



SOCIAL SECURITY AND DECENT WORK

Address to mark the 75th Anniversary of the Social Security Act 1938
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E ngā tāne, e ngā wāhine, e tau nei, tēnā koutou katoa.

Kei te mihi ahau ki ngā taonga o ngā tāngata whenua o Tāmaki-makaurau.

Kei te mihi ahau hoki ki tēnei whare karakia. E tū! E tū! E tū!

Ka iti tāku mōhio o te reo Māori,

ēngari kei te mihi ahau ki tēnei taonga o ēnei motu.

Tēnā koutou, tēnā koutou, kia ora tātou katoa.

I am sometimes asked how I came to be an economist. In my long answer to that question, I say the process began around April 1933, which was when the Dunedin employer of my father's father, Hugh Dalziel, made him redundant at the height of the Great Depression. Hugh was 26 and an experienced wood turner and joiner. He and my grandmother, Bertha Gallagher, had married in November the previous year and Bertha was three months pregnant with their first child, my father. Hugh did not find another full-time job for six years. The new family could not keep up with their rent and so moved in with Bertha's parents and struggled on as best they could.

My grandfather died in 1973 when I was not old enough to discuss that experience with him, but I did talk with my grandmother. She remembered the constant worry of trying to keep the peace among the three generations living in a small cottage and of trying to ensure enough food for the children. She distinctly remembered the election of the First Labour Government in November 1935 and its immediate decision to give a Christmas

bonus to the unemployed. This meant, she told me, that she and Hugh could afford Christmas presents for their two children.

In the 1930s, my grandparents' experience of no job and unhealthy housing was duplicated in thousands of other families up and down the country. It was these experiences that motivated Michael Joseph Savage and his colleagues in the First Labour Government, leading among other things to the landmark legislation whose 75th anniversary we commemorate tonight.

I want to frame my contribution with two quotations, one from Savage and one from the current Prime Minister, John Key. The Savage quotation comes from the 1938 budget debate. The budget was in surplus but as Minister of Finance, Walter Nash, commented: "both revenue and expenditure [had] reached record proportions [in accordance with] ... the Government's policy of increasing the range and scope of social services".¹

The Leader of the Opposition, Adam Hamilton, opened the budget debate by calling for lower taxes instead of increased social services. Savage replied on behalf of the government, during which he explained:²

There is no way of dealing with poverty except by getting to the people who are poorly paid, poorly housed, and poorly fed, who cannot reach the main facilities for education and medical services. We want education and medical services to reach every section of the community wherever they may be, in the backblocks or in any other part of the country, for after all the people's well-being is the highest law, and so far as this Government is concerned we know no other.

I want to emphasise three aspects of this quotation. First, Savage and his colleagues understood "there is no way of dealing with poverty except by getting to the people who are poor". Not for them any faith in the 'trickle-down' theory that dominates policy in our own generation. Not for them any idea that the way to address a child poverty crisis could be to deny 230,000 children in benefit households access to the tax credit paid to low income caregivers to meet children's needs.

Second, Savage and his colleagues understood the multiple dimensions of poverty. Poverty leaves people "poorly paid, poorly housed, poorly fed [and unable to] reach the main facilities for education and medical services". These multiple dimensions is why answers to poverty require integrated policy responses across all government portfolios, including finance, development, labour, housing, education and health.

Third, Savage and his colleagues understood that "the people's well-being is the highest law". Some members of the audience may be surprised when I say that this understanding has a strong resonance with one of the major currents in modern-day economics. In 2008, for example, Joseph Stiglitz, Amartya Sen, and Jean-Paul Fitoussi were invited to head a commission exploring the limits of Gross Domestic Product as an indicator of economic performance and social progress. Their report was unequivocal:³

[A] key message, and unifying theme of the report, is that the time is ripe for our measurement system to *shift emphasis from measuring economic production to measuring people's well-being*.

That message should be easily absorbed by New Zealanders. This year holds another important anniversary – the 25th anniversary of Marilyn Waring's book *Counting for Nothing: What Men Value and What Women are Worth*. As many of you know, Waring entered Parliament in 1975 and retired from politics in 1984, having played a large part in the timing of that year's transformative election.

Counting for Nothing analysed how national accounting rules exclude huge volumes of work performed by women and also substantial negative impacts of market activities on the environment. Predating the Stiglitz, Sen and Fitoussi analysis by two decades, Waring demonstrated the adverse outcomes that result when public policies focus on economic production measured by the flawed GDP statistic.

Despite Waring's early insights, the well-being strand in modern-day economics has struggled to find a place in New Zealand politics.⁴ Successive governments since 1984 have focused instead on economic production, particularly on *export-led growth*. Thus, Labour aimed to return New Zealand to the top half of the OECD, while National announced its aim to catch up with Australia by 2025; both targets were defined using measures of economic production rather than measures of people's well-being.

In this context, let me read the second quotation that frames my talk. It comes from the opening of the first session of Parliament after National won the 2008 election. It is part of the Speech from the Throne read by the Governor General on behalf of the Prime Minister, John Key:⁵

The driving goal of the new Government will be to grow the New Zealand economy in order to deliver greater prosperity, security and opportunities to all New Zealanders. It will be going for growth because it believes in the power of economic growth to deliver higher incomes, better living conditions and, ultimately, a stronger society for New Zealanders.

The contrast I invite you to make is between Key's statement that the government "believes in the power of economic growth to deliver higher incomes" and Savage's statement that "there is no way of dealing with poverty except by getting to the people who are poorly paid". This contrast is, I think, at the heart of things on the 75th Anniversary of the Social Security Act 1938, and so let me finish by drawing out some implications.

