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## **Young Persons Guide to Benefit Reform:**

### **Part 1**

This summary refers to the Cabinet Policy Committee paper "*Working New Zealand Phase One: Work-Focused Support*". This document is available from the Ministry of Social Development's website<sup>1</sup> should you wish to read it. The purpose of this summary is to save you the trouble, as it is lengthy (67 pages) and repetitive as well.

The government is continuing the biggest changes to the benefit system "since 1937". Working for Families was the first stage of this reform. Ostensibly, the changes appear to be driven by the perceived need to get everyone who is not at school or retired into the workforce. According to the Minister this is in order to "advance the economic transformation we must have to power this economy".<sup>2</sup> According to the Cabinet paper the reforms are necessary for "the social and economic wellbeing of New Zealand – we have one of the lowest unemployment rates in the OECD but one in eight households has no-one in work", and "a number of individuals and their families do not currently have the same opportunities to participate in the labour market and society as others, and their living standards are compromised by long-term benefit dependency."<sup>3</sup> Benefit dependency. Of course. There is no mention that income inadequacy might be an issue, at least in the bits that were released to the public. Nor is the word "poverty" mentioned. Children's needs seem to have been far from the minds of the authors of this paper, and the Agenda for Children's "key action area" of eliminating child poverty appears to have been abandoned. Economic transformation is not about providing an adequate income for the children of those unable to work, apparently.

There is, however, quite a lot of talk about savings for the government. The paper argues these will come about primarily because people will not go onto benefits in the first place; they will come off them quicker; and stay off them longer. The economic advantages of this scheme have not washed with Treasury who are unhappy that the proposals do not offer "value for money", with Phase One set to cost about \$100 million over the next few years. In addition, they are concerned that the Minister is requesting approval for this project without going through the normal processes where its merits can be compared with other projects. Treasury's discomfort cannot have been helped by the fact that "it may not be possible to clearly link changes in labour market participation to

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<sup>1</sup> <http://www.msdc.govt.nz/media-information/press-releases/2006/pr-2006-10-26.html>. Hereafter simply "Cabinet paper".

<sup>2</sup> The phrase "economic transformation" has been tossed around by the government for at least six months but it was only on the 7<sup>th</sup> November we were told what it even was. For those interested the relevant papers can be found at [http://www.med.govt.nz/templates/ContentTopicSummary\\_23387.aspx](http://www.med.govt.nz/templates/ContentTopicSummary_23387.aspx).

<sup>3</sup> Cabinet paper, p. 58.

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the effect of the package as a whole or specific components of it". In other words, there is no way of knowing if our \$100 million investment is doing what it is supposed to.

The paper reveals a government intent on returning to the business of sorting out shirkers from those who, according to some pre-determined criteria, are unable to work. This task has proved notoriously difficult in the past and is probably something that can be achieved only with intense micro-management. This appears to be what is being proposed. Well sort of. Those deemed ready and able to work will go into one stream where they will be processed in groups to be launched into the workplace. The second group will be micromanaged so that they can be launched at a later date. For the non-workers, peace and poverty. Actually, the first two groups will be in poverty, too, so long as they're not working.

Aside from the fretting about dependency and making savings on benefit payments, the package marks a return to what can really only be thought of as a pre-industrial obsession with output. This makes some sense in agrarian society where all the available labour is needed just to produce food. But co-opted labour is often inefficient and unreliable, as those who ran Europe's workhouses found. Recognition of some of these problems can be found in a Treasury paper on women's participation in the workforce. In a little-cited passage it notes that if sole mothers had the same labour force participation rates as partnered mothers then of the "additional 13,700 labour force participants that would result, only a half would have school or post-school qualifications."<sup>4</sup> In other words, many of these women would be unskilled, and may not contribute that much, or not as much as was hoped, to national output. In all probability the same would apply to those presently unemployed or drawing Sickness and Invalids benefits.

This is not to deny the genuine wish for many of these people to work, and indeed a decent well-paid job must surely be preferable to dealing with WINZ. But this must not be used as the excuse of what one sickness beneficiary referred to as "legislating us and our children out of existence".

In a RNZ Checkpoint interview the Minister was at pains to point out that the proposed changes are not about being "a stick." As a Labour government "we don't do the punitive side of things." Had he, one wonders, actually read his own Cabinet paper? It clearly refers to a sanctions regime. If, as the Minister alleged, the regime is voluntary (as it is under the current legislation) then there is no need for sanctions. The only reason sanctions would be discussed is if it were intended to make worktesting and "Job Seeker Agreements" compulsory. So it is probably fair to assume that the Minister's statement

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<sup>4</sup> Johnston, Grant (2005) *Women's participation in the labour force*. Treasury working paper 05/06. <http://www.treasury.govt.nz/workingpapers/2005/twp05-06.pdf>. Also little cited is the fact that this paper lists the high marginal tax rates beneficiaries face as a disincentive to gaining employment. The WFF package has continued to ignore this major anomaly.

