



SOCIAL POLICY AND
PARLIAMENTARY UNIT

Working for the eradication of poverty in NZ

SUBMISSION TO WELFARE WORKING GROUP'S OPTIONS PAPER ON REDUCING LONG-TERM DEPENDENCY

BACKGROUND:

The Salvation Army is an international religious and social organisation that has worked in New Zealand for one hundred and twenty years. Further information about the Salvation Army is contained in appendix I.

The Salvation Army has been active as a Christian church and provider of social assistance in New Zealand. Annually The Army, through its nationwide network of community ministries serves over 28,000 families and provides nearly 50,000 food parcels to families who have fallen through the welfare net intended of the Social Security Act.

This submission is made by The Salvation Army Social Policy and Parliamentary Unit. The Unit was established in 2004 with the principal purpose of advocating for policies which will alleviate poverty in New Zealand and to undertake research and policy analysis to support this advocacy.

BASIS OF OUR SUBMISSION:

The Salvation Army has already made submissions to the Welfare Working Group's earlier issues paper and cannot see any evidence in the current Options Paper that our submissions have been taken seriously. It is important we believe to re-state our concerns about the narrow focus of the current review and the unfortunate pre-disposition which the Group appears to have toward the question of dependency ahead of other challenges facing New Zealand's welfare system. We believe that it is important to re-state these concerns because the best review process will still be deeply flawed if it is so narrowly focused as to miss the bigger and perhaps more over-whelming issues. This is the danger in the review presently being conducted by the Welfare Working Group.

The Salvation Army acknowledges the real importance of the issues which the Welfare Working Party is attempting to deal with but believes that the question of welfare dependency is imbedded in broader questions of inequality in our society. In particular we believe there is a deeply imbedded inequality of opportunity which poor (and mainly benefit dependant) people and communities face especially around access to effective schools, meaningful training and worthwhile jobs. This inequality breeds reliance on welfare benefits and this reliance leads to dependence and a surrendering of personal and collective autonomy by those afflicted. These outcomes are clearly far less than ideal and we as national community should be looking earnestly at ways of overcoming them.

Such an interest leads The Salvation Army to believe that the pathway beyond welfare dependency is not that of more tightly controlled benefits but of better resourced schools and training opportunities and of working with employers to open up workplaces to those marginalised through their lack of education, their addictions, their poor health and their disability.

SPECIFIC SUBMISSIONS

1. Availability of jobs

The Working Group in our view has been quite premature in its dismissal of concerns about the availability of work. For example on page 8 of the Options Paper the Group acknowledges that

“many submissions, while acknowledging, the importance of paid work, expressed anxiety about the availability of jobs for the people looking for paid work”

This is the concern of The Salvation Army yet it is effectively dismissed by the comments which follow in the paper that *“on the other hand, many employers have told us of the difficulties they had in recruiting people into entry-level jobs. While the problem was less pronounced during the recession, they indicate that it is once again emerging.”* (p.8).

We are concerned that this level of generality has informed and perhaps even driven the review being undertaken by the Working Group. These comments are little more than anecdotal and while they may faithfully represent genuinely held views there is no indication in the paper of the prevalence or the representativeness of these views or even their accuracy.

In The Salvation Army's view it is important that policy reviews are based on facts and not convenient opinions. It is also important, in our view, that facts are used objectively and comprehensively – in other words data and other facts should not be used selectively to suit a pre-ordained position..