The first point to make is that the worldviews of Savage and Key lead in very different policy directions. In the late 1930s, after the world's greatest global recession, Savage's government responded with policies to raise public spending, to lift labour standards and to increase social security payments. In our own time, after the world's second greatest global recession, Key's government responded with policies to lower income taxes, to soften labour standards and to reduce social security payments.

My second point is that I do not think these different responses should be understood as a contrast between a more generous time in the 1930s and a more hard-nosed time in the present. The differences spring from different ideas about how to address poverty – Savage’s belief in getting to the people who are poor has been replaced with Key’s belief in the power of economic growth.

Third, we should recognise that belief in the power of economic growth is very seductive. If a household wants to have a more expensive holiday this summer, it knows it must earn more income during the year to pay for it. Similarly, surely a country has to earn more money if it wants to spend more on its social security system? Surely we have to look after economic policy before we can expand social policy?

That question was one of the major themes of the ill-fated Royal Commission on Social Policy which delivered its final report on the 50th anniversary of the Social Security Act, in 1988.⁶ The answer is an emphatic no. The rules of household economics do *not* carry over to national economics, for the fundamental reason that at the national level, no one can earn a dollar of income unless someone else has already decided to spend that dollar.

This observation simply recognises there are two sides to every market transaction. It is a complete fallacy to think that at the national level we can earn a dollar and *then* spend it – a dollar can be earned only by someone *already* spending. This is why Michael Joseph Savage was right and John Key is wrong.

Generic growth *per se* won’t solve poverty; what matters is how our economic system determines spending patterns in the community, which depend fundamentally on the degree of inequality produced by that system. In other words, there is no way of dealing with poverty except by getting to the people who are poorly paid.

This brings me to my final point. In preparation for this evening, I reread the biographies of Michael Joseph Savage and of Peter Fraser, I looked through Walter Nash’s book on *New Zealand: A Working Democracy* and I read *The Welfare State in New Zealand* written several years afterwards by economist J. B. Condliffe. One of the features of the period that surely strikes any reader of these works is the breadth of the First Labour Government’s vision.

Certainly, the Social Security Act was part of that vision, but only part and indeed not the first part. More broadly, houses were built, schools were expanded, children were given milk, hospitals were opened, labour standards were raised, agricultural prices were stabilised, secondary industries were fostered, the Reserve Bank was nationalised, and social security was extended. Just to give you one indicator of the scale of the effort, Peter Fraser’s biography records the following observation:⁷

The percentage of children receiving a secondary education stood at 58 per cent in 1935; it had risen to 92 per cent by 1949, while there had been a 150 per cent increase in the numbers attending university.

Taking the people's well-being as its highest law, that First Labour Government recognised that the way to improve the people's well-being is through the people's own work. If well-being is impaired by inadequate housing, then create a system in which people's work can build quality housing. If well-being is impaired by low education, then create a system in which people's work can build classrooms and teach students.

Thus, at the heart of the social security system created 75 years ago was the idea of "decent work" – work offering good wages because it had been organised to produce goods and services to improve the people's well-being. If I look back over the last 30 years, this is the core idea we have lost in New Zealand's economic policy.

Instead, we have lowered labour standards, encouraged the growth of low skilled, low paid jobs and been content to allow the government to step back from helping to organise decent work to improve domestic well-being in favour of a mirage we call export-led growth.

Let this 75th Anniversary remind us that there is another way.

Kua mutu tāku korero mo tēnei pō.
That finishes my talk for tonight.

Ka tino nui te mahi i mua.
There is a lot of work in front of us.

No reira, me āwhina tātou ki a tātou.
Therefore, let us help each other.

Tēnā koutou. Tēnā koutou. Kia ora tātou katoa.
That is you. That is you. May you and I, all of us, enjoy well-being.

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- ¹ *Appendix to the Journals of the House of Representatives*, 1938, Doc. B.6, p. 9.
- ² *Parliamentary Debates*, 1938, v. 251, p. 643; cited from B. Gustafson, *From the Cradle to the Grave: A Biography of Michael Joseph Savage*, Reed Methuen, Auckland, 1986, p. 212.
- ³ Stiglitz, J., A. Sen and J. P. Fitoussi *Report by the Commission on the Measurement of Economic Performance and Social Progress*, 2009, p. 12. Downloaded 28 September 2009 at www.stiglitz-sen-fitoussi.fr. The emphasis is in the original text.
- ⁴ An interesting development is recent work within Treasury to build a broader 'Living Standards' policy framework similar to the well-being framework used by the Australian Treasury (see www.treasury.govt.nz/abouttreasury/higherlivingstandards). The mission of the Australian Treasury begins "Treasury's mission is to improve the wellbeing of the Australian people..." (*Annual Report 2010-11*, Canberra: Commonwealth of Australia, 2011, p. 9).
- ⁵ Speech from the Throne, delivered by the Governor General the Honourable Anand Satyanand, PCNZM, QSO, to Members of the House of Representatives in Parliament's Legislative Council Chamber at the State Opening of Parliament, 9 December 2008. Downloaded 11 September 2013 at www.beehive.govt.nz/speech/speech-throne.
- ⁶ Royal Commission on Social Policy, *The April Report*, Volumes I to IV, Wellington: The Royal Commission on Social Policy, 1988.
- ⁷ M. Bassett and M. King, *Tomorrow Comes the Song: A Life of Peter Fraser*, Penguin, Auckland, 2000, p. 145, citing W. Renwick "Fraser on Education" in M. Clark (Ed.) *Peter Fraser: Master Politician*, Dunmore Press, Palmerston North, 1998, pp. 77-78.