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that “[sanctions are] not my intention and I don't believe that's going to happen. Certainly not for sickness and invalids beneficiaries, no”, is probably mistaken.

The paper proposes a “planning and activity” requirement for Sickness and Invalids beneficiaries. The good news for those who are “terminally ill or who have very severe physical or intellectual disabilities” is that they will be exempt. Planning and activity requirements for DPBs and Widows Benefit clients will also be “enhanced”. Activity in the community will no longer be an option for those expected to return to work immediately or in the short term, although it is available for those unlikely to return to work “in order to contribute to their social development outcomes.” The somewhat Orwellian overtones of forcing people to partake in “social development” are reinforced by the comment that it will take “some time for the behavioural changes to reach full effect”. Whose behaviour? In what way is it expected to change? Sadly, we are not told. For those who do not participate in this behaviour adjustment programme sanctions will apply. A 20% reduction of benefit until compliance, with a further 30% after four weeks, and a maximum reduction of 50% for an individual or a couple’s total benefits. Sanctions have been shown to significantly affect the lives of children and families, especially children living with lone mothers.<sup>5</sup>

All of which begs the question of why you would have an employment plan for invalids (“this is what the sector asked for”) with sanctions if the aim is to “improve outcomes”.

One positive mooted change is a maximum two-week stand down for all beneficiaries. However, this is cancelled by the requirement for “pre-benefit activity”. This will form part of the application process. A person must undertake these activities “if directed by the Chief Executive” (ie the case worker) before they receive a benefit. Potentially, people may have to wait some time for income support while they fulfill the requirements set out by the caseworker. Disturbingly, there is no mention of any appeal or review process here.

Also of concern is the provision for “high-level sustainable employment measures”. What has often escaped those in the business of monitoring such measures is the very simple fact that when someone is told their performance will be monitored a particular way then this simply sets up an incentive to comply with the monitoring even if this goes against the wider interests of the organisation or, in this case, beneficiaries. Consider the incentives set up by the target of 35% of jobseekers receiving benefits to exit into employment within the first thirteen weeks. Do we honestly think a case manager is going to care if it’s the “right job” or not? Does this offer an incentive to assist clients to improve their skill base? “Sustainable employment” is measured as 36.5 weeks average *cumulative* time that jobseekers spend in work over a year. So there is an incentive to

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<sup>5</sup> For a full discussion of these issues see O’Brien, Mike (2005) *Workfare: Not fair for kids?* Available at <http://www.cpag.org.nz/resources/publications/res1122875506.pdf>.

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shunt people into temporary or short-term jobs, so long as the total time they are employed is 36.5 weeks a year, just to keep the stats looking good.

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Historically weeding out shirkers from workers has been an expensive waste. The Cabinet paper outlines a regime where this is to be attempted again for reasons that even now remain unclear. Given all the proposed one-to-one monitoring, Personal Employment and Development Plans<sup>6</sup> for all but blind double-amputees, and weekly income assessments, one of two outcomes seems likely. The first is that the system will simply collapse under its own weight. This experiment in micromanagement will need to be well-resourced to work, and may have a tough time getting past Treasury. The second is that people will simply shrug and walk away, to (as Joan Robinson put it so many years ago) “make a living as best they can in their hedgerows and street-curbs”, presumably taking their children with them if necessary. This would make the government’s books look good, but would we as a society be better off? And what about the children? This surely cannot be what the government means when it talks about “equality of opportunity”. The compulsory model proposed in this paper is similar to those used in the US.<sup>7</sup> Their lack of success in lowering rates of poverty were clear for all to see in the appalling news clips taken in the aftermath of Hurricane Katrina’s rampage through New Orleans. A co-ordinated approach to reducing both child poverty and welfare rolls, such as that used in Britain, has been more effective in securing better employment rates for lone parents and lowering child poverty than the compulsory approach outlined here.

And lastly, this whole project is predicated upon the notion that we have solved the unemployment problem. This, in an economy where the national (government-owned) airline is exporting jobs overseas as fast as public opinion will allow. Yet the week after the paper was released the Labour Department has announced it is anticipating that unemployment will rise to over 4% by the end of next year. Who says we will never again have unemployment rates of 5 or 7%? It seems we need to be thinking imaginatively about how to provide an income and self-esteem to those who do not have jobs. This cabinet paper shows no such imagination.

Donna Wynd

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<sup>6</sup> It should be noted that these may work for the benefit of clients if they are used as a carrot not a stick.

<sup>7</sup> There is no one model in the US because states are free to set up their own systems, although some elements of compulsion were forced on states under the relevant legislation.

