was later expanded to include individuals who lost their sight outside New Zealand, again, subject to a strict residency requirement and means test.

#### THE FAMILY ALLOWANCE ACT, 1926

New Zealand became one of the first countries to accept the principle of the State having some responsibility for the well-being of families with dependent children with the Family Allowance Act, 1926. A family allowance of two shillings a week for children up to age fifteen, excluding the first two children. A one year residency test and a means test were also included.

Over the space of twenty eight years New Zealand had developed the broad framework of its social welfare system. It was characterized by tight eligibility standards and low benefit payments. It was targeted to the most needy New Zealanders through the use of means tests, residency requirements, and categorical eligibility standards. It had coalesced incrementally as New Zealand addressed the needs of specific categories of citizens. It was not the result of a radical or revolutionary approach to social welfare. Rather it was an pragmatic, conservative approach to addressing the needs of destitute citizens. And yet, for its time, it formed the basis for the first modern, comprehensive, welfare state.

The 1930s brought the second great economic shock to New Zealand in its brief history. New Zealand conducted the bulk of its trade with the United Kingdom. The UK provided a ready market for all the agricultural products New Zealand could produce. The dependence on one market for the sale of export goods resulted in an overdependence that would generate vulnerability and instability. The world-wide depression of the 1930s hit New Zealand particularly hard, because of it's strong economic relationship with the United Kingdom.

#### THE SOCIAL SECURITY ACT, 1938

The depression of the 1930s put tremendous pressure on the government to address the needs of New Zealanders who were unable to find work regardless of their personal circumstance. As the foreign markets for New Zealand products disappeared, the public increasingly called for the government to respond.

In 1938 the first Labour Government enacted the Social Security Act, 1938. The Act extended coverage to new categories of individuals and incorporated the previously adopted incremental programs into a comprehensive range of benefits. Coverage for sickness, unemployment, orphans, and emergencies were established under the Act. Hailed as a major step forward in providing social security for New Zealanders, the 1938 Act followed the New Zealand tradition of pragmatic, incremental, developmental policies that retained the categorical, means-tested approach paid for with tax revenue.

During the Parliamentary debate, the Ministers clearly signaled an intent to provide a comprehensive, targeted social welfare system for those most in need.

The Minister of Health stated the Government's intent:

*'We have embarked on a comprehensive social security scheme embracing the needs of all those in the community whose need was great - a scheme that would provide adequate benefits for those who needed them most'*

Royal Commission on Social Policy (RCSP), 1988

With the passage of the 1938 Act, New Zealand had in place a comprehensive, means tested social welfare system, that, with few changes, would deliver social security to New Zealanders for the next 60 years. It was, in the eyes of many New Zealanders at the time, the embodiment of Edward Bellamy's vision of a State guaranteeing "the nurture, education and comfortable maintenance of every citizen from the cradle to the grave".

#### THE DOMESTIC PURPOSES BENEFIT, 1973

The Royal Commission on Social Security in 1972 recommended a statutory income support program be established for "sole parents" with dependent children. Legislation was enacted in 1973 creating a statutory income assistance program for sole parents of dependent children called the Domestic Purposes Benefit (DPB). The objective of the DPB was to provide sole parents with the income support necessary to enable them to stay home and look after their children. There was no expectation that a parent on the DPB work or look for work and theoretically, a parent could continue to receive assistance until their child turned eighteen.

The passage of the DPB was one of the last social policy initiatives undertaken in the context of a full employment economy. The twenty five years that followed saw major changes in the New Zealand economy. Slow economic growth and rising unemployment becoming commonplace.

# ECONOMIC REFORMS OF THE 1980S AND 90s

## BACKGROUND TO THE ECONOMIC REFORMS

Following the economic turmoil of the 1880s and 1930s the third largest economic jolt to hit New Zealand began in the early 1970s.

New Zealand's economy has historically been based around the export of agricultural products. As late as 1961, wool, meat, butter, and cheese accounted for over eighty percent of exports by value. Britain purchased forty percent of New Zealand's total exports.

The New Zealand economy was not prepared to cope with the loss of its biggest overseas market when Britain joined the European Economic Union (EEU) in 1973. In the same year, the Organization of Petroleum Exporting Countries (OPEC) decision to reduce the amount of exported oil available to the developed world led to dramatic increases in the price of oil. These two events combined to severely impact New Zealand's economy.

The period from 1973 to 1984 saw deteriorating terms of trade, declining balance of payments, increasing inflation, rising unemployment and minuscule or negative economic growth rates.

In response, the National Government of the day attempted several policy initiatives. Initially, Government expenditures were reduced, interest rate controls were removed, the dollar was devalued, followed by increased overseas borrowing to finance large construction projects in the energy sector designed to reduce reliance on imported oil. Then, Government intervened to re-regulate interest rates, wages, prices, and financial exchange rates. The collapse of the "Think Big" energy investments financed with huge overseas loans was a disaster for the government-directed economy on which the welfare state depended.

Also, in a bid to garner public support in an election year, the National Government in 1975 implemented a national superannuation scheme to pay New Zealanders 60 years and over a pension funded entirely out of tax revenue. Politically, this election pledge was popular with the voters, economically it would develop into a long-term economic problem for the country as the number of eligible continued to grow.

## SUMMARY OF THE ECONOMIC REFORMS

When the Labour party won the election in 1984, the expectation was that substantial change would occur. The economic policies of the National Government brought New Zealand to the edge of an economic crisis. The Treasury prepared a series of briefing papers for the incoming Labour government proposing a fundamental change in the way government policy would influence the economy. Where historically the government's policy of full employment and economic development ensured an active interventionist role, Treasury proposed significantly diminishing the Government's involvement in economic matters.

The election of the Fourth Labour Government in that year opened the floodgates to a series of radical economic restructuring that continue to the present day. Virtually every aspect of New Zealand society has been affected by the economic reforms begun in 1984. Almost overnight, sixty years of interventionist economic policy was replaced by an almost complete reliance on a free market economy with a relatively minor role for the Government.

The Labour governments radical plan of economic reform encompassed the entire economy. It included:

- Devaluation of the dollar by twenty percent.
- Dismantling the system of import licenses and reduction of import tariffs.
- Phasing out most government subsidies to New Zealand producers.
- Deregulation of the financial sector.
- Moving from a fixed to a floating exchange rate.
- An extensive program of state asset sales to reduce the role of government in non-core activities and to reduce government debt.
- Introduction of a goods and services tax (GST) and a reduction in the income tax; and
- Changing the statutory framework for government finances and activities.
- Changing the Reserve Bank's role of balancing full employment and low inflation to a policy of focusing exclusively on maintaining low inflation.

New Zealand is particularly well suited to engage in this type of dramatic and unprecedented series of economic reforms. The structure of New Zealand's Government provides few impediments to a government that wishes to implement its policies. Once the Prime Minister and Cabinet agree to a policy, pushing it through Parliament can happen quite quickly. If Government decides to implement policy

rapidly, it can use the approach of passing a bill under urgency. Under urgency, a bill can pass Parliament in as little as one or two days without ever being referred to a parliamentary select committee for public consultation.

The economic reforms begun by the Labour were continued under the National Government following the 1990 election. Additional reforms included changing the statutory framework for industrial relations, restructuring the health sector by separating funding from provision of health care services, and the introduction of direct part-charges for public health care, with targeted assistance for low-income persons.

Taken together, these changes represented a comprehensive set of economic reforms, aimed at placing the economy on a footing where it could compete effectively in modern global markets.

The reforms did not come without great cost to the people of New Zealand. Unemployment skyrocketed as state sector jobs were declared redundant and eliminated. Businesses and industries reliant on government subsidies, tariffs, and other protections were forced to cope with dramatic economic changes virtually overnight. Unemployment hit the country unevenly with rural and natural resource dependent communities and low skill jobs bearing a disproportionately heavy burden. New Zealanders with low educational achievements in low skill jobs were particularly hard hit by the economic reforms.

The number of beneficiaries on the Domestic Purposes Benefit, the Sickness and Invalids Benefits, and the Unemployment Benefit increased dramatically. The economic goal of achieving low inflation (between zero and two percent) replaced full employment as the economic policy directive to the New Zealand Reserve Bank. Unemployment climbed to atmospheric heights and, after falling in the early 1990s, increased again from 1996 (Figure 1).