The following are relevant facts for the Working Party to take into account as it considers the question of long-term welfare dependency and the availability of jobs,

- The Household Labour Force Survey of September 2010 reported that 144,500 people were unemployed and that 243,500 people were jobless. At this time 65,300 people were receiving an unemployment benefit.
- Between September 2007 and September 2010 the number of people who were officially unemployed has grown by nearly 66,000 while those recorded as jobless has increased by 98,000. Over the same period the number of people receiving an income tested benefit grew by 77,740 (MSD Benefit Fact Sheets)
- Over the three years since September 2007 the number of jobs created in the economy has grown by just 23,000 while the working age population has grown by 132,000 people (Household Labour Force Survey)

There are simply not enough jobs for the people who are seeking work or who if the jobs were available would take up work. While this fact does not necessarily contradict a claim that many people are benefit dependent because they have been out of work for an extended period, it is simply not the case that this dependency is responsible for the apparent difficulty which employers are having finding people to fill entry-level jobs. There may in fact be other reasons for this apparent difficulty in finding suitable staff because there are still sufficient numbers of unemployed people around to take any work available without needing to call on the labour of a small group of reluctant workers who apparently are not prepared to work because the benefit system is too generous.

The simple fact that there are not enough jobs to go around raises a broader question of resource allocation which does not appear to have been considered by the Welfare Working Group in its various suggestions that greater attention be turned on to the long-term unemployed to get them into work. Clearly if such attention is to be paid to these people perhaps through greater scrutiny, counselling, the provision of additional training and the offering of additional services such as child care, then there fewer of such resources to provide to someone who is also unemployed although at this stage less at risk of long-term dependency. As well, because a job can only go to one person, when there is a widespread shortage of jobs emphasising the job needs of one person ahead of another does not create more jobs it simply re-distributes the available jobs to a different group of people. While this re-distribution might be worthwhile for other reasons there is the possibility that the

risk of long-term dependency and the associated problems of disconnection and loss of personal confidence and skills are simply transferred to another group of people who now find it harder to get a job and/or the support they need to do so.

2. Benefits and poor social outcomes

In several places in the Options Paper its authors have made fairly general but nonetheless sweeping assumptions about the relationships between the so-called “benefit system” and poor social outcomes. For example on page 1 of the Options Paper a claim is made that long-term benefit dependency “*has led to intolerable social costs for the individuals themselves, their children, the broader community, employers and taxpayers. The resulting unintended consequences have been inter-generational benefit receipt, high rates of poverty, poor child outcomes and poor mental and physical health*”. In addition one of the principles which the Welfare Working Group has suggested that it will apply to its work is that any reforms should “*foster strong social outcomes, improved physical and mental health outcomes and low child poverty*”.

The implication here is quite clear – that a range of poor social outcomes from child poverty to mental health are caused by long-term benefit dependency. This is a ridiculous claim in part because the causal relationship may in fact run the other way, for example someone with a chronic mental illness may become a long-term beneficiary and in part because some poor social outcomes are the result of broader public policy failure. A case of such an outcome is child poverty which is principally the result of benefit levels not being adequate enough to provide a basic living standard which is deemed adequate by most New Zealanders¹. To claim to be interested in reducing child poverty by reducing long-term benefit dependency ignores the contribution made to this poverty by other aspects of the benefit system which have very little to do with long-term dependency.

In attributing various social outcomes to the performance of the benefit system it is important that the relationships claimed are based on some evidence and not on conjecture or the opinion of those making submissions. The Salvation Army accepts that long-term benefit dependency is demoralising for those who suffer it and we acknowledge that there are clear associations between such dependency and many of the poor social outcomes identified in the Options Paper. The relationships here are we believe however multifaceted and often quite complex and it is important that we avoid simplistic silver bullet type suggestions which fail to adequately match up the contributing causes to these poor outcomes.

3. The context of the benefit system

The benefit system is an important part of the welfare state and the welfare state is an important part of the functioning of the state and the economy in New Zealand. In assessing the performance of the benefit system and in developing possible improvements to this system it is, in the opinion of The Salvation Army, essential to first gain an appreciation of the context of the system and some understanding of the relationships between various elements of the welfare state. It does not appear that this has been done so far by the Welfare Working Group.

