Taxes and Poverty in New Zealand

The impact of the tax and benefit systems on low-income New Zealanders

Prepared by
David S. Liebschutz

With funding from the sponsors of the Ian Axford (New Zealand) Fellowships in Public Policy

August 1999

Ian Axford Fellowships Office
P O Box 3465
Wellington
New Zealand

TABLE OF CONTENTS

TABLE OF CONTENTS 3

ABSTRACT 5

CHAPTER 1 - INTRODUCTION 9

CHAPTER 2 - TAX-BENEFIT INTERFACE 10

Ancient History 10
Modern New Zealand History 10
Table 1 - Income Distribution, 1996 ..... *13*

CHAPTER 3 - GOALS AND STRUCTURE OF THE TAX AND WELFARE SYSTEMS 14

Social Assistance Through the Tax System 14
Table 2 - Family Assistance Measures Delivered through the Tax System *15*
Table 3 - Annual and Weekly Rates of Family Assistance Tax Credits *16*
Social Assistance Through the Social Welfare System 16
Table 4 - Benefits Provided by the Social Welfare System *17*
Effective Marginal Tax Rates and Replacement Rates 18
Table 5 - Estimate of EMTRs for New Zealand *18*
Table 6 - Number of Families by Type and EMTR *19*
Table 7 -Replacement Rate for Sole Parents *20*

CHAPTER 4 - THE PLAYERS IN THE TAX-BENEFIT SYSTEM - THEIR VIEWS AND THEIR PRIORITIES 21

Introduction 21
Table 8 - Major Players in the Tax-Benefit Interface *22*
Parliament 23
Government Agencies 23
Interest Groups 25
Business *25*
Social Service Agencies *26*
Labour Unions *27*
Academia 27
Press 28
Public 28
Conclusion 29

CHAPTER 5 - THE ANALYTIC FRAMEWORK 30

Programmatic Criteria 30
Design Criteria 30
The Parental Tax Credit 31
Table 9 - Family Assistance Thresholds *32*
Conclusion 32

CHAPTER 6 - OTHER FACTORS TO CONSIDER 33

Introduction 33
Welfare to Work Issues *33*
The New Zealand Labour Market *33*

CHAPTER 7 - WHERE TO FROM HERE? 35

INTRODUCTION 35
EVALUATE, EVALUATE, EVALUATE! 35
SIT DOWN AND DISCUSS 35
POSSIBLE POLICY ALTERNATIVES 35
Increase the Financial Incentives to Work? *36*
Test Whether More Generous Financial and Non-Financial Assistance Works? *37*
Institute Time Limits for Certain Benefits? *37*
Simplify Benefit Programmes to Make Trade-Offs More Transparent? *37*

BIBLIOGRAPHY 38

Articles, Books and Government Documents *38*
Interviews, Meetings & Presentations *40*
Notes *42*

ABSTRACT

This report was done under the sponsorship of the Ian Axford (New Zealand) Fellowships in Public Policy. It presents a summary of the major issues surrounding the interface between the tax and social welfare systems in New Zealand, particularly as they affect those in transition from dependence on the social welfare system to independence from it.

The paper first looks at how the systems evolved to their current state and what their basic structure is. It then explores the views of various players within the tax and benefit systems and proposes an analytic framework from which to judge future programmatic initiatives.

Finally, it proposes that in order to increase the level of the debate and the dialogue in this area, there should be some new initiatives tried such as increased programme evaluation, enhanced work incentives and simplified benefit programmes.

The opinions laid out in this report reflect my own subjective view of the current New Zealand situation and do not reflect the opinions of my colleagues at the New Zealand Treasury, the New Zealand-United States Educational Foundation, or the sponsors of this fellowship.

ACKNOWLEDGEMENTS

I have so many people to thank for their time, interest and support of my fellowship project that it is hard to know where to start, but start I must, so with apologies in advance to anyone who gets left out, here goes:

First, I would like to thank the New Zealand-United States Educational Foundation and its most able director, Jenny Gill, who in concert with the Commonwealth Fund, chose me to be a 1999 Ian Axford Fellow. I would also like to thank the Board of Directors of the Ian Axford Fellowships and its chair, Sir David Beattie.

Second, I would like to thank the sponsors of the fellowship for their financial support of myself and my family in New Zealand. Without it, we would not have been here. The sponsors are:

Private Sector

Air New Zealand

Carter Holt Harvey

Ericsson Communications

Hewlett Packard

National Bank of New Zealand

Todd Corporation

Public Sector

Department of Internal Affairs

Department of Police

Department of Prime Minister and Cabinet

Department of Social Welfare

Environmental Risk Management Authority

Ministry for the Environment

Ministry of Education

Ministry of Foreign Affairs and Trade

Ministry of Health

Ministry of Justice

Ministry of Research, Science and Technology

State Services Commission

The Treasury

Third, I would like to thank all of those people who took time out of their busy schedules to sit down and educate me about New Zealand and their views about it. In particular, I would like to thank:

My Project Mentors - Bob Stephens (Senior Lecturer in Public Policy at Victoria University of Wellington) and Roger Hurnard (Advisor in the Social Policy Branch of The Treasury) who served as sounding boards for me during my time here and were invaluable in helping me focus and shape the project.

The New Zealand Treasury - The Treasury was my home base for my time in New Zealand. I would like to thank The Treasury and its excellent staff for providing me space, constructive feedback and guidance on various tax and social policy (and rugby and cricket) related issues. The following staff were particularly helpful:

Alan Bollard, Chief Executive

John Whitehead, Manager, Regulation and Tax Policy Branch

Peter Wilson, Manager, Tax Directorate

Gavin Lockwood, Deirdre Ross, Patrick Nolan, Andrew Blazey, Murray Shadbolt, John Peoples and Frederic Sautet - Members of the Personal and Indirect Tax Section

Mary-Ellen Fogarty, Information Officer, Regulation and Tax Policy Branch

Ivan Tuckwell and Matthew Bell - TAXMOD gurus

Lesley Haines, Benedikte Jensen, Dean Hyslop, Andrew Coleman, Sarah Box, David Frame, Steve Cantwell, and Megan Claridge - Policy Co-ordination and Development Staff

Andrew Kibblewhite, Manager, Financial Management Directorate

Ross Judge, Gerald Minnee, Susan Robertson, Jane Frances, Tim Roper, and Ron Crawford - Social Policy Branch

Other government staff who were helpful included:

Bryan Perry, Ross McKay, Moira Wilson, and John Jensen - Social Policy Agency (Department of Social Welfare)

Dave Mare, Sylvia Dixon, and Bryan Chappel - Labour Market Policy Group (Department of Labour)

Fourth, I would like to thank those who gave me comments and assistance in writing the report: Bob Stephens, Frederic Sautet, Dean Hyslop, Patrick Nolan, Mary-Ellen Fogarty, Roger Hurnard, and Gavin Lockwood.