# **LABOUR MARKET POLICY AND THE WELFARE STATE**

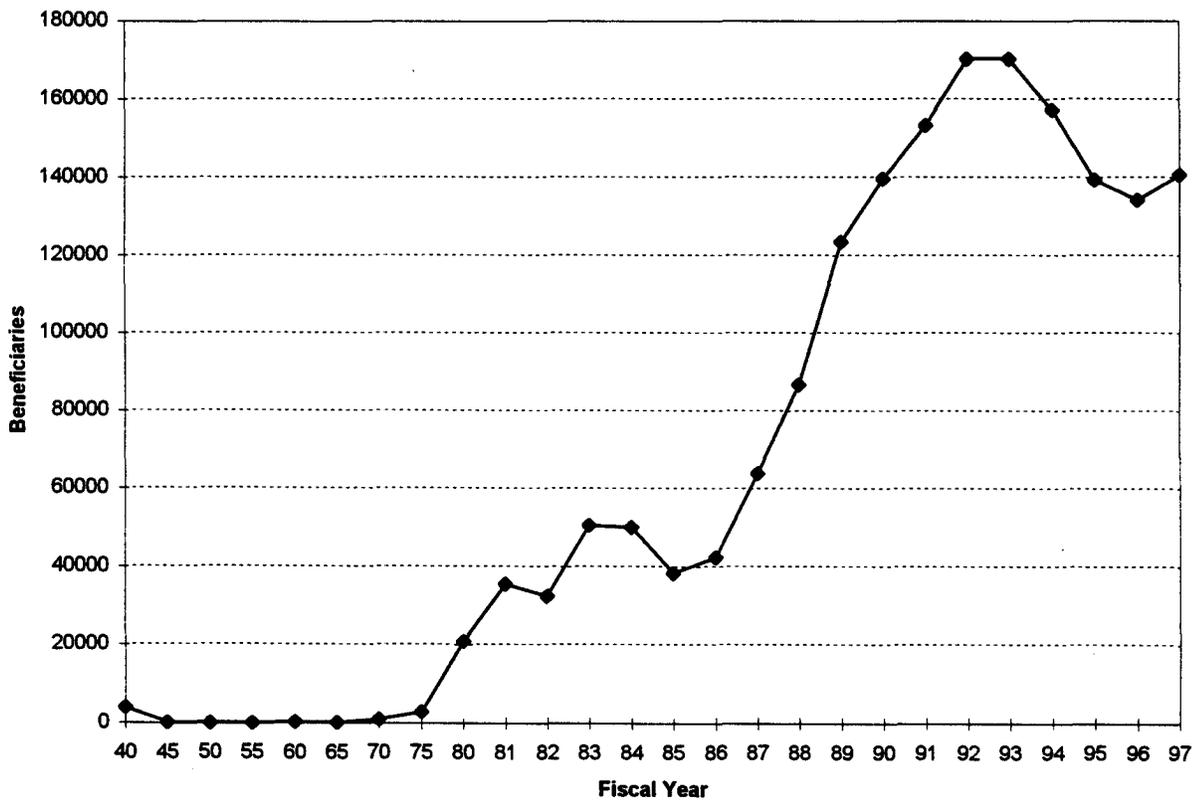
## **FULL EMPLOYMENT AND THE WELFARE STATE**

From the 1930s to the 1980s, New Zealand social policy focused on employment-related welfare rather than simply the direct state provision of assistance. The government policies of economic growth and full-employment were the twin strategies designed to provide the average New Zealander with economic security. The values of self reliance and hard work coupled with government control and direction formed the economic foundation for a successful welfare state. The state played an active role in the economy to achieve social security objectives, including virtual full employment. Through a full employment economic policy New Zealand was able to construct and pay for the comprehensive system of welfare services for the members of society who were unable to provide for themselves.

New Zealand achieved something of an economic miracle for generations of New Zealanders. From World War II to the late 1960s, unemployment hovered near zero and work at a living wage was a reality. Incredibly, in 1950 there were only twelve unemployment benefits being paid in the entire country.

The full employment policy began to unwind with the economic changes of the 1970s. As the economy faltered, unemployment began to rise (Figure 1). Following the collapse of the New Zealand share market in October 1987, unemployment became endemic. In the twenty years from 1972 to 1992, unemployment went from a minor social issue to one of the most significant issues facing New Zealand.

### Unemployment Benefit Caseload Over Time



Unemployment peaked in 1992 and fell to a seven year low in 1996. It began increasing again in 1997 and is projected by Treasury to continue increasing through 1998 to at least mid-1999, in large part, because of the Asian economic crisis.

Figure 1

## EMPLOYMENT FOR NEW ZEALAND PARENTS

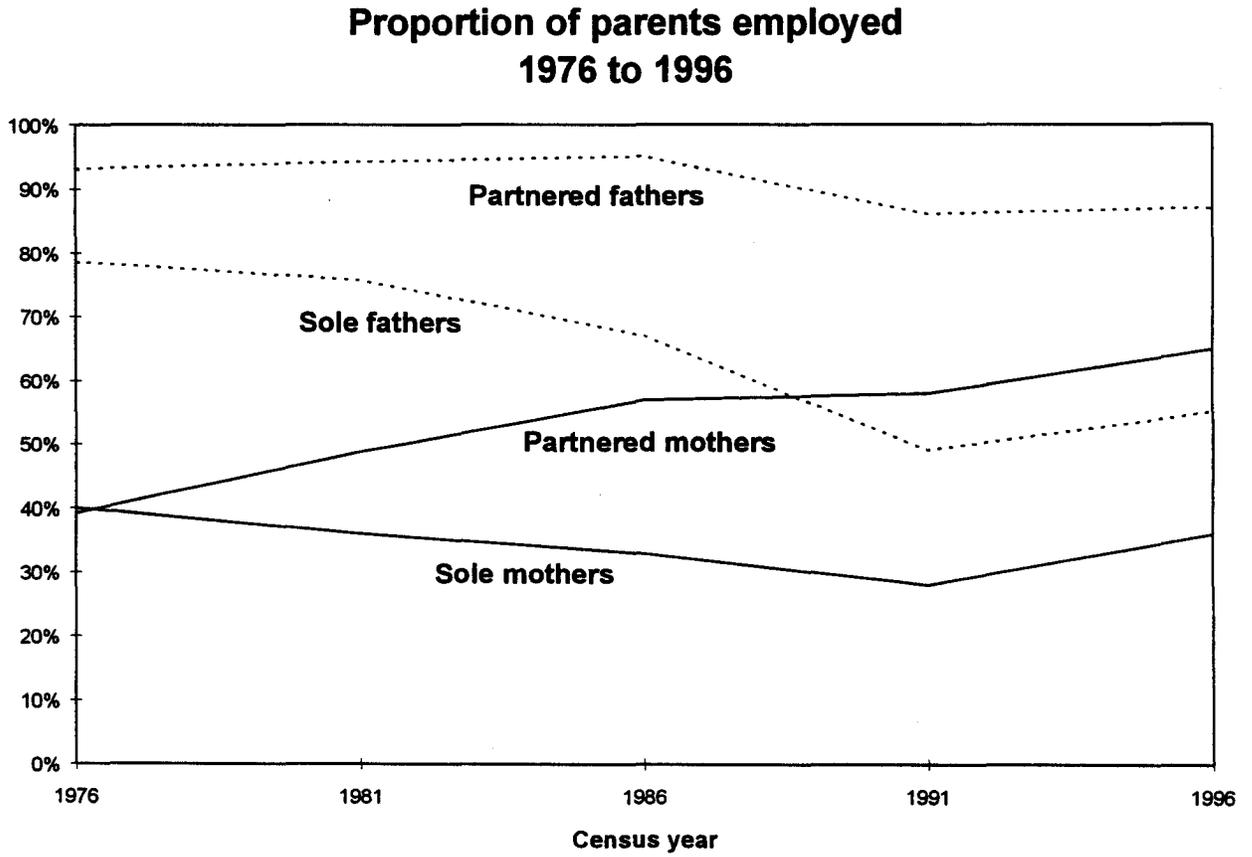
Employment trends among parents living with dependent children have changed between the mid-70s and mid-90s, declining during the 1980s but showing an increase from 1991 to 1996. At the time of the 1976 Census, over 90 percent of partnered fathers were employed, as were nearly 80 percent of sole fathers, while two in every five mothers had a paid job (Figure 2). In the late 1970s, this pattern began to change. Employment declined among sole parents of both sexes and continued to increase for partnered mothers. This occurred in the context of rising unemployment and a decline in real wages that was triggered by the wage-price freeze imposed between June 1982 and November 1984. The wage freeze imposed by the National Government had the perverse effect of increasing the relative value of the DPB benefit above the minimum wage for a full-time worker.

When unemployment rose sharply in the late 1980s all categories of parents were affected. Employment among sole parents and partnered fathers declined, and the upward trend for partnered mothers virtually stalled. The 1996 Census indicated that there has been a recovery in the employment of single parents and partnered mothers, reflecting the economic recovery of recent years. However, partnered fathers are still less likely to be employed than they were a decade ago.

Clearly, the economic reforms begun in 1984 had an impact on many families with dependent children. Employment rates for single parents declined during a period of high unemployment and slow job growth.

The 1991 benefit cuts increased the incentives for sole parents to take on paid work by lowering the relative value of a DPB benefit over paid employment. However, for those parents unable to enter the labour market, the benefit cuts represented a significant reduction in household income. This in turn increased the demand for assistance through food banks and supplemental cash assistance payments.