Instead the Welfare Working Group in Figure 1.1 has presented the benefit system as being a closed system which is simply about processing a flow of “beneficiaries” into paid work. This is a fairly narrow view of the benefit system which is also designed to serve another purpose – that of providing income support to people who are out of work or unable to work. While Figure 1.1 makes reference to other policy settings such as health, education, housing, justice and the labour market there are few actual links made to these areas of policy in the discussion around options for changing the benefit system.

For example in Option 3.1.2 which is considering ways to increase the focus on paid work for solo parents the headline suggestion is “*Early Childhood Education*” alignment. The proposal has nothing

¹ See for example Centre for Social Research and Evaluation (2007) *Pockets of significant hardship and poverty*, Ministry of Social Development

to do with such alignment but merely states how work requirements for solo parents might be applied as their children reach certain ages. The comment attached to this option merely states the current early childhood education subsidy policies. No mention is made in this option of how early childhood education might be reformed to better cater for the needs of solo parents and the poor communities in which many live. A suggestion is made (p.57) to possibly better target child care supports to solo parents but no mention is made of the other barriers, such as the lack of local early childhood education facilities, which solo parents face in making use of these facilities.

The Salvation Army believes that this very narrow focus on just one dimension of the benefit system has severely limited the scope of options which might have been considered in the reform of welfare. At the very least some early attention should have been given to the origins of educational failure which allows inter-generational welfare dependency to persist and to the relationship between the provision of health and disability services and welfare dependency.

4. Reference to social insurance approaches

It is by no means clear what the Welfare Working Group means when it says that it has considered *“moving to a full social insurance model (in full or part)”*, and to *“applying the lessons from social insurance to the current structure”* (p.29). Similarly it is not clear what is meant in Option 1.1.2 where the *“social insurance in full or in part”* option is described as a *“system with an actuarial assessment of risk and its future cost; in return for a premium, the management of risk is shared by the insured and the insurer. If the risk eventuates, the insurer provides benefits.”* While this is a fairly standard and basic explanation of how an insurance contract works, it does not explain who the insured are and how they are expected to pay premiums. How for example is a 20 year solo parent expected to have paid sufficient premiums prior to her or him becoming a solo parent to make any sensible insurer interested in providing benefits should the risk of them becoming a single parent arise.

It is important too to reflect on the value of the Accident Compensation Commission experience as a model for developing a social insurance approach to welfare benefits. A brief history of ACC from 1995 to 2004 is used as testimony (p.30) to how a social insurance model has the necessary incentives to minimise long-term claims. A fuller discussion of the ACC experience would have been useful as part of this analysis because the evidence is by no means clear that ACC provides a viable model of social insurance nor that social insurance models are a viable alternative to the present tax funded “pay as you go” system of welfare provision. For example ACC Annual Reports report that their outstanding claims liability has doubled in five years from \$11.385 billion at the end of June 2005 to \$24.429 billion at the end of June 2010. Furthermore ACC reports in their annual reports that the rate of non-fatal injury accidents has risen from 212 injuries per 1000 people per year in 2005 to 224 injuries/1000 people in 2008. Clearly while ACC has been successful in managing down the number of people they will admit to being long-term claimants, the organisation has not managed down the financial risk it faces from these claimants and has not even managed to manage down the rate of injury which gives rise to these claimants.

The Salvation Army believes that the Welfare Working Group needs to undertake considerably more work on social; insurance models before it is able to even credibly argue that this approach is viable in New Zealand at the moment. The Group’s proposal for a social insurance model (in full or in part) is not well explained and there has been no discussion whatsoever in the Options Paper of problems of adverse selection and equity of coverage on one hand and on moral hazard problems from both the insured and insurer on the other. As well no thought appears to have been given as to how the transition from the present funding regime to a social insurance model might be financed and managed.