I would also like to acknowledge the Tax-Benefit Group at Treasury, particularly Deirdre Ross, Matthew Bell, Ivan Tuckwell and Tim Roper, who supplied many of the tables for this report. Special thanks go to Gail Wilson at NZUSEF for the final production.

Finally, I would like to thank my wife, Libby, and my two daughters, Jennifer and Rebecca, for all their support and patience and for going along on this adventure halfway across the world with me.

CHAPTER 1: INTRODUCTION

Why has New Zealand, a small, relatively isolated country of 3.8 million people in the South Pacific been held out as something of a model for tax and social welfare reform initiatives over the past 15 years? Is it because the reforms have been so far-reaching? Is it because they have been perceived to be bold and courageous? Is it because the reformers have tried to transform a stodgy centrally-controlled economy into a dynamic free market one? The answer, like most answers in the world of tax and social policy, lies somewhere amidst all of these views. Though New Zealand's reforms, especially in the tax and social policy arena, have much to commend them as models for the rest of the "First World" and, possibly, the newly established democracies of Eastern Europe, these reforms have not been the unabashed success that many of their proponents thought they would be, especially as they affect those at the margins of the economy.

This report will examine the legacy of these changes as seen through the eyes of many different New Zealanders. It will present many different views on what social security benefits New Zealand should provide, what the objectives of those benefits are, and what is the best way to provide them. It will also examine why it will be difficult to make further progress in this area without having a common set of values from which to proceed. It will be difficult to improve the standard of living for all New Zealanders, especially those in need, without having an agreement as to exactly what the problems are that need to be solved. While "naming" problems does not solve them, it does provide a common basis from which to proceed. My observation of the current tax and social policy framework is that there is not enough common ground for problem solving or agreed criteria for evaluation. This leads to competing policy proposals, none of which address the fundamental issue of improving living standards within the constraints of a skewed income distribution and limited government resources.

Finally, a few words of disclaimer about what this report is and more importantly, what it is not. This report reflects eight months worth of work and is not a research thesis per se. It reflects my synthesis of written reports from here and abroad, some analysis of the limited amount of government and private sector data available, and conversations with over 100 public officials, government analysts, academics, students, social service providers and organisations, business officials, journalists and "average" New Zealanders.

The report is not a recipe for success or change in New Zealand. It asks many more questions than it answers. However, it is my hope that, by presenting this report, I will have stimulated discussion among policymakers, analysts and others about some of the fundamental dilemmas posed by the tax and social welfare systems, many of which are currently not part of the dialogue in New Zealand.

CHAPTER 2: TAX - BENEFIT INTERFACE

Ancient History

> And when you reap the harvest of your land, you shall not reap all the way to the edges of your field, or gather the gleanings of your harvest; you shall leave them for the poor and the stranger: I the LORD am your God.[1]

Though arguably the tax-benefit interface of 3,000 years ago was somewhat simpler than it is today, then as now, there were considerable trade-offs embedded in the policy being put forth. While the above policy, or more correctly, heavenly dictum, seems simple and straightforward, it raises issues of equity (the poor near the field had better access to the gleanings than those far away from it), efficiency (was this the best way to feed the poor, particularly those unable to gather the gleanings?), incentives (the farmer might want to plant less around the edge of the field) and administration and compliance (who was to police the farmers and make sure that they left the gleanings?). In some ways, society has come a long way since then, but in reality, many of the same issues that the ancient Hebrews struggled with in trying to govern their society and provide for the less fortunate members of it, are still with us today. However, before dealing with those issues, it is useful to look at some recent New Zealand history.

Modern New Zealand History

What follows is a brief overview of what the system looks like today and how it has changed over the past 30 years. Several books and articles have been written that describe these changes in some depth,[2] and it is not my purpose to do so here. But a short overview of the changes will give readers, particularly foreign ones, a sense of how the New Zealand of 1999 is different from that of 1970.

In its final report in 1972, *The Royal Commission of Inquiry into Social Security* "reaffirmed the role of social security[3] in an affluent capitalist society, and claimed that no one should be an outsider because of poverty".[4] The famous phrase "to belong and participate" was coined by the report and was designed to spark a renewed and enlarged commitment to social security that expanded it from merely subsistence levels of support to a decent minimum standard of living.[5] The report suggested that the minimum level of benefit be set at 80 percent of the average labourer's wage. This amounted to roughly an 11 or 12 percent increase in the average benefit level and was put into place by the newly-elected Labour Government in late 1972.

In early 1973, a further, more significant change was made - the institution of a permanent domestic purposes benefit (DPB). From 1968 to 1973, there existed an emergency benefit for sole parents, but it was at a low rate and not intended to be permanent. Many sole mothers at the time were on the Widows' Benefit. The DPB allowed sole parents, primarily women, to receive a benefit for care of their children.[6] However, from the outset, the job of policing who was a sole parent and who was entitled to receive the DPB proved controversial, and in fact remains so to the present day.[7] Though there were other benefits, such as the Family Benefit, that recognised the state's support of children, this was the first benefit that explicitly acknowledged the difficult position of sole parents in raising their children. As I will discuss later in this report, the DPB, like other similar benefits meant to support those at the margins of society, is actually in many ways a drag on their ability to obtain independence from the benefit system.