Figure 1



Source: Census of Population and Dwellings. 1976, 1981: Parents with any children under 18 years.  
1986, 1991, 1996: Parents with any children under 18 years where the child(ren) were not in full-time employment.

## PARENT'S EDUCATION AND EMPLOYMENT LEVELS

Educational achievement is strongly related to the likelihood of being employed. Seventy percent of sole mothers with a university degree were employed either full or part time in March 1996, compared with twenty three percent of those with no degree (Table 1). The majority of sole mothers with qualifications above School Certificate level were in the labour force, either employed or actively seeking work.

The higher educational levels of partnered mothers may explain much of the difference between single and partnered mothers' employment. Overall, only twenty six percent of partnered mothers had no qualifications, compared with forty three percent of single mothers. This suggests that education and training remain important means of facilitating higher levels of employment among single mothers.

The high incidence of births to unmarried teenagers is also be of great concern. Single teenage mothers who do not achieve their educational qualification are at high risk of long-term reliance on the DPB.

Table 1

### Highest educational level of single mothers by labour force status 1996

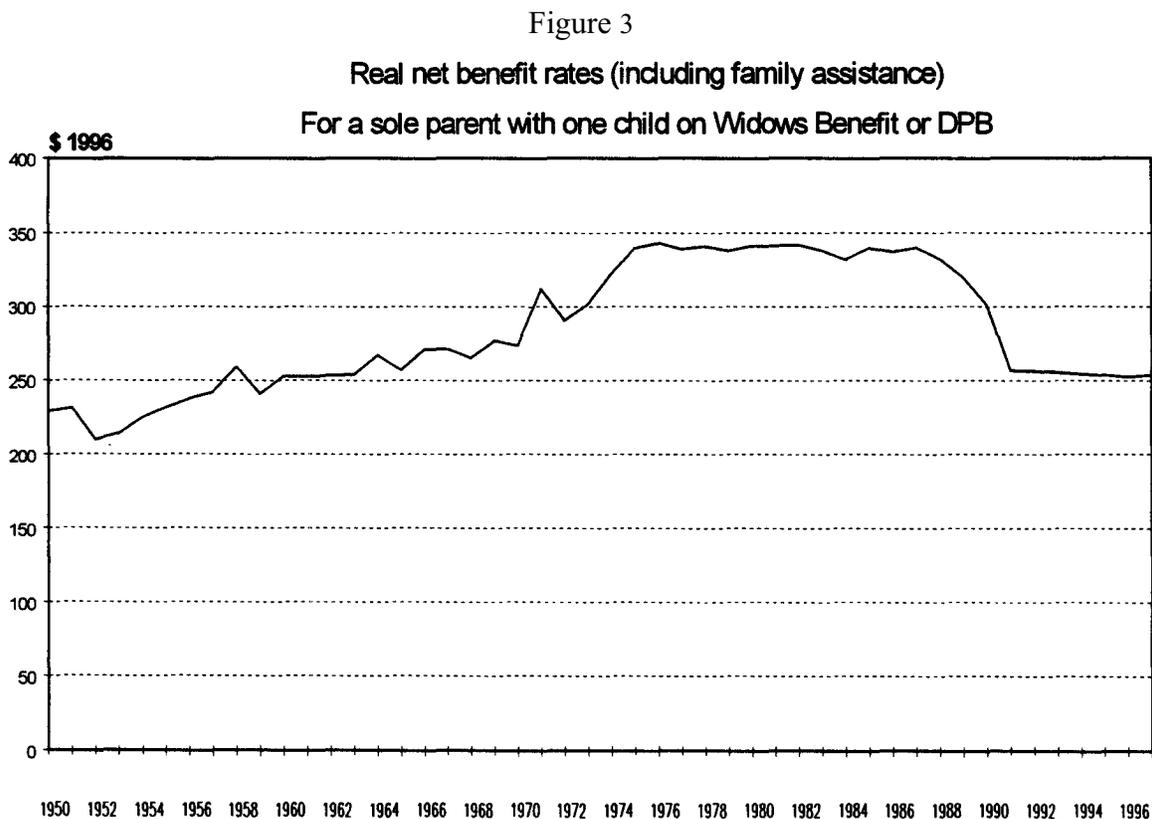
	Employed Full-Time	Employed Part-Time	Unemployed and Actively Seeking Work	Not in Labour Force	Total
	Row percentages (% of each qualification category employed)				
University level (degree and above)	50%	20%	6%	24%	100%
Post-school qualifications	30%	20%	11%	39%	100%
Higher secondary school qualifications	23%	20%	9%	48%	100%
Other school qualifications	20%	17%	11%	52%	100%
No qualifications	11%	12%	13%	64%	100%
Total with qualifications specified	20%	16%	11%	53%	100%

Source: Statistics New Zealand (unpublished table)

## DOMESTIC PURPOSES BENEFIT AND WORK INCENTIVES

The statutory creation of the Domestic Purposes Benefit in 1973 had a substantial impact on the incomes of single parents. The real benefit rate for a sole parent with one child rose by seventeen percent between 1971 and 1976. These benefit levels were maintained until the mid-1980s (Figure 3).

Between April 1986 and April 1991, the Government reduced the real benefit rate for a sole parent with one child by 24 percent.<sup>1</sup>



Source: Department of Social Security Annual Reports; DSW Annual Reports; DSW Information Bulletins.

<sup>1</sup> The child supplement was replaced with non-indexed Family Support in October 1986; the rate for a sole parent with one child was lowered relative to that for sole parents with two or more children in April 1989; and the benefit reductions imposed in April 1991.

## EMPLOYMENT RATES FOR SINGLE MOTHERS

A recent study of sole parents' employment in twenty industrialized countries found that New Zealand mothers who are married have employment rates that are about average for the countries covered by the study (Table 2). In contrast, however, single parents in New Zealand were significantly less likely to be employed than their counterparts in other countries.

Table 2

### Employment Rates Among Mothers in Industrialized Countries

	Sole Parents		Partnered Parents	
	Percent of Sole Parents Employed		Percent of Partnered Parents Employed	
	Full Time	Part Time	Full Time	Part Time
New Zealand (1991)	17%	10%	31%	27%
Australia (1994)	23%	20%	25%	32%
UK (1990-92)	17%	24%	21%	41%
US (1992)	4	1	4	1

Source: The Employment of Lone Parents: A Comparison of Policy in 20 Countries, London: Family Policy Centre

The 1996 Census showed that mothers employment levels had increased slightly from the OECD study. Single parents in employment had increased from twenty seven to thirty six percent, and sixty five percent of partnered mothers were working, up from fifty eight percent.

Recipients of the DPB are permitted to work and continue to receive state assistance. An abatement schedule is applied to any earned income and the amount of the DPB is reduced accordingly. While employment by single parents on the DPB between 1991 and 1996 has increased, it has not resulted in a decrease in the number of beneficiaries.

The number of DPB beneficiaries with other income has increased by nineteen percent since July 1996 when a new abatement schedule was applied. At the end of June 1997, twenty two percent of beneficiaries had other income.

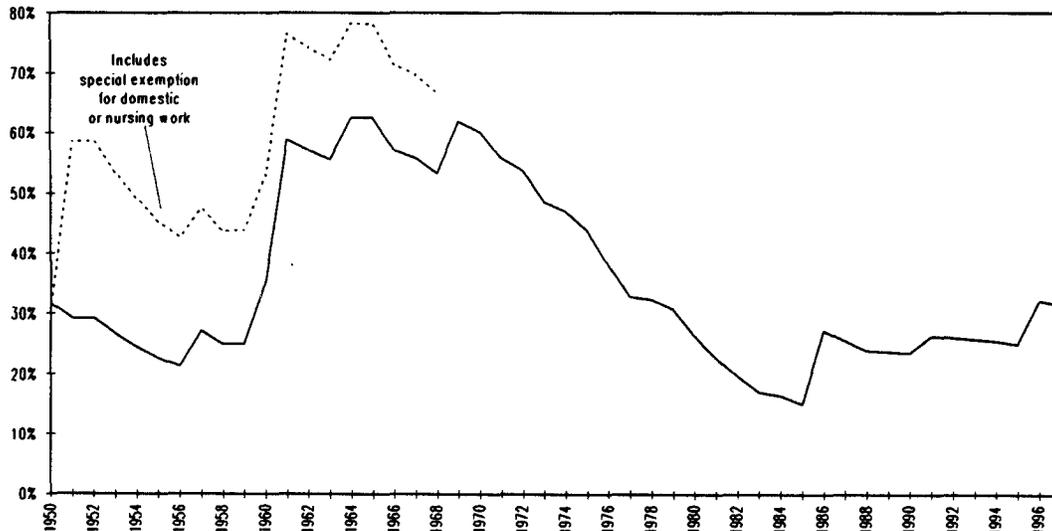
## WORK INCENTIVES FOR SINGLE MOTHERS

Following World War II, work incentives for female beneficiaries were introduced to meet labour demand. The National Government doubled the income exemption for female benefit recipients engaged in domestic work. In 1955, this was extended to cover domestic or nursing work in private homes or institutions (Figure 4).