5. The structure of financial incentives

Chapter 7 of the Options Paper deals with the very complex question of the incentive structures which have been erected and maintained as a consequence of the various benefit and income support regimes available to working age New Zealanders. These opportunities do not just include the main income tested benefits and the supplementary benefits but also the various Working for Families tax credits and childcare subsidies. The Salvation Army agrees with the analysis of the Welfare Working group that these incentive structures, because of their complexity and overlap, often create poverty traps where people face very high effective marginal tax rates which mean that they are barely better off by taking a job. Figure 7.2 of the Options Paper acknowledges this problem.

The intention of the Working for Families package was to “make work pay” and to a degree it achieved that for people on the Domestic Purposes Benefit during the period of economic growth from 2003 until 2008. Working for Families does of course shift this problem of high effective marginal tax up the income scale and hence creates incentive problems for more middle class households and their employers although this is not of direct relevance to the Welfare Working Group.

The Salvation Army does not see any of the suggested options for intervention as offering any real prospects of progress and we believe that a more fundamental approach needs to be taken to addressing this problem. Simply providing more individual focused micro-management type interventions such as provider delivered in-work support (Option 7.2.2) fails to address the financial incentive problems which are more or less intrinsic to the current arrangements with the benefit-tax interface. We appreciate that consideration of this interface is outside the Welfare Working Group’s brief but the problems in this area are so fundamental in our view that any other re-arrangements which attempt to address the current incentive problems are simply tinkering. Furthermore these re-arrangements risk adding more complexity and more cost, and they may prove quite ineffective unless there are effective ways to deliver the sanctions implied in some of the options proposed.

A simple way of improving the incentive structure across the benefit-tax interface is to remove income tax on the first \$10,000 of earned income as is the case in Australia. Such a policy shift creates a number of other benefits over and above that of encouraging the marginally employed to become more employed. For example providing tax relief for the low paid can remove the quite ridiculous arrangements under Working for Families where families need to apply for refunds of and credits for taxes they could as easily not have paid in the first place.

The Salvation Army urges the Welfare Working Group to consider the broader issues around the benefit-tax interface and that it makes recommendations to Government which call for a more fundamental review of how income support and tax relief can be provided to all low-income New Zealanders - employed or unemployed, young or old.

6. Improving second and third assistance

With reference to the so-called second and third tiers of benefits or welfare support it is important to acknowledge a fourth tier of assistance which is the charitable aid offered by churches and community organisations such as The Salvation Army. The value of such assistance is relatively small in comparison to the value of the emergency grants and loans made available by Work and Income. For example The Salvation Army distributed nearly 50,000 food parcels during 2010 with an estimated value of around \$4 million which is of course tiny against the reported \$234 million in third tier assistance for 2009/10. This fourth tier assistance is nonetheless important for the wellbeing of poor New Zealanders as it is literally the difference between them eating tonight or not or of them having a roof over their heads tonight or not.

The danger in any changes to third tier income support assistance is the risk of these changes failing to meet cases of serious and acute need and as a consequence of the providers of fourth tier assistance such as The Salvation Army coming under additional pressure to fill the gap. Churches and social service and community agencies simply do not have the resources themselves to fill a

larger gap than they are already filling in providing material aid and assistance to poor and vulnerable New Zealanders. There is a real danger of people literally going hungry and homeless if this resource limitation is not recognised so it is important to see the existing value of the current benefit system in relieving poverty and not to assume that communities and families can simply adjust to a new and perhaps less generous benefit system.

For the Salvation Army at least, and perhaps for many other church and community agencies as well, the provision of this fourth tier of assistance should not become state funded as many of the other services by these agencies already are. It is in our view not appropriate to see charitable aid as a mainstay of our welfare system and to have this assistance partially supported by the state as a way through the current resource limitations. History has shown us that charity can be patchy in its coverage and application and while it is a valid expression of such values as Christian love, it fails to acknowledge the rights and dignity which should be afforded to every citizen. Acknowledging these rights and this dignity was one of the principal reasons for the establishment of the welfare state through the Social Security Act in 1938 and it is important to hold onto this purpose in the current review of our welfare arrangements.