Despite the Royal Commission's theme of "belonging and participating", the New Zealand of the mid-1970s and early 1980s struggled with this vision. The 1973 and 1979 oil shocks and the changing world economy left many New Zealanders disenchanted with the economy, causing 45,000 of them to leave the country in 1977-78 alone.[8] By 1984, the increasing cost of social welfare combined with a stagnant economy and budget deficits forced the newly elected Labour Government to take drastic steps. The new Prime Minister, David Lange, felt that the vision of New Zealand contained in the 1972 Royal Commission's report was not the same New Zealand he saw in 1984 and that something needed to be done. He and his newly appointed Finance Minister, Roger Douglas, looked critically at the state support of social welfare and concluded that, given New Zealand's precarious financial position, it could not expect that the taxpayers would continue to support such a generous social welfare structure.[9]

For the next six years, Lange and Douglas tinkered with the tax and social welfare system to reduce the growth of government social welfare spending and to place more of the emphasis of its spending on younger families and less on the elderly. "Rogernomics" as it was dubbed, saw the introduction of a broad-based Goods and Services Tax (GST), a much simplified income tax system, a surcharge on National Superannuation for wealthy elderly, a Family Support Tax Credit (FSTC), and a Guaranteed Minimum Family Income (GMFI)[10] among other things. It should be noted that although there was a series of targeted low-income family tax credits in the late 1970s introduced by the National Government, led by Prime Minister Robert Muldoon, the FSTC was the first attempt by the Labour Government to use the tax system to provide benefits. However, despite their best efforts to reform the tax and social welfare systems, other changes - lowered tariffs, privatisation of government-owned enterprises, the 1987 stock market crash, [11] and an overvalued exchange rate - led to ever-increasing numbers of beneficiaries, particularly the unemployed.[12]

Given this background, it is no surprise that yet another royal commission should be convened to figure out how to deal with some of these difficult problems. In October 1986, a Royal Commission on Social Policy was set up. Unfortunately, the breadth of the commission's charter seemed to conflict with the more austere path that the Labour Government seemed to be following,[13] and this combined with the market crash and the subsequent introduction of a flat tax plan by Roger Douglas[14] led to a shortened commission report. The report, like its predecessor in 1972, talked once again about the ethos of belonging and participating, but it failed to identify just how any expansion of the social safety net (which it advocated), much less the current regime, could be paid for.

It was against this backdrop of a stagnant economy, high numbers of beneficiaries and a general feeling of frustration by most ordinary New Zealanders, that the National Party, which campaigned on a "Decent Society" platform, was elected in 1990. As with changes in political power in other "First World" countries in the 1990s, National's election ushered in a re-examination of the value of the social safety net and with it a notion that beneficiaries should "earn" their benefit (by "working for the dole") or, better still, "work their way off the benefit".

While the two Royal Commission reports spoke of interdependence among the citizenry, the new National Government was focused strictly on benefit dependence and its "corrosive effects on society".[15] New Finance Minister Ruth Richardson worked with Social Welfare Minister (now Prime Minister) Jenny Shipley to introduce the "mother of all budgets" in July 1991. The budget made substantial cuts in social welfare programmes by reducing the level of most benefit programmes (back to the level they were in real terms prior to 1972) and by more narrowly targeting most social welfare programmes to lower income groups.

Though much of the debate on the new Government's policy changes was focused on the issue of National Superannuation and how to pay for the increasing number of retirees, there were other changes to the benefit system for younger people as well. The Family Benefit, which had gone to all families since its inception in 1946, became income-tested for the first time and was abolished for middle and upper income families. However, the size of the benefit had declined in value so much that the impact of losing it was really not felt by most of these families.[16] In addition, changes were made to employment conditions through the Employment Contracts Act, which ended differential pay for overtime work and other labour market rules, and greatly lessened the power of labour unions. Changes were also made to the state-owned housing sector by changing the housing benefit from income-related state-supplied housing to a demand-side based housing subsidy called the Accommodation Supplement. These changes, combined with the reduced level of benefits, made many beneficiaries increasingly reliant on the grant of special emergency benefits as well as on outside charitable organisations, such as churches and the Salvation Army whose award of supplemental food parcels and other emergency grants of clothing and shelter increased dramatically.[17]

The other initiative that the Government attempted in the early 1990s was to get beneficiaries into paid work. However, given the low skill level of many beneficiaries and the lack of many new stable long-term job opportunities, it was difficult to place many of them in long-term work. In October 1998, a new Community Wage plan was introduced that made "work for the dole" a reality by mandating work-testing or community service employment for most classes of able-bodied beneficiaries (such as those on the Domestic Purposes Benefit).[18]

The 1990s also saw changes to the tax regime. In 1996, the so-called "Hand-Up" package was passed. It cut income tax rates but also added or expanded benefits paid through the tax system, such as Family Support, Guaranteed Minimum Family Income and the Independent Family Tax Credit.[19] In the 1999 budget, the Government further expanded these tax benefits to include a Parental Tax Credit.

Despite policies to encourage work and provide benefits to the truly needy while making the tax system simpler and more efficient, New Zealand still faces gaps in its social fabric. Two recent reports by Statistics New Zealand demonstrate the problem. The first, *New Zealand Now - Incomes*, released in February 1999, shows that unemployment, at eight percent, is double what it was in 1986, though it is lower than it was during the recession of the early 1990's when it hit 11 percent.[20] Furthermore, income inequality, as measured by the Gini coefficient, is greater than it was in 1986, with most of the change occurring between 1986 and 1991.[21] The disparities are particularly great between Maori and Pacific Islanders on the one hand and those of European ancestry, on the other, and between sole parent households and two parent households, as shown in Table 1.[22]

Table 1 - Income Distribution, 1996

Household equivalent disposable income quintiles	Europeans	Maori & Pacific Islanders	Sole parents	Two-parent families
	%	%	%	%
1	17	28	44	13
2	19	22	25	19
3	20	25	15	23
4	22	16	11	23
5	21	9	4	22

Source: Statistics New Zealand - Household Economic Survey

The other Statistics New Zealand report of relevance is from the same series and is entitled *New Zealand Now - Children*. This report echoes the conclusions of the other report, that sole parent households are likely to be less well off than two-parent households.[23] Two-thirds of children in such families had a parent that was either unemployed or not in the workforce, as compared with less than 10 percent of children in two-parent families.[24] There are also ethnic differences, with Maori (41 percent) and Pacific Island (38 percent) children much more likely to live in a household with no working parent than European children (14 percent).[25] Overall, the proportion of children without a parent in paid work increased nearly 10 percentage points from 1986 to 1996, from 13.7 percent to 23.4 percent.

It is against this backdrop that we must look at the current tax and welfare regime.

CHAPTER 3: GOALS AND STRUCTURE OF THE TAX AND WELFARE SYSTEMS

If we look at the tax and welfare systems independently, we can assess their major goals. The current New Zealand tax system has three basic goals: to raise revenue at the least cost (referring both to administrative and compliance costs as well as the "deadweight" cost of taxation); to charge for certain behaviours (through traffic fines, licence fees, and excise taxes on alcohol, cigarettes, etc.); and to provide income assistance to low-income families (through the family assistance regime detailed below and through the collection of child support payments from non-custodial parents).