During the early 1960s, the income exemptions were set so high that widows and sole mothers with one child could receive more income than a general labourer (DSS, 1968:23).

The ratio of the standard income exemption to the benefit rate for a sole parent with one child on widow's benefit or DPB reached sixty percent in 1970 and declined over the next fifteen years, reaching a low of fifteen percent in 1985. Income exemptions were increased in 1986 and 1996 providing some increased advantage for beneficiaries to take up paid employment, but nothing approaching the levels of the 1960s.

**Ratio of income exemption for Widows or DPB recipients  
to the benefit rate plus family assistance for a sole parent with one child  
1950 to 1997**



Source: Department of Social Security Annual Reports; Department of Social Welfare Annual Reports; DSW Statistical Information Reports.

Figure 4

The creation of the DPB in 1973 and the level of the benefit payment reduced the incentives for beneficiaries to work. Historically, New Zealand moved from an employment-based benefit system that provided generous income exemptions for beneficiaries, to a state-funded benefit at a level high enough to provide single parents with little incentive to seek paid employment.

#### WHY ARE SO FEW SINGLE MOTHERS WORKING?

There are several factors that can explain the low work rates among single mothers in New Zealand.

1. **Work expectations** Until 1 April 1997 there was no requirement or expectation that single mothers receiving the DPB engage in any work or work-related activity. From 1 April 1997 a part-time work expectation was instituted only for parents with child over fourteen years of age.
2. **Financial disincentives** The relative value of benefits through the DPB compared to wages is high in New Zealand. Also, although the abatement rates for DPB beneficiaries with earned income have recently increased, they still do not approach the levels available to working women prior to the creation of the DPB.

3. **Child Care** Accessible and affordable child care is not readily available in New Zealand. Child care costs in New Zealand are high compared to other countries.

4. **Financial Uncertainties** Work-related expenses and unplanned emergencies can make the transition from welfare to work difficult.

5. **Education Levels and Work Experience** Two thirds of DPB beneficiaries have no formal qualifications or School Certificate only. A majority do not have recent work experience.

6. **Availability of Work** Except for the period between 1992 and 1996, unemployment has remained at high levels for an extended period.

# **TRENDS AND CHARACTERISTICS OF NEW ZEALAND'S WELFARE CASELOAD**

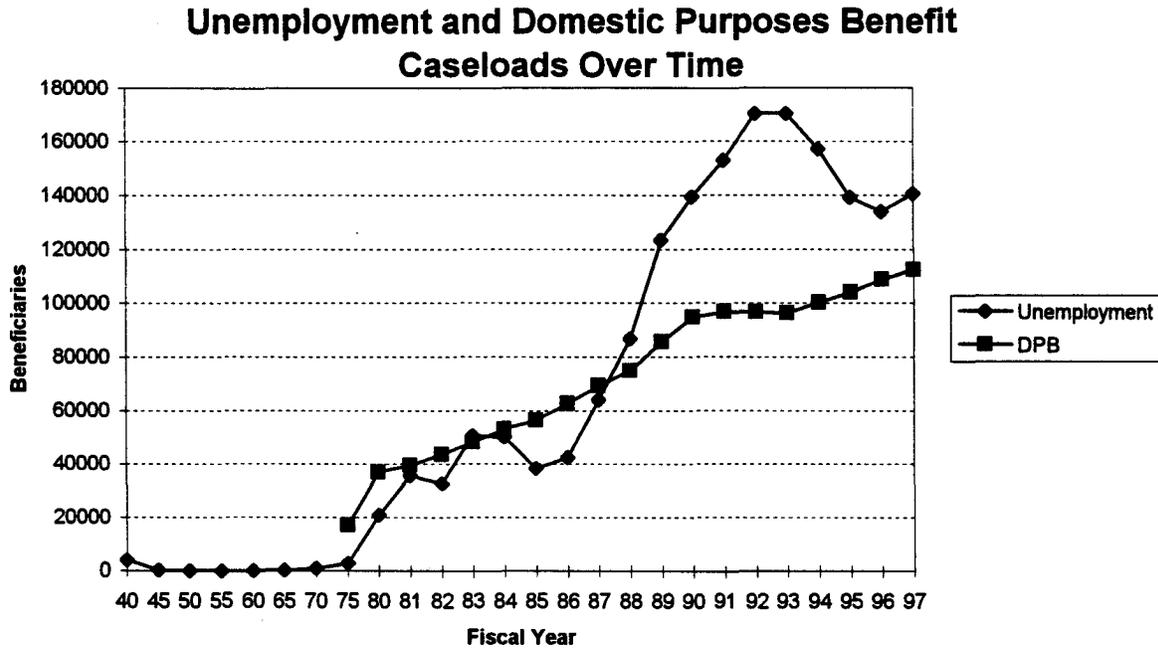
## **CASELOAD GROWTH TRENDS**

New Zealand has experienced steady growth in the Domestic Purposes Benefit and the Unemployment Benefit since the mid 1970s. In 1975, 2,984 people were receiving the Unemployment Benefit in New Zealand. The number of beneficiaries receiving the Domestic Purpose Benefit in the same year was 17,231. Unemployment peaked in 1992 after five years of steady growth and dipped to levels experienced in the late 1980s in 1996, before increasing again in 1998. The number of beneficiaries receiving the DPB continued a steady increase until it plateaued in 1991 and began to rise again in 1993. The leveling of the number of beneficiaries on the DPB coincided with the benefit cuts imposed in the 1991 budget (Table 5).

The welfare debate in New Zealand in recent years has focused on whether the significant increases in individuals and families receiving government assistance are the result of the individual failings of the beneficiaries themselves or of government decisions relating to the economic performance of New Zealand's economy. The question of the DPB caseload increases is complicated by the fact that beneficiaries were not expected to look for work and were actually provided a higher income on the DPB than minimum wage job over much of the 1980s. (Figure 6)

Figure 5

source: 1997 Statistics Report Department of Social Welfare



#### FACTORS AFFECTING CASELOAD GROWTH

Several factors have played a role in the increasing number of beneficiaries on the Domestic Purposes Benefit. The DPB was initially structured as an ongoing income maintenance program with no expectation or requirement that recipients engage in work or work-related activities. As a result, very few sole parents are engaged in paid employment. Secondly, the proportion of single mothers raising children has risen dramatically in the twenty five years since the DPB was created. The proportion of New Zealand families headed by sole parents increased from ten percent in 1976 to twenty seven percent in 1996. Thirdly, the economic crisis of the 1970s and the associated economic reforms of the 1980s dramatically increased unemployment and poverty, reducing opportunities for paid employment for low wage, low skill workers. Lastly, the incentives for low-income workers to engage in paid employment were gradually reduced from the 1950s to the 1980s, to the point where few economic incentives remained for DPB beneficiaries to take up paid work.

## LENGTH OF STAY ON THE BENEFIT

A recent longitudinal study of DPB beneficiaries shows a dynamic caseload with some beneficiaries staying for short periods of time, others leaving and returning to the caseload, and a minority of beneficiaries staying on continuously. The study looked at people who were granted DPB in September 1992. Twenty nine percent left within three years and did not return to the benefit within that time. Forty percent left the DPB, but returned at least once within the three year period, About thirty remained on the DPB continuously during the three year period. This is very similar to research findings in the US where one third of the caseload left within the first year, one third cycled on and off the program within a three year period, and one third remained on continuously.

The response to this US research was to focus initial efforts to move beneficiaries from welfare to work on immediate job search for those with recent work experience as the highest priority. When these beneficiaries found work, the focus shifted to beneficiaries who cycled on and off assistance. This second tier of beneficiary would receive assistance to find a job and keep them from returning to the caseload. As the first two groups of beneficiaries left the caseload, attention and additional resources would shift to the third group of beneficiaries who exhibited major barriers to employment.

## AGE OF DPB BENEFICIARIES

New Zealand has one of the highest rates of teenage out-of-wedlock births of any industrialized country at 30.4 births per 1,000 teenage females in 1994. The proportion of DPB beneficiaries aged under twenty is approximately four percent at any one time. However, thirteen percent of current beneficiaries were under twenty when their current time on the benefit began. Younger sole parents, many without educational qualification, tend to stay on the DPB much longer than average. This is particularly true of Maori DPB beneficiaries, where twenty percent were teenagers when they began receiving assistance (DSW, 1998).

# **THE CALL FOR “WELFARE REFORM” IN NEW ZEALAND**

## **WHAT IS THE PROBLEM?**

In any public policy debate the debate is framed by the definition of “The Problem”. The problem statement will determine what policy options are presented to decisionmakers and, ultimately, what policy is chosen to address the identified problem. One of the dangers in public policy development is the desire to spend little time on defining the problem and instead jumping quickly to a solution that may or may not actually address the underlying problem.