7. The threat of sanctions

Several of the options proposed in the Options Paper will rely on the application of sanctions or penalties. Options 7.3.3 and 7.4.2 for example. The Salvation Army believes that the Welfare Working Group needs to consider the practical and ethical issues behind the application of such sanctions and penalties before it offers them up as realistic policy alternatives. It is our view that some of the proposals to time limit benefits or to abate them if the benefit recipient is non-compliant are either unworkable or risk creating even more serious problems and that these complications should be taken account of in any final policy recommendations.

While it is relatively easy to observe the current administration arrangements around benefits and to make claims that these are unproductive and breed dependency, it is another thing to develop a better set of arrangements. The design of these administration arrangements have not deliberately gone out to create dependency – any dependency problems which have been created are a by-product of this system and not intentional.

Administering entitlements which are targeted rather than universal is quite a difficult exercise given the wide variation in the circumstances of people and to a degree a variation in their entitlements. Such administration requires capacity for discretion on the part of those administering the system and in a democratic country there should be a capacity to have this discretion reviewed by a third party such as an appeals tribunal or a court.

Dispensing with such discretion and review rights is in The Salvation Army's quite a dangerous path to go down. Removing discretion and will lead to gaps in any income support programme and potentially create avoidable hardship for individuals and families - especially children. Removing review procedures allows for injustices in any administration to become imbedded and potentially opens the door for corruption.

Providing for discretion and review of course creates uncertainty and risk particularly around budgets. A significant uncertainty in this regard is around the possibility that the policy will not be administered as intended by those who conceived of or designed the policy. For example sanctions and penalties are not applied as rigorously as expected because those being asked to do so do not have the heart or stomach to. If such a scenario emerges then the value of the sanctions and penalties in shifting behaviours and expectations is undermined.

We acknowledge the symbolic value of threats of sanctions and penalties and that these can subtly change peoples' expectations and starting assumptions and hence their behaviours. This symbolic value is however reduced if the threatened sanctions and penalties are not credible either because of administration difficulties or because of their political implications.

It needs to be stated that The Salvation Army and most likely many other church and community organisations are concerned that the application of sanctions and penalties for welfare benefit recipients may result in additional hardship especially for the dependants of these people. This hardship will most likely become apparent to church and community agencies because they will be asked for help if people lose their entitlements to income support as a result of any sanction or penalty. It seems likely also that the question of these sanctions and hardship will become public issues and may as a consequence become quite divisive and so does little to advance a consensus around the necessity for welfare reform.

Conclusion:

In conclusion The Salvation Army welcomes this debate around the future of our welfare system and of the question of welfare dependency. We believe that our welfare system requires urgent attention as it is quite apparent to us that it is not working properly across several fronts. The problems with our welfare system go well beyond the quite narrow problem of benefit dependency and we believe that if we as a community persist with such a narrow focus we will create more problems than we solve.

A broader review of welfare is required and in our view this review should address the serious questions of inequality in New Zealand including questions of inequality of opportunity, inequality of incomes and wealth and even the inequality in what New Zealanders aspire to.

We believe that the Welfare Working Group has not focused broadly enough in its attempts to find options for reducing welfare dependency and that many of its proposals are not based on soundly researched propositions or on completely developed ideas. Clearly more work needs to be done in order to be able to offer a credible and workable set of proposals and we urge the Group to undertake this work as a matter of urgency.

APPENDIX ONE

The Salvation Army is a worldwide evangelical Christian Church and human service provider.

Our message is based on the Bible. Our ministry is motivated by love for God. Our mission is to preach the gospel of Jesus Christ and meet human need in his name without discrimination.

We aim to care for people and transform lives through God in Christ by the Holy Spirit's power. We work for the reform of society by alleviating poverty, deprivation and disadvantage, and by challenging evil, injustice and oppression, in the name of Jesus.

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