By contrast, the major goal of the social welfare system is to provide a social safety net to those most in need while minimising fiscal costs and negative behavioural incentives. One exception is National Superannuation programme, which is not targeted on income, only age and marital status.

Social Assistance through the Tax System

Although a full discussion of the tax system is beyond the scope of this report, the key features that have an impact on the tax-benefit interface are the relatively simple income tax rate structure (three tax rates for most taxpayers - 15, 21 & 33 percent), the broad definition of income and the broadly inclusive income tax base (very few deductions, most income and benefits taxed from the first dollar earned or paid). In addition to the personal income tax, the other major taxes are business taxes and a broad-based 12.5 percent Goods and Services Tax (GST).[26]

As shown in Table 2, there are two basic programmes that use the tax system to provide assistance: Family Support, paid to all low-income families and Family Plus, paid to only low and moderate income working families. Both programmes are available to all eligible families with taxable annual income of up to $20,000 and then are abated gradually until they fully phase out for most families at around $45,000.[27]

As shown in Table 3, the Family Support Tax Credit pays a maximum of $60 per week for a teenage child and less for younger children. Approximately 250,000 families (about one in every eight) qualify for the credit at a cost of $950 million. About half as many families qualify for the Family Plus Package at a cost of $230 million. The three parts of the Family Plus Package are the Family Tax Credit (called Guaranteed Minimum Family Income from 1986 to 1999), the Child Tax Credit (called the Independent Family Tax Credit from 1996 to 1999) and the Parental Tax Credit.

The Family Tax Credit is available to sole parents employed for at least 20 hours a week and to couples with a combined total of at least 30 hours a week of employment. It provides families with a guaranteed weekly net income of $290 per week and a guaranteed net annual income of $15,080. Only around 3,500 families currently receive this tax credit at a total cost of $10 million.

The Child Tax Credit provides $15 per child per week (regardless of the age of the child) to eligible families (working families with children whose incomes are for the most part below $40,000). Around 110,000 families currently receive this tax credit at a cost of $190 million.

When implemented in October 1999, the Parental Tax Credit will provide up to $150 per week for eight weeks ($1,200 in total) on the birth of a child and will be the last of the Family Plus credits to abate away. It is estimated that about 26,000 families will receive this tax credit in any year.

Table 2 - Family Assistance Measures Delivered through the Tax System[28]

	Estimated number of families (000's)	Estimated annual fiscal cost ($m) 1999/2000
Family Support Assistance For low-income families with children - can be paid in addition to income tested benefits	**246**	**950**
• paid by WINZ (to beneficiaries)	176	
• paid by IRD (to workers)	80	
Family Plus Assistance for working families with children - not available to those receiving income-tested benefits. Most families also receive Family Support.	**125**	**230**
• **Child Tax Credit**	120	190
• **Parental Tax Credit** (Comes into effect for births from 1 October 1999)	26	30 (after phase in)
• **Family Tax Credit**	3	10
To qualify, a sole parent must work at least 20 hours a week and a two-parent family must have at least 30 hours of paid work between them.		
Total family assistance	**280**	**1,180**

Source: New Zealand Treasury

Table 3 - Annual and Weekly Rates of Family Assistance Tax Credits

	Annual Credit $ per child	Weekly Rate $ per child
Family Support		
For eldest child:		
• aged 0-15	2,444	47
• aged 16-18	3,120	60
Each other child:		
• aged 0-12	1,664	32
• aged 13-15	2,080	40
• aged 16-18	3,120	60
Family Plus Assistance for working families		
• Child Tax Credit	780	15
• Parental Tax Credit Annual amount can be paid over eight weeks following birth (rather than spread over full year) or as a lump sum at end of tax year	1,200	150
• Family Tax Credit		
Family net income topped up to	$15,080 annually	$290 weekly
(Which equals in before tax $)	($18,367 annually)	($353 weekly)

Source: New Zealand Treasury

Social Assistance through the Social Welfare System

Social assistance through the social welfare system is about ten times as large as through the tax system ($10.7 billion vs. $1.2 billion). As noted above, it is a much more closely targeted system with major welfare benefits paid first and then supplemented on the basis of additional need by second and third tier benefits such as housing and childcare benefits. Table 4 shows the basic features of benefits provided by the social welfare system.

Table 4 - Benefits Provided by the Social Welfare System

Programme		
Major Welfare Benefits	**Persons on Benefit (000's)**	**Total Fiscal Cost $m**
Age and Invalid Pensions Not expected to return to workforce	**510**	**5,900**
• NZ Superannuation	445	5,100
• Veterans' Benefit	5	100
• Transitional Retirement Benefit	10	100
• Invalids' Benefit	50	600
Carers/Widows Primarily out of workforce for medium term whilst performing domestic duties	**125**	**1,600**
• Domestic Purposes Benefit	115	1,500
• Widows' Benefit	10	100
Community Wage Temporarily out of workforce	**190**	**1,900**
• Seeking work	155	1,500
• Training	10	100
• Sick	35	400
Subtotal – Major Benefits		**9,400**
Supplementary Welfare Assistance	**Persons on Benefit (000's)**	**Total Fiscal Cost $m**
Housing	**315**	**805**
• Accommodation Supplement	310	795
• Tenure protection	5	15
Children	**45**	**70**
• Childcare Subsidy	40	40
• Orphan and UC Benefit	5	30
Health	**190**	**230**
• Disability Allowance	170	200
• Handicapped Child Allowance	20	30
Emergency Grants	**355**	**105**
• Special Benefit	20	60
• Special needs grant (total)	335	45
Training	**n/a**	**35**
• Training Incentive Allowance	n/a	35
Subtotal – Supplemental		**1,250**
Total - All Welfare Benefits		**10,650**

- ***Number of beneficiaries shown to nearest 5,000***
- ***Fiscal cost to nearest $100 million***

Source: New Zealand Treasury

Effective Marginal Tax Rates and Replacement Rates

For those seeking work in the short or medium term (i.e., those listed as Community Wage or Carers in the tables above), there are two major financial aspects to the interaction of the tax and benefit regimes: the Effective Marginal Tax Rate (EMTR) and the replacement rate.[29] The abatement regime (that is, the reduction in benefits as income rises) combined with the income tax rate scale will result in an effective marginal tax rate. An estimate of the EMTRs for New Zealand is shown in Table 5. As the table illustrates, a relatively small number of the population actually face these high EMTRs, but the ones that do (e.g., sole parents) tend to fall into a few categories, as shown in Table 6.