Where there is no consensus in defining the underlying problem facing society, the political organization that controls government has an inherent advantage in the policy debate. This is especially so in New Zealand where the party or coalition of parties that possesses a majority in Parliament also controls the executive functions of government.

In the case of welfare reform, multiple problem statements can be pursued which lead to quite different public policy outcomes. For example, the problem can be defined in terms of unacceptably high numbers of beneficiaries and children receiving assistance. It includes a concern that the benefit level is higher than paid work leading to a disincentive to seek paid work. This “problem” would focus on the size of the caseload, the level of expenditure, and the incentives in place to keep people on assistance. It should also focus on the apparent inability of the economy to create new jobs and of governments responsibility to remove disincentives to pursuing paid employment and providing the services necessary to support low-income single parents in the work place

Welfare reform can also be seen as a problem of having unacceptably high numbers of New Zealanders receiving public benefits at a level of support insufficient to provide them with an income level sufficient to avoid living in a state of poverty. Single mothers who provide a valuable service to society through raising healthy, happy, socially well-adjusted children are unable to accomplish this if assistance payments are so low as to force them into the workplace. This alternative view of the “welfare problem” would look for policy solutions in the form of higher assistance payments and greater support services to at-risk single parent families.

How the problem is defined determines the range of policy options available to government to address the presenting problem.

## POLICY DEVELOPMENT IN NEW ZEALAND

The structure of government in New Zealand consists of a strong executive and a relatively weak legislature. As an example, in 1992, ninety three percent of all Acts signed into law had been introduced as Government bills. In fact, from 1945 to 1985 only three private members bills were passed by Parliament. (McGee, 1994)

New Zealand has the purest form of Westminster government of any country in the world. With a unicameral Parliament (the Legislative Council, an unelected upper house, was abolished in 1951), the Prime Minister and the Cabinet are accorded tremendous power. Some commentators have referred to New Zealand's Government as a democratic dictatorship.

The Westminster model of government has two set of characteristics. The first set consists of:

- A simple plurality electoral system, referred to a “first past the post”,
- A two-party system in which the parties are divided primarily on socio-economic issues, and
- A cabinet composed of a single majority party which dominates the legislature.

The second set includes:

- A unitary and centralized government,
- Either a unicameral or a bicameral legislature with a very weak upper house, and
- An unwritten constitution.

Until 1993, New Zealand had all of these characteristics.

In 1993, following several years of discontent over the unilateral power displayed by successive governments, New Zealand voters approved a Mixed Member Proportional (M.M.P) electoral system. The MMP system was designed to make coalition government more likely, make Parliament more representative of the population of New Zealand, and, hopefully, increase the use of compromise, consensus, and collaboration in the development of public policy.

Even with the advent of MMP, the Prime Minister and the cabinet retain tremendous power in developing and implementing policy. The decisions made by the cabinet are made behind a screen of secrecy that was not affected by the MMP electoral reform. While a coalition cabinet will undoubtedly involve more give and take than a first past the post cabinet, it will only take place between the coalition partners. To the extent a coalition Government is made up of political parties who are relatively close ideologically, which is a logical expectation, MMP may not generate the level of compromise and

collaboration across the entire political spectrum New Zealanders had anticipated. A coalition Government still retains the ability to dominate Parliament. It is unlikely that Parliament will provide an effective counterbalance to the power of the Government, even in an MIVIP environment.

If the people of New Zealand were hoping to balance the power of the Government with enhanced power for Parliament, parliamentary reforms beyond MMP will be needed. The most obvious area to target would be to severely restrict the use of urgency in the passage of legislation. This would strengthen the role of the parliamentary select committee, and introduce a more level playing field for the Government and the Parliament. The use of urgency could be curbed simply by requiring the Speaker of the House to rule whether sufficient grounds have been made to justify its use, as is the case currently when the House considers legislation under “extreme urgency”.

### THE 1991 BUDGET

Up through the late 1980s, New Zealand followed a policy of setting income support benefit levels sufficiently high to enable beneficiaries to “participate and belong” to society. This approach came to an end in 1990 with the election of the National Government. The policy direction espoused by National was one of targeting benefits to those in greatest need by providing a “modest safety net” for individuals who were unable to support themselves through paid employment.

Following the 1990 election, the new National Government identified welfare reform as a major domestic policy objective. The current Prime Minister, the Right Honourable Jenny Shipley, was the Minister of Social Welfare at the time. In her 1991 proposal to reduce benefit levels for beneficiaries, she dearly had her eye on the relationship between low wage workers and DPB beneficiaries.

*‘The levels of support offered in the form of benefits and, other social assistance are a major factor in our fiscal costs. They are also critically important in terms of the incentives and choices they offer to people. If assistance is poorly designed, the cost is measured not solely as extra state spending, but also as a major factor damaging our economy and undermining social behaviour.’*

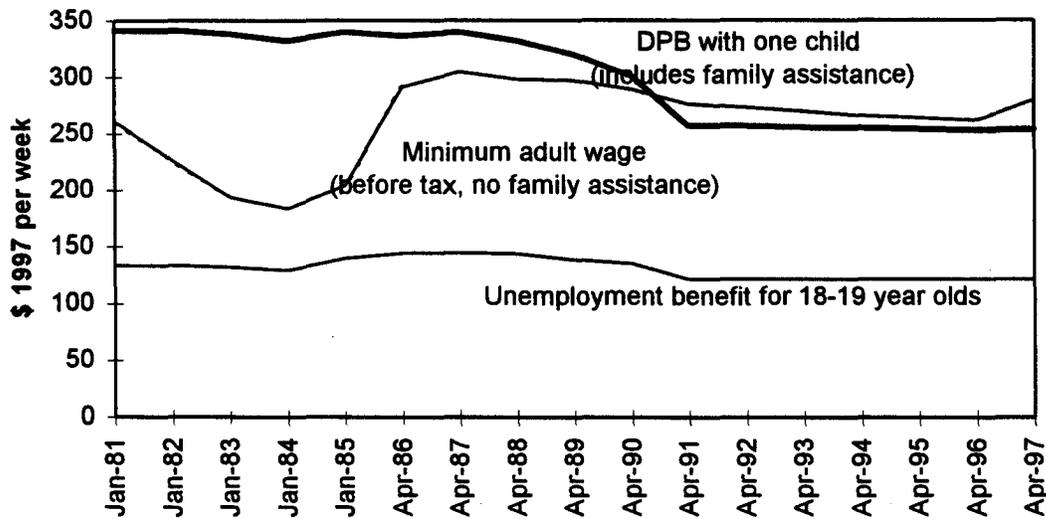
Source: Welfare that Works, Shipley, 1991

The wage freeze of 1982-84 coupled with the Government policy of adjusting benefit rates to reflect changes in the Consumer Price Index (CPI) resulted in benefit rates exceeding the minimum wage for low-income workers from the early 1980s up until 1991 (Figure 6).

Figure 6

The Minister of Social Welfare felt that this situation had to change.

**Real net benefit rates and real minimum wages since 1981**



Source: DSW, 1998

*Quite frankly, the research I re/y on is the marketplace. If the marketplace cannot pay, there is no such thing as an arbitrary, isolated, adequate level.... We had to make judgments on the whole package as to where we would pitch the levels.*

Minister of Social Welfare, March 1991

Benefit levels for all beneficiaries were reduced in the 1991 budget (Table 3). The reduction in benefit levels dropped the relative value of the DPB benefit compared to the minimum wage from 1991 on.

Table 3 1 April 1991 Benefit Reductions to Selected Programs

<b>Benefit Type</b>	<b>Benefit Rate on 31 March, 1991</b>	<b>Benefit Rate on 1 April, 1991</b>	<b>Percent Change</b>
<b>UNEMPLOYMENT</b>			
Single unemployed 18-10	\$143.57	\$108.17	(25)%
Single Unemployed 20-24	\$143.57	\$129.81	(10)%
Single unemployed >25	\$143.57	\$129.81	(10)%
Married Couple	\$223.22	\$216.34	(3)%
Single, 2 children	\$292.87	\$266.83	(9)%
<b>SICKNESS</b>			
Single 18-24	\$162.26	\$129.81	(20)%
Married Couple	\$270.44	\$245.86	(9)%
Single, 2 children	\$292.87	\$266.83	(9)%
<b>DOMESTIC PURPOSES</b>			
Single	\$162.26	\$135.22	(17)%
Single, 2 children	\$292.87	\$266.83	(9)%

Source: DSW, 1997

## THE 1996 COALITION GOVERNMENT

The 1996 election was the first conducted under the Multi Member Parliamentary (MMP) system of government established by referendum in 1993. No single party won enough seats to control Parliament and form a Government, so negotiations began to establish the first coalition government in New Zealand's history under the MMP system. The National party won 44 seats and Labour won 37. The next largest block of seats was held by the New Zealand First party with 17 seats. New Zealand First negotiated with both major parties simultaneously seeking the best arrangement as a junior coalition government partner.