Table 5 - Estimate of EMTRs for New Zealand[30]

Effective Marginal Tax Rate (EMTR)	Composition of EMTR	% of total population
16.4	15% basic tax + 1.4% ACC[31] levy	13
22.4	21% middle rate tax + 1.4% ACC levy	44
33.0	33% tax rate only (beyond cut out point for ACC levy)	2
34.4	33% tax rate + 1.4% ACC levy	17
41.4	15% tax + 25% withdrawal of accommodation supplement + 1.4% ACC levy	1
46.4	15% basic tax + 30% withdrawal of family support /child tax credits + 1.4% ACC levy	1
47.4	21% middle tax rate + 25% withdrawal of accommodation supplement + 1.4% ACC levy	3
52.4	21% middle tax rate + 30% withdrawal of family support/ child tax credit + 1.4% ACC levy	2
Others	Mixture depending on other welfare assistance (no single rate faced by 1% or more of population)	17
Total		**100**
Size of population (excludes dependents)		**2.8 million**

Source: Household Economic Survey (1998)

Table 6 - Number of Families by Type and EMTR

	EMTR						
	0 to 16	**Above 16 to 22**	**Above 22 to 34**	**Above 34 to 50**	**Above 50 to 65**	**Above 65 to 80**	**Above 80**
Family type							
Single, no children	*	185,000	552,000	179,000	*	*	7,000
Sole parent	*	48,000	24,000	73,000	22,000	*	6,000
Partnered, no children	13,000	160,000	580,000	247,000	*	15,000	3,000
Partnered, with children	6,000	178,000	235,000	259,000	83,000	38,000	16,000
Total	23,000	571,000	1,391,000	758,000	119,000	60,000	32,000
* less than 3,000 families							

Source: Household Economic Survey (1998)

The other economic factor that needs to be considered when examining the influence of the tax and social welfare system on those moving from welfare to work is the replacement rate. This rate is defined as the ratio of net income available while on benefit to net income when in work.

Table 7 shows that a sole parent with one or two children will be largely indifferent economically between working for fifteen hours at minimum wage ($7 per hour) or just receiving a benefit. Such a person would, in fact, make less money (factoring in the cost of work-related expenses and childcare), by working full-time at minimum wage than she or he would receive from the benefit. Replacement rates of over 100 percent are often thought of as “poverty traps” because beneficiaries are trapped in a low rate of benefit. It is only when they receive the average full-time wage ($17 per hour) that there becomes a clear economic advantage to work.

Table 7 - Replacement Rate for Sole Parents[32]

Number of children	**1**		**2**	
At minimum wage	Disposable income	Replacement rate	Disposable income	Replacement rate
Hours of work				
0 (benefit only)	$325		$384	
15	$344	95%	$398	96%
20	$369	88%	$418	92%
40	$296	110%	$332	116%
At average full-time wage	Disposable income	Replacement rate	Disposable income	Replacement rate
Hours of work				
0 (benefit only)	$325		$384	
15	$386	84%	$437	88%
20	$377	86%	$426	90%
40	$391	83%	$426	90%

Source: New Zealand Treasury (1999)

Nevertheless, even with lower replacement rates it is clear that economic incentives are not the only factor that influences the decision to enter work. For example, administrative rules that mandate either actual part or full-time paid or community work are now part of the benefit scheme in New Zealand through the Community Wage programme introduced in October 1998. Though the rules are somewhat complex, they basically mandate work search activities, training programmes, community work (sometimes called “workfare” in the United States), or paid work for able bodied workers with school aged children and older. This mandate may make economic factors somewhat less relevant.

Even accounting for the new work mandates in the Community Wage programme, there are clearly other non-pecuniary factors that influence the decision to move into work from a benefit. A recent study done in the United Kingdom for its Department of Social Security, “Moving off Income Support: Barriers and Bridges,”[33] (Shaw 1996) found that improved training programmes, increased availability of good quality childcare, more flexibility in moving in and out of work (i.e., an easy process of going back on a benefit temporarily) and more knowledge of the trade-offs were all factors that influenced the success of the transition from welfare to work.[34]

Given the mix of economic and non-economic factors that influence one’s decision to be part of the labour force or not, what is the current view of how well the tax and welfare systems work? It depends on whom you ask, and that is the subject of Chapter 4.

CHAPTER 4: THE PLAYERS IN THE TAX-BENEFIT SYSTEM – THEIR VIEWS AND THEIR PRIORITIES

Introduction

I believe that much of the value of this report will come from a description of the players in the tax-benefit system and what their priorities and viewpoints are. One of the fundamental issues in designing tax and social welfare policies that "work" is finding a common set of values and issues. In New Zealand, as in many other places in the OECD, there are fundamental differences on the issues, leaving little common ground for discussion.

Table 8 shows the main players in the tax-benefit framework and gives their main function, organisational philosophy, their tax and benefit focus, and the main source of data that they use for analysis. The discussion below will flesh out each of the players more fully.

A caveat: these characteristics are based on my own observations of these organisations, interviews with key members of them, and a review of the literature that they produce. It is also based on where I think these organisations are presently and not about where they have come from or are going in the future.

Table 8 - Major Players in the Tax-Benefit Interface

Group or Agency	Main Function	Philosophy	Tax Focus	Benefit Focus	Main Data Sources
Government					
Ministers	Govern	Govern and stay in power	Raise revenue to keep government functioning	Provide a social safety net & encourage work	Government agencies & anecdotal evidence
Parliamentary Opposition	Oppose the government	Oppose and get power	Raise or lower taxes	Raise or lower safety net	Government agencies & anecdotal evidence
Treasury	Set government financial policy	Best use of government resources	Oversight of tax regime - policy setting	Oversight of benefit regime - policy setting	HES/ TAXMOD[35]
Inland Revenue Department (IRD)	Collect revenue	Maximise revenues to make government run with minimum drag on economy	Maximise efficient collection of revenues	Family tax credits, student loans, child support	FIRST[36]
Department of Social Welfare (DSW)	Oversight of welfare policy	Provide safety net where appropriate & reduce dependence	None	Policy framework for benefits	SWIFTT[37] HES HLFS[38] Census
Work and Income New Zealand (WINZ)	Administer benefit & employment regimes	Increase attachment to labour force (Work First)	None (except as it pertains to workforce attachment)	Process beneficiaries & prepare for workforce (if appropriate)	SWIFTT
Department of Labour (DOL)	Set national labour policy	Enhance NZ labour markets	Increase tax revenues by more robust labour market	Transition from benefit to work where possible	HLFS
Non-government					
Business Community (NZ Business Roundtable)	Increase economic growth	Lower taxes and economic inefficiencies	Minimise taxes where possible	Increase incentives to work (where appropriate)	N/A
Faith community & voluntary agencies	Support those in need not fully served by the government & reduction of poverty	More generous benefit structure (& less strict abatement regime)	Reduction of poverty traps (high EMTRs or replacement rates)	More support services for those looking for work, more generous benefits, better housing, improve understanding & administration of entitlements	N/A
Labour Unions	Represent members	Strengthen labour market to reduce casualisation	Raise rates at the top of the scale, lower bottom rates	Making housing more affordable and reduce poverty traps	HLFS
Academia	Research on taxes and social welfare	Many want to make system work "better" (i.e., reduce disincentives, poverty traps, etc)	Identify problems with the system & propose alternatives	Identify problems with the system & propose alternatives	All of the above (where accessible)

Parliament

Parliament can be thought of as forming two parts of the tax-benefit system - the Government and the opposing political parties. The Government has one basic function in the current New Zealand MMP System,[39] to keep power by constantly forging coalitions.[40] In New Zealand, as elsewhere, the Government and its Ministers are largely driven by overarching themes and not by an in-depth knowledge of the subject matter that they oversee. The relationship that the Ministers have with their portfolio agencies is established through a "purchase agreement" with non-political departmental chief executives, who are appointed by the State Services Commission for a fixed term.[41] This leads to a bureaucracy that tries to provide "neutrally competent advice", but also gets heavily involved in assisting the Government to implement its policy goals, whether or not the bureaucrats agree with them.

Their focus on political goals leads most of the Government's Ministers to have a somewhat risk-averse policymaking framework when looking at specific tax and benefit issues. They may try to tinker at the margins, but, given all of the major changes that have occurred in the last 15 years, few of them are interested in making large changes in the regimes. The focus on an efficient, less intrusive tax system and a largely targeted social welfare system drives the debate today and leaves little room for change in the current Government's thinking. Some have compared policymaking in New Zealand to a recovering alcoholic, who can never take a drink (or question the fundamental nature of reform), without risking a complete collapse of progress.

The current opposition in Parliament, led by the Labour Party, has tried to position itself as having new and innovative thinking, but, in point of fact, it is highly unlikely that a new Labour-led coalition Government would fundamentally alter the tax-benefit interface. There may be some changes at the margins (e.g., a higher top marginal tax rate, a mixture of housing vouchers and new government-built housing, etc.), but it is unlikely that there will be any radical changes in the way that the tax and social welfare systems are set up. Labour's credit card sized seven-point pledge card for the upcoming election typifies this focus on the margins.[42]

Other minor political parties (e.g., NZ First, ACT NZ, the Alliance) have much stronger views about the tax-benefit interface, but they will only achieve modest goals in the process of forming a coalition with one of the two major parties and are more of an irritant to those parties than anything else. On the other hand, the formation of Work and Income New Zealand (WINZ) was based on the desires of one minor party (New Zealand First) member (Peter McCardle) who managed to use his leverage in coalition-building to get this pushed through.

Government Agencies

Given the political process discussed above, it is difficult for members of the government bureaucracy to make significant changes to the current tax-benefit regime. Part of the reason for this is that, 15 years into the reform process, there are few in government service who were there in the pre-reform days. In addition, although there is often vigorous internal debate within agencies about the future direction of policy, much of it is muted by the time it reaches Parliament. Nevertheless, there are some differences between the agencies which have a role in shaping the tax-benefit interface.

Of the five major agencies involved in the process, The Treasury has arguably the largest role, as keeper of the public fisc and as a key player in policy debates. The Social Policy and Regulatory and Tax Policy Branches play key roles in overseeing the Government's activities in these areas and are usually asked by the Government for their input before any policy changes are made. Yet for all Treasury's theoretical power in the process, much of the internal work tends to be on the margin and more reactive to Ministers' requests. This reactive stance has prevented Treasury from making more of its mark on policy in the last few years. This is in marked contrast to the late 1980s and early 1990s, when many of the Government's policy changes came from The Treasury. The Chief Executive at Treasury, Alan Bollard, is trying to change this attitude with a more forward-looking strategic business plan, but until the Government changes its highly political view of the world, it is unlikely that Treasury will be able to exert a more analytical framework on Ministers. In addition, though Treasury has been consistently able to attract top honours graduates to come to work there as junior analysts, high staff turnover each year robs the institution of its ability to think long term.

The other government departments with a role in tax and social policy, the Department of Social Welfare (DSW), the Inland Revenue Department (IRD), Work and Income New Zealand (WINZ), and the Department of Labour, all have similar problems to Treasury with respect to politicised Ministers and the privacy issue.

IRD and WINZ are largely single-purpose operations focused more on particular pieces of the tax-benefit interface and less on broader policy issues. While IRD does have a social policy division that co-ordinates its advice with The Treasury, it is much more focused on how to implement policy changes than on the nature of the changes themselves. WINZ has almost no policy focus, as it was formed by the merger in October 1998 of two operational divisions - the New Zealand Employment Service (from the Department of Labour) and New Zealand Income Support (from the Department of Social Welfare). Given its short history and the standard merger pains that most newly formed organisations endure, WINZ is still trying to figure out how best to reconcile its employment and income support missions.[43]

Both the Department of Social Welfare and the Department of Labour have policy "shops" - the Social Policy Agency and the Labour Market Policy Group - which do focus on policy issues, although arguably their mission is somewhat more narrowly targeted than Treasury's with respect to the tax and benefit interface. Also, with the creation of WINZ, both Social Welfare and Labour are incomplete organisations, in that they were set up as multipurpose organisations and now have lost a major operational function. This lack of an implementation function makes policy advice a bit difficult, in that the two functions are not as well co-ordinated as they might be. Whether it is appropriate to combine the social policy and labour policy functions under one roof may be an interesting issue to explore.