Winston Peters, the leader of NZ First announced, after negotiating with both the National party and the Labour Party, that NZ First would form a coalition government with the National party. The first task for the new coalition partners was to draft a coalition agreement covering the operations of the coalition and laying out a policy framework for the government.

The Coalition Agreement between the National and New Zealand First parties contained an employment strategy dealing with the unemployed. The policy was not specifically targeted at DPB beneficiaries.

*The key objectives of the National/NZ First Government's employment policy will be reducing the percentage of job seekers who are long-term unemployed, and involving job seekers while they are unemployed in part-time community work and training. Regions will be given greater influence over how these and other employment goals are met.*

*It is accepted that, as a general principle, it is economic policy, as distinct from employment policy that determines the numbers of employed.*

### 1996 Coalition Agreement

It is interesting to note that the coalition employment strategy agreed to by the Coalition partners was dearly not to move more beneficiaries from the dole to paid employment. Rather, the Government was proposing to make beneficiaries engage in reciprocal obligations in exchange for their ongoing dole payments. Also, while the employment strategy did not make specific reference to DPB beneficiaries, the agreement acknowledged that economic policy also played a major role in determining the numbers of employed single parents.

The briefing papers prepared by the Department of Social Welfare for the incoming Coalition government in 1996 displayed grim statistics.

- In 1996, 400,000 (21 per cent) of working-age people are benefit dependent, compared to 8 per cent in 1985.
- In 1996, 54 percent of beneficiaries were receiving assistance for longer than one year continuously.
- Thirty per cent of all New Zealand children live in benefit-dependent families, compared to only twelve per cent in 1985.
- Seventy six per cent of beneficiary children live in sole parent families.
- Compared to other developed countries, New Zealand has a high and increasing proportion of families headed by a single parent and a low proportion of single parents employed either part or full time.
- New Zealand has one of the highest rates of teenage out-of-wedlock births of any industrialized country at 30.4 births per 1,000 teenage females in 1994.

## 1998 GOVERNMENT WELFARE REFORM PLAN

In her initial statement at the commencement of Parliament on 17 February 1998 the Prime Minister signaled the Government's intention to change the welfare system.

...the Coalition government has settled on six key policy principles which we believe must be applied to all areas of social policy work as a starting point.

### Principle 1

Everyone has a responsibility:

To themselves

To their families

To their communities

To other taxpayers

To society

### Principle 2

Taking part in paid work underpins economic independence.

### Principle 3

Work expectations and income support obligations should be linked to a person's capacity and ability to work.

### Principle 4

Government social assistance must be designed to encourage people to help themselves.

### Principle 5

Government social assistance should focus resources on those most in need

### Principle 6

Government social services will work to strengthen families.

In stating principles Two and Three, the Prime Minister clearly indicated that the Government would be requiring beneficiaries to look for and accept paid employment as an alternative to living on the dole.

The Government's approach to welfare reform included imposing work requirements on DPB beneficiaries, providing enhanced funding for child care services, and converting payments to some beneficiaries into a Community Wage.

The development of the Government's welfare reform legislation was kept secret. The Prime Minister indicated in her speech that further details of the Community Wage would be announced in April 1998 and legislation would follow in May 1998. What she did not say at the time was that the legislation would be introduced under urgency with the legislation to be passed with only two days debate by the Parliament.

### 1. Work Expectation for DPB Beneficiaries

Until April 1997 there was no work requirement or expectation for single mothers receiving the DPB. Effective 1 April 1997, DPB beneficiaries whose youngest child was fourteen years old were required to look for and be available for part time work, or take part in another work related activity.

The Government's welfare strategy now requires parents with children over 14 years of age to look for full-time work, parents with children between seven and fourteen years of age to look for part-time work, and parents with children under seven to take part in an annual planning meeting to determine the best method for the individual to move into the work world.

### 2. Child Care Funding

The Government increased the funding for the child care subsidies to cover out-of-school care and recreation costs. The 1998 budget also provided additional funding for the expansion of child care subsidies for low-income working families who do not qualify for any income assistance programs.

### 3. The Community Wage

The Community Wage is a Workfare program where beneficiaries will be required to engage in work-related activities in exchange for their cash assistance. It may lead to paid employment for participating beneficiaries, but it is seen as primarily introducing the concept of a reciprocal obligation for beneficiaries receiving income assistance from the State. The Government's plan was for the Community Wage to apply to beneficiaries receiving the Unemployment Benefit, the Sickness and Invalid's Benefit, as well as the DPB. The combined caseloads for those four programs exceeds 350,000 beneficiaries in 1998. Initial government estimates were that 63,000 beneficiaries would be required to take up Community Wage activities in 1999.

Persons required to participate in the Community Wage will receive a weekly allowance for work-related expenses and qualify for child care subsidies to partially cover the cost of providing care for their children while they were engaged in “work for the dole” schemes.

The Government announced as part of the Community Wage program, that voluntary sector agencies would be expected to provide supervision and direction for beneficiaries assigned to them without any additional financial support to cover the cost of administration and supervision.

Also, while the Government stated that displacement of current workers with Community Wage workers would not be permitted, the legislation did not specifically prohibit it.

# WELFARE REFORM LESSONS FROM THE UNITED STATES

## THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY ACT OF 1996

Welfare reform legislation signed by President Clinton on 22 August 1996 dearly changed US welfare policy from an income maintenance model to a Work First policy focused on moving beneficiaries into unsubsidized paid employment as quickly as possible. The passage of the legislation culminated two years of often rancorous debate about the future of government assistance for low income Americans. Because of the political situation at the time, a Democratic President and a Republican controlled Senate and House of Representatives, significant compromise and collaboration were required to develop the new policy. As a result, tough new work requirements were coupled with significant increases in child care and related support services to enable single parents to go to work.

The American welfare law requires the fifty States to utilize twelve types of work and work-related activity in moving beneficiaries from public caseloads to employment. They are:

1. Unsubsidized employment;
2. Subsidized private sector employment;
3. Subsidized public sector employment;
4. Work experience, only if sufficient private sector employment is not available;
5. On-the-job-training;
6. Job search and job readiness assistance for up to six weeks, or twelve weeks if the State's unemployment rate is 50% above the national average;
7. Community service programs;
8. Vocational education training for a maximum of twelve months;
9. Jobs skills training directly related to employment;

10. Education directly related to employment for recipients who do not have a high school degree or certificate of high school equivalency;
11. Attendance at secondary school or course leading to a high school equivalency for recipients who have not completed secondary school; and
12. Provision of child care services to an individual who is participating in a community service program.

The strong economy in the United States over the past seven years has allowed most States to move beneficiaries directly into unsubsidized private sector employment. The ability to reduce caseloads through private sector jobs has the additional benefit of lowering a State's employment target under the federal welfare legislation. State's are initially required to have twenty five percent of their caseloads participating in one of the twelve work activities in the first year of implementation, rising to a fifty percent participation requirement by the year 2002.

For each percentage point a State's caseload is reduced, the State may also reduce its work participation requirement by the same amount. If a State is able to reduce its caseload by fifteen percent through private sector job placement, the participation rate for the beneficiaries remaining on the caseload is reduced by the same fifteen percent. Thus, in the first full year the participation requirement would be ten percent not twenty five percent and in 2002, thirty five percent not fifty percent. Because of strong job growth and significant caseload reductions in most States, work participation targets have been met. Additional public funds are available to assist the remaining beneficiaries overcome the more significant employment barriers they face. The higher the reduction in caseload, the lower the work participation rate for the remaining beneficiaries.

The federal government appropriated additional money to the States to provide beneficiaries with support services needed to enter the work force. The federal legislation also requires States to maintain a historic level of expenditure on their welfare programs. The strategy adopted by most States is to move as many beneficiaries off the caseload into unsubsidized employment as quickly as possible. The money then freed up by the lower caseload is invested in the remaining beneficiaries who do not have the ability to enter the work force quickly. The American welfare reform does not represent a reduction in public expenditures on welfare. Rather, it represents a significant shift in funding to income supplementation and support services needed by low-income single working parents.

To ensure that "work is better than welfare" most States have provided more generous abatement schedules for beneficiaries who engage in paid employment. This, combined with the Earned Income Tax Credit (EITC) for low income working families, has provided dear financial incentives for beneficiaries to take up paid employment.

The EITC is available to low income families on a monthly basis, allowing them to include it in their household budget.

In summary, the American welfare reform initiative has taken place during a period of unparalleled economic expansion and job growth. It has seen low unemployment rates and high job growth combined with a significant investment of additional funds from the Federal and State governments to provide the additional support services and financial incentives needed to move single parents from welfare to work.

## WORK FIRST PROGRAMS

As New Zealand considers policies to move single parents from welfare to work it is necessary to keep in mind the economic context of the United States welfare reforms. The Manpower Development Research Corporation summarized welfare reforms underway in the United States and five selected States. The dear economic evidence is that significant decreases in the numbers of beneficiaries are taking place in a climate of low unemployment and strong job growth (Table 4). A review of recent welfare caseload reductions in the United States shows that “about forty percent of the decline in welfare rolls is linked to the economy, about thirty one percent to policy changes, by the States, and twenty nine percent to other factors” (Cox, 1998).