Before moving on to discuss the non-government players with a role in the tax-benefit interface, a point should be made about the access to government information and data. There are two conflicting themes that affect the access to information: the Official Information Act of 1982 (amended most recently in 1993) on the one hand, and the Privacy

Act of 1993 (amended most recently in 1998) on the other. The Official Information Act allows access to virtually all government policy documents, everything from memos to e-mails (unless they undermine national security), so there is little of this nature that can be kept out of the public domain. On the other hand, because of a concern to protect individual privacy, the Privacy Act greatly restricts the use of government data, especially unit record data, and thus there is a relative paucity of statistical data that can be released or analysed.[44] Parliament has shown little or no inclination to change this balance, as it suits its needs for "open government" while protecting the rights of individuals. In point of fact, this policy hamstrings analytic work by exposing policy "think pieces" to public scrutiny while restricting the amount of data available to analysts.

Interest Groups

Discussions about the tax-benefit interface with outside interest groups reveal an incredibly wide range of opinions on how to move ahead, but there is a common theme. While these groups differ in what they would do to solve problems, nearly all agree that the tax and social welfare system does not work well for those at the margins of society for whom incentives matter, namely those able and potentially willing to work.

Business

The business community, represented by such groups as the New Zealand Business Roundtable, is highly critical of the vast government social welfare system. The Roundtable argues that the system reduces incentives to work and crowds out the private charitable sector from playing a role in helping the less fortunate. Business groups have commissioned researchers, mostly from outside New Zealand, to explore the issues, resulting in books such as *From Welfare State to Civil Society: Towards Welfare that Works in New Zealand* by David Green. Green's basic thesis is that the welfare state in New Zealand and elsewhere has undermined the notion of family and community responsibility and diminished self-reliance, replacing it with government reliance.

In my discussions with them, business leaders echoed Green's themes, but also went beyond that book's somewhat simplistic solutions to express frustration with the current policy environment. One said that, "it's as if the politicians think all the hard work had been done." While their sympathies most often lay with the more right-of-centre parties such as National and ACT, they felt that even these parties were not up to the task of dealing with the hard issues, which in the business community's mind were lower taxes, less regulation, and, finally, a smaller government role in the social welfare system. With respect to the latter, they felt that if the New Zealand economy could grow more quickly, then more jobs would be created and less welfare would be needed. While their prognosis may be sound at the national level, the disparity in regional impact may still require government welfare infrastructure to assist those, particularly sole parents or those with low skills, in rural areas where job growth may continue to lag.[45]

Social Service Agencies

In New Zealand, most not-for-profit social service providers are affiliated with a Christian denomination, such as the Anglican, Baptist or Methodist Churches or the Salvation Army. These organisations often fulfil two roles, that of advocate for the "less fortunate" and also that of social service provider. The heavy reliance of many of them on government funding (distributed by the Central Funding Agency at DSW) often creates an awkward relationship.[46] Generally, these organisations tend to believe in a more generous social safety net than currently is offered, especially in the area of housing. Though their views are by no means monolithic, there are several common themes with respect to the tax-benefit interface.

First and foremost, they feel that, despite government policies favouring work as a way to relieve dependency, there are still many barriers to work. In particular, these organisations and their clientele identify eight major barriers to work: inflexibility of the benefit structure, punitive tax and abatement rates, lack of affordable childcare, ineffective training programmes, lack of apprenticeships, lack of basic skills, limited income, and poor housing. It is interesting to note that many of these factors are not really economic. Rather, they present more difficult issues such as problems with the labour market structure and benefit administration.

This observation is quite significant in that it implies that economic incentives, long the cornerstone of the welfare policy reform in New Zealand, may have limited effectiveness in actually lessening dependence on the benefit system. Rather, it is a combination of factors - including economic and job growth and job security - that will encourage the movement off the benefit.

One of the biggest issues identified by the social service agencies was job security. Beneficiaries are hesitant to take jobs, even if it will make them better off (in some cases, significantly better off), if they are uncertain about the future security of the job. The case workers I spoke with said that beneficiaries would rather take the "evil they know," that is, poverty with certainty, than risk taking a chance on a job that does not work out and then having to wait to get back on a benefit.

In addition, benefits, even if relatively modest, are a sure thing, while income from most entry level jobs, whether full or part-time, tends to fluctuate.[47] While the Community Wage scheme mandates work or related activities for beneficiaries with school-aged children, social workers and advocates all expressed scepticism about whether the jobs under this scheme would actually lead to permanent full-time work and, with it, the certainty that beneficiaries desire.

The other major issue that came through in my discussions with social service providers and advocates was the lack of consultation between them and the Government. This view can be best summarised by a quote from the conclusion of *Our Lives in Their Hands*, a report produced by The Anglican Methodist Family Care Centre in Dunedin in September 1998, detailing the views of beneficiaries and social service providers in Dunedin:

> It seems that service providers as well as beneficiaries feel that they are not recognised or listened to and that they are in positions of relative powerlessness vis-à-vis the government. Certainly, the introduction of the Community Wage stands as an example of the lack of consultation between the Government and those affected by such policy changes … The legislation creating the Community Wage and WINZ was passed through Parliament in urgency[48] and therefore without opportunity for submissions. To change this, real consultation would be necessary. *As one service provider said, "Politicians need to get out there and talk to people, they've got to start listening to people instead of burying their heads in the sand. They don't 'walk the talk'.*" [49] (emphasis added)

Labour Unions

Due to their diminished numbers in the 1990s, labour unions are a much weakened voice on tax and benefit issues. They seem to have three main priorities with respect to these issues: ending the Accommodation Supplement and replacing it with a more traditional government-supplied housing programme; repealing the Employment Contracts Act, which they believe will increase the supply of good (i.e., high wage, full-time) jobs; and ending the Community Wage scheme. Even if a Labour Government is elected in November, it is unlikely that any of these changes, even if passed in some modified form, will make labour unions as strong a voice as they were before the reform period.

Academia

I spoke to students and faculty at five of the seven public universities in New Zealand[50] and came away with the sense that there is a fairly low level of interest among academics in the tax-benefit interface in New Zealand. Victoria University of Wellington and the University of Auckland each have a few faculty in their economics or public policy departments, such as Jonathan Boston, Tim Hazeldine, Tim Maloney, Keith Rankin, Susan St. John and Bob Stephens, that write and speak on these issues, but with a couple of other notable exceptions, such as Paul Dalziel at the University of Canterbury and Srikanta Chaterjee and Mike O'Brien at Massey University, that's about it. Even with the recent publication of *Redesigning the Welfare State in New Zealand: Problems, Policies and Prospects* by Boston, Dalziel and St. John, I would still argue that the academic community plays a relatively minor role in the tax and social welfare policy process in New Zealand.