A positive economic climate is a critical piece of the puzzle. Work requirements, sanctions for noncompliance, culture change in local welfare offices, changing economic incentives, and accessible, affordable child care are all important components of US welfare reform strategies. However, if the underlying economic conditions are not conducive to job growth, a work based welfare reform policy will likely founder.

Table 4 Selected Characteristics of Five Work First States

	United States	Indiana	Massachusetts	Oregon	Virginia	Wisconsin
AFDC Caseload % Decline 1993-96	11.4%	31.1%	25.0%	27.2%	15.3%	30.3%
Unemployment Rate 1996	5.4%	4.1%	4.3%	5.9%	4.4%	3.5%
Job Growth Rate 1992-1996	9.1%	9.2%	7.9%	14%	9%	9%

Source: building an Employment Focused Welfare System: Work First and Other Work-Oriented Strategies in Five States, MDRC

The US model of welfare reform is based on a Work First approach that places the greatest emphasis on immediate job search. While each of the fifty States has designed a welfare reform program unique to its economic and political environment, there is a set of consistent program components in a Work First model.

**Applicant job search** Some programs precede Work First activities with an applicant job search, to divert some applicant from coming on welfare and to send a message to all applicants about the goal of employment.

**Orientation** The actual Work First program begins with an orientation, which can vary in length and content across programs and may be integrated with the initial assessment or the first day of job club.

**Initial assessment** The initial assessment is generally limited to identifying and addressing immediate barriers to participation and employment.

**Job club** Some programs use a job club as the first activity to reinforce the work oriented nature of the program. This activity engages beneficiaries in group activities designed to find jobs.

**In-depth assessment** Beneficiaries who are unsuccessful in finding a job are given an in-depth assessment to identify additional activities that will help the participant get a job as quickly as possible.

**Next steps** Typical activities for beneficiaries still unable to find work include: education or training, work experience or subsidized work, or additional job search. Case managers may also provide more intensive work with beneficiaries at this point.

**Renewed job search** The “next step” activities are typically of short duration and immediately followed by additional job search. Case managers continue to monitor beneficiaries job search and related activities.

**Retention and re-employment services** Many Work First programs also provide services to help beneficiaries keep the jobs they find through a job search. These services can include advance preparation for work place expectations and experiences. Re-employment assistance is also available to help persons who have been made redundant find another job quickly.

**Diversion** Many States provide up-front diversion payments to families contemplating applying for assistance. Diversion may consist of an up-front financial payment in exchange for agreeing not to apply for assistance, identification and use of alternative services through the voluntary sector, and an up-front job search requirement prior to applying for assistance.

In addition to these common elements of most American Work First programs, States also provide support services to assist beneficiaries with the transition to paid employment. These include child care, transportation, and work related support. The Federal welfare reform legislation requires that “child care be affordable and accessible” before a State can compel a beneficiary to participate in a Work First program. The lack of affordable, accessible child care is justification for a beneficiary to refuse to participate in any Work First program.

States are encouraged to provide child care assistance on a sliding scale to all low-income working families to meet their child care needs while working.

Transportation costs for beneficiaries are provided either as a mileage reimbursement for individuals with their own car, private agency van or bus services, or vouchers for public transportation

Another important feature of the US welfare reform is a State’s ability to use federal and state funds more flexibly. Financial incentives to States are provided for reducing caseloads. Funds freed up from reduced caseloads may be used support low income working families with incomes up to two hundred percent of the federal poverty level. This is a significant expansion of previous efforts to make work better than welfare. Many States are also funding prevention strategies to keep individuals from applying for assistance. One-off payments for families with an unexpected emergency is an approach in use by several States.

Each of the fifty States has established its own welfare reform program to meet the work requirement of the federal legislation and to meet the unique problems and challenges of moving welfare beneficiaries from welfare to work. The program goals selected by each State help to determine the strategies to be followed in a Work First program (Table 5).

WORK FIRST PROGRAM GOALS AND RELATED PROGRAM FEATURES

Table 5 **Sample Work First Goals and Program Components**

<b>Program Goal</b>	<b>Possible Program Features</b>
1. Reduce the number of families on welfare	<ul style="list-style-type: none"> <li>• job search geared to full-time employment</li> <li>• Continued participation in program activities until off welfare</li> </ul>
2. Increase the employment among families on welfare	<ul style="list-style-type: none"> <li>• Job search geared to either part-time or full-time employment</li> <li>• Support for combining work and welfare</li> </ul>
3. Increase the income of families	<ul style="list-style-type: none"> <li>• Increased abatement rates, child care assistance, and other benefits to make work pay</li> <li>• Job search and job development geared to higher-paying jobs</li> <li>• More use of unpaid work experience and/or subsidized jobs to engage those who are unable to find unsubsidized work</li> </ul>
4. Impose a reciprocal obligation on welfare recipients	<ul style="list-style-type: none"> <li>• Mandatory participation for a broad portion of the caseload</li> <li>• Swift and strict sanctions for nonparticipation</li> <li>• More use of unpaid work experience or subsidized jobs to engage those who are unable to find unsubsidized work</li> </ul>
5. Keep applicants from becoming long-term recipients	<ul style="list-style-type: none"> <li>• Applicant job search and one-off payments to help applicants avoid coming onto welfare</li> <li>• Emphasis on getting people quickly into the program</li> </ul>

6. Move long-term recipients onto jobs	<ul style="list-style-type: none"> <li>• More marketing of work and teaching basic work habits</li> <li>• Supervised work experience and job development for those unable to find jobs on their own</li> </ul>
7. Reduce recidivism	<ul style="list-style-type: none"> <li>• Transitional benefits and support services for those who leave welfare</li> <li>• Help with obtaining work-related benefits, such as the independent family tax credit</li> <li>• Re-employment assistance for those who are made redundant</li> </ul>
8. Improve the well-being of children	<ul style="list-style-type: none"> <li>• Help with obtaining high-quality child care</li> <li>• Focus on increasing total family income</li> <li>• Monitoring of child outcomes</li> </ul>
9. Achieve short-term savings	<ul style="list-style-type: none"> <li>• Mostly job search with few other activities for participants</li> <li>• Close monitoring of participation</li> <li>• Swift and strict sanctions for non-compliance</li> </ul>
10. Aim for longer-term cost-effectiveness	<ul style="list-style-type: none"> <li>• Job search supplemented by other employment-focused activities</li> <li>• More attention to serving long-term recipient</li> <li>• Focus on reducing recidivism</li> </ul>

Source: (MDRC, 1997)

## WORK FOR THE DOLE EXPERIENCE IN THE UNITED STATES

The Coalition Government's welfare reform plan includes the Community Wage as a major component of its welfare reform scheme.

Workfare programs like the Community Wage have not played a major role in moving beneficiaries from welfare to work in the United States. The Manpower Development Research Corporation (MDRC) has provided federal and state policy makers with several valuable evaluations of workfare schemes. They found that administrators repeatedly had trouble developing and keeping large numbers of workfare worksites. Research showed that mandatory unpaid work did not develop people's skills and did not prompt people to move more rapidly into unsubsidized employment or deter them from applying for welfare. Workfare programs evaluated by MDRC did not reduce welfare rolls and instead cost money (approximately \$2,000 to \$4,000 annually per slot filled, not including child care). Past evaluations concluded that, in strict budgetary terms, that is, ignoring the value to the work performed, sending people a small check was probably cheaper than providing them with a nonmarket way to earn it. The cost to the agency administering a workfare program of developing, managing, and monitoring worksites, and providing child care for people while working were all factors adding to the complexity of making such a scheme work.

As a result of these negative findings, very few states are utilizing work for the dole schemes as they implement the federal welfare reform legislation. They are instead focusing on placement in unsubsidized private sector jobs and providing ongoing child care, in-work financial assistance through generous abatement schemes and the Earned Income Tax Credit, and related support services to keep beneficiaries employed and off benefit rolls.

Concerns with "work for the dole" approaches to welfare reform prompted the US Congress to prohibit the States from displacing any existing worker with a beneficiary in any community work schemes. Employers are also prohibited from laying off employees to make room for beneficiaries. This is another factor in the relative unpopularity of "work for the dole" schemes in the United States.

# THE PROSPECTS FOR WELFARE REFORM

## THE ECONOMIC CONTEXT

New Zealand has experienced three great economic shocks in the past one hundred and twenty years. The depressions of the late 19th Century, the depression of the 1930's, and the Organization of Petroleum Exporting Countries (OPEC) oil shock and economic divorce from the United Kingdom in the early 1970s each played a major role in defining modern day New Zealand. Whereas the Government response to the two earlier economic crises was to develop economic and social initiatives to shelter and protect New Zealand from the impacts of international financial downturns, the response of the fourth Labour Government in 1984 was to open up the New Zealand to the global economy. It did this by ending subsidies, tariffs, and other mechanisms that had been put in place to protect the New Zealand economy and to provide full employment and relative prosperity for the average New Zealander.

As New Zealand addresses welfare reform in 1998 it faces a fourth potential economic earthquake. The "Asian Crisis", as it has been dubbed by the popular press has the potential to impact New Zealand as severely as previous economic calamities. Present unemployment estimates have already been revised upwards, with the unemployment rate projected to hit 8.6 percent by mid-1999. The economic uncertainties faced by virtually all the Asian economies make predicting the future difficult. New Zealand's traditional dependence on foreign trade as a means to generate well-being and employment leaves it particularly vulnerable to the current economic uncertainty. If Japan, Korea, China, Indonesia, Thailand, and Malaysia continue to face financial difficulties, New Zealand will be hard pressed to generate the level of economic growth necessary to create new jobs for all the beneficiaries forced to look for work under the Government's scheme.

The Community Wage will prove a difficult approach to moving beneficiaries from welfare to work. The Government has made this task harder by refusing to provide the voluntary sector that will be responsible for administering it with financial reimbursement for the additional staff and administrative costs that are required for a work for the dole scheme to reach its objectives. Many voluntary organizations have publicly announced they will not take part in the Government's Community Wage scheme.

Indeed, the Community Wage is almost an admission by the Government that its welfare reform plan will not move significant numbers of beneficiaries off the dole and into unsubsidized private sector employment.

It may be that the Government has acknowledged that caseloads for the unemployment benefit and the DPB will be increasing instead of declining and that the concept of a reciprocal obligation on the part of beneficiaries to engage in work for the dole is as far as a welfare reform scheme can go in the current New Zealand economy.

If that is the case, the ability to engage in meaningful welfare reform will, in large measure, be determined by economic events beyond New Zealand's control.

## THE POLITICAL CONTEXT

The current Coalition Government conducts its policy and budget activities with extreme secrecy and security. While consultation on policy initiatives is officially encouraged, there is no requirement that it take place. Such was the case in 1997-98 when the Government developed its welfare reform policy. While there was consultation between affected ministries and agencies, there was no public consultation leading up to the announcement of the Government's plan for welfare reform.

When the Government unveiled its welfare policy it did so as part of the budget on "Budget Night". The welfare policy was made public on 14 May 1998 and was passed by the Parliament under urgency on 16 May 1998. There were no public hearings, no parliamentary select committee deliberations, and no independent analysis of the pros and cons of the policy.

Government officials worked with the Cabinet and Cabinet committees under the highest standards of secrecy and security. The Government was adamant that no public consultation on or awareness of the contents of the welfare policy would be allowed.

The decision to pass the welfare reform legislation under urgency was clearly an exception to the standard parliamentary procedures of the House of Representatives.

*Occasionally a matter of such urgent importance arises that the Government considers it necessary to introduce and pass a bill through all its stages in one day. To do this it asks the House to accord urgency for the introduction and passing of the bill. If urgency is so accorded, the bill is exempted from the requirement of the Standing Order that it be referred to a select committee and no motion to refer the bill to a select committee will be accepted by the Speaker, even after its second reading (when such a motion would normally be possible).*

*In practice about 90 percent of all Government bills (and 100 percent of all other bills) introduced are now referred to select committees for study.*

#### Parliamentary Practice in New Zealand, 1994

The Treasury reviewed the work for the dole proposal during the development of the coalition agreement. It found that for every four work for the dole positions created, one job would be lost. This represents a twenty five percent displacement rate of currently employed workers.

The prominence of the “work for the dole” scheme in New Zealand’s welfare reform plan is less a testament to its ability to successfully move single parents from welfare to work, as it is an indication how one determined individual can impose their will in the political structure governing New Zealand. Despite widespread evidence in the United States and New Zealand that “work for the dole” schemes have serious implementation difficulties and are generally not cost-effective, it is a centerpiece of New Zealand’s welfare policy. This is apparently based on the long-held personal belief of the Minister of Employment that work for the dole is the basis for reforming New Zealand’s welfare system.

In the New Zealand Government, once Cabinet agrees to a policy, the “collective responsibility” of all Ministers is to publicly dose ranks behind it and support the policy. Thus, a single Minister who is determined to push a particular policy can force the entire Government to back his or her approach.

When the power of the Prime Minister and the Cabinet to develop policy behind closed doors is combined with the ability to quickly pass legislation under urgency without any select committee review and consideration, Parliament is unable to provide even a cursory check or balance to the power of the Government.

This is unfortunate for several reasons. First, very few people would say that the Government is so wise and omnipotent that it is beyond making mistakes or failing to consider all options or considerations. Secondly, a policy that has not been subjected to analysis, public testimony, submissions, and extended debate lacks a certain legitimacy with the broader society. Even if a majority of the population agrees with the general thrust of a particular policy, the lack of public process exemplified by the 1998 welfare reform policy calls it into question. It also does not offer the opportunity to develop bipartisan political support for a new public policy. It is especially important in the current political environment where a change in Government could see the current welfare reform policy repealed or significantly altered. Thirdly, by not involving the voluntary sector in the development and debate over the best way to move beneficiaries from welfare to work, the Government has alienated the very organizations critical to the success of such a venture.

The Legislation Advisory Committee was established to scrutinize, and make submissions to the appropriate body or person upon aspects of Bills introduced in Parliament affecting public law or raising public law issues. It is also responsible to comment on aspects of legislative proposals submitted to it, and, on occasion, comment on a limited number of legislative issues that appear to recur in one form or another.

The Legislative Advisory Committee in its Report 9 issued June 1996 commented on the importance of consultation in the preparation of legislation.

*The Committee is a/so of the view that it is good practice for Government agencies to consult widely during the development of new policies and legislative proposals. For example, consultation:*

*Contributes to better decision-making by drawing on specialist knowledge and skills from both within and outside Government.*

*Allows consultees to participate in decision-making, thus leading to more “open” government;*

*Helps identify whether there is a problem and what it is;*

*Can identify and restrain the unreasonable exercise of power;*

*Can ensure some degree of protection of particular interests;*

*Can improve public compliance because the decisions are consensually based;*

*Can improve relationships with special groups within society and improve the relationship between the Crown and Maori; and*

*Can make a contribution to the development of New Zealand’s position in international negotiations and in treaty-making.*

*Consultation is, therefore, a vital part of the process of developing good policy and law.*

Report of the Legislation Advisory Committee 1 January 1994 to 31 December 1995 Recurring  
Issues Report 9, June 1996

The Legislative Advisory Committee was commenting on the importance of consultation in the development of Government policy prior to introduction in Parliament. It goes without saying that the process of developing good policy and law also requires the active participation of the Parliament and the public through the parliamentary select committee process.

# CONCLUSION

Experience from the United States indicates that changing an income maintenance program for sole parents to a work-based system is possible, if several factors are present.

**First**, and most important, the economy must be able to sustain job growth, low unemployment, and low inflation. This is without a doubt, the biggest challenge facing New Zealand.

**Second**, financial incentives for beneficiaries, in the form of abatement rates and work-based income assistance to “make work better than welfare”, are in place.

**Third**, unsubsidized employment in the private sector is the highest priority for the Government’s welfare reform program.

**Fourth**, subsidized child care is available to all low income working families.

**Fifth**, Government policy clearly states the expectations and obligations beneficiaries will be required to comply with in exchange for government assistance.

**Sixth**, as caseloads decline following placement into unsubsidized private sector jobs, any savings generated by reduced caseloads is retained by the Department of Work and Income and applied to the remaining beneficiaries to overcome their greater barriers to employment.

**Seventh**, the rate of teenage pregnancy and failure to achieve educational qualifications is reduced. Teen mothers who do not complete their education are one of the highest risk groups for long-term welfare dependency and should be one of the Government’s highest priorities.

There is no easy or right answer to the problems identified in a policy discussion of poverty and welfare. For New Zealand to develop a solution it must look to itself and its culture for both the definition of the problem and the parameters of the solution. It is important for an open public debate to take place and for all groups in society to participate.

New Zealand is extraordinarily dependent on the world economy for its own economic well being. It has clearly jumped into the global economy with both feet. The current Asian financial crisis should make it dear to everyone in New Zealand just how interrelated its economic health is to Asia and the rest of the World. To recognize this reality and craft a welfare reform policy that provides income support and related services to low-income working parents is the challenge facing present day New Zealand.

In an era of reciprocal obligations and an expectation of work for all low income parents, the Government also has an obligation to low-income New Zealanders: an obligation to provide work-based income supplementation, affordable and accessible child care, transportation, education, and training. For this to happen, the Government must first create the economic climate necessary to create sufficient jobs to provide all New Zealanders with meaningful employment.

Just as earlier Governments created an economic and political climate that supported full employment and economic growth and development, the challenge for the present and future Governments is to create the opportunities for all New Zealanders to participate in the global economy of the 21<sup>st</sup> Century.

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