The main reasons for this lack of engagement are several. First and foremost is the distrust of many academics by government officials, who by and large, believe that most academics have a left-leaning bias that prevents them from being objective about the current tax and social welfare systems. Second, there also tends to be a bit of an antiintellectual bias in government, which may in part be responsible for a nearly total lack of external programme evaluation by academia. Third, the reluctance to give academics access to unit record data (as evidenced by the passage of the Privacy Act in 1993) except under extraordinary circumstances and at great individual expense, has further discouraged their involvement. Fourth, in the New Zealand university system, as in many other places, faculty have to juggle their time between teaching and doing research. The pressure to get the most out of limited research time results in many cases in a focus on getting articles published in more prestigious, international academic journals, which generally are not interested in New Zealand issues. Fifth, given the relative pay disparity between academic salaries in New Zealand and other places like the Australia, U.S., and the U.K., many of the best and brightest faculty interested in this field have gone overseas.[51] Finally, there is a lack of large independent think tanks, such as the Urban Institute, the Brookings Institution, or the American Enterprise Institute in the U.S., the Institute for Fiscal Studies in the U.K., or NATSEM in Australia, that can add to the debate or provide alternative forums for academics to study this area.

Press

New Zealand has five major daily newspapers - *The New Zealand Herald, The Dominion, The Evening Post, The Press,* and *The Otago Daily Time*s - and two Sunday-only ones, *The Sunday Star-Times* and *The Sunday News*. Together with two television news organisations – Television New Zealand and TV3, and Radio New Zealand, these media provide most New Zealanders with their news. With a few exceptions, the coverage of tax and welfare issues is superficial and sensational. It fails to challenge or educate readers on any of the fundamental trade-offs in the tax and social welfare systems. Rather, articles tend to focus on anecdotes regarding extreme abuses of the systems, such as welfare beneficiaries receiving $65,000 annually[52] or over-zealous tax collectors pushing people to suicide.[53]

In addition, there is a preoccupation with how policies will play politically and not how they will affect people's lives. Thus, when the new 1999-2000 Budget was introduced in May, there was little discussion in any of the popular press about the actual import of the tax and social welfare changes (e.g., the Parental Tax Credit), but rather how things would play to the voters. It is interesting to note that the best recent press analysis of tax issues appeared in the weekly entertainment and arts magazine, *The Listener*, which had a cover story on tax issues in its 5 June 1999 issue. While the fact that it is an election year cannot be discounted in the "horse race" way that stories are written, it is unclear that there would be much of a difference without such an election present.[54]

Public

At the bottom of the policy "food chain" is the public. In conversations with taxi drivers, motel owners, restaurants workers, and others, I find that most people are pretty clear-eyed about their views of the tax and welfare systems. The main conclusions that I draw from these conversations are:

1. The social welfare and tax systems are still too complex and changed too often. Few people understand the systems and, when they finally do, the systems change.

2. If there were more “decent” well-paying jobs, the tax and social welfare issues would largely take care of themselves.

3. Politicians and government officials are out of touch with most ordinary people’s lives.

4. Tax and social welfare changes on the margin make very little difference to most people’s economic decision-making.

Conclusion

If one can take anything away from this distillation of six months’ worth of interviews, it is that there are few unifying principles found among any of these groups, and that it is probably time for New Zealanders to take a collective breath and decide what their priorities are for going forward. This is best expressed in an editorial from the Otago Daily Times from July 4, 1998:

> Courage and foresight are required from both voters and politicians, a nationalistic spirit easily found on the terraces of Carisbrook [the Dunedin rugby stadium], but notably lacking in our homes and offices, a commitment to sustain progressive and constructive policy programmes.[55]

CHAPTER 5: THE ANALYTIC FRAMEWORK

Programmatic Criteria

Stepping back from the debate over social security in New Zealand and what the various players think about it, it may be useful to think more generally about just what the purpose of social security is. Noted English economist Tony Atkinson, in *Incomes and the Welfare State* lays out five basic functions of a social security system:

1. Poverty relief;

2. Smoothing of income over the life cycle in relation to people's needs;

3. Provision of security against events, such as sickness, disability, unemployment or bereavement;

4. Redistribution towards those with dependants (normally children); and

5. Redistribution according to gender (and securing individual independence).[56]

Atkinson's is not the only way to look at the social welfare system,[57] and my point here is not to advocate for the particulars of an individual typology. However, there must be <u>some</u> explicit discussion of how a new programme will advance a set of policy objectives. Otherwise, programmatic change becomes simply a political exercise. [58]

One of the things that struck me as I learned more about the tax and social welfare systems in New Zealand is the fundamental paradigm shift that has occurred over time. The social safety net has evolved from more of a true safety net in its early days to a broad-based entitlement and now seemingly (with the exception of Superannuation) back again. There will be no true consensus on the future direction of social policy in New Zealand without an agreement on whether the system is designed to be a minimal safety net or a more broad-based entitlement.[59] Yet, this discussion does not seem to be happening in any meaningful way.

Design Criteria

In addition to the overarching criteria that Atkinson lays out, it is also useful to examine particular programmes to see how well they are designed to provide poverty relief. That is, even if a programme has a clear anti-poverty objective, it may still be ineffective in carrying out that objective if it is designed poorly. The following design criteria, taken from a book I co-authored with the late Steven Gold, *State Tax Relief for the Poor*, are a useful starting point for that analysis.[60] They are as follows:

1. The budgetary cost of the relief should be reasonable.

2. All or most of the benefits should go to the intended beneficiaries (vertical efficiency).

3. Among beneficiaries, the benefits should be distributed appropriately (horizontal efficiency).

4. All deserving people should be given at least some benefits (another form of horizontal efficiency).

5. There should be a minimal "notch" effect (i.e., there should not be a large difference in benefits between those in the programme and those that barely fail to qualify).[61]

6. Undesirable incentive effects should be avoided (e.g., discouraging work or savings).

7. The relief should not be expensive to administer.

8. The provisions should not be so complicated that many intended beneficiaries are discouraged from claiming benefits.

The Parental Tax Credit

An example of how this framework might apply can be seen using the Parental Tax Credit (PTC) as an example. As shown on Tables 2 and 3, the PTC is a $150 per week (for eight weeks) credit for low and moderate-income working parents. It does not apply to those not in work and it is only for parents of newborns. How then does it fare under Atkinson's or my criteria as an effective social welfare programme?

Taking Atkinson's more global criteria first, I would argue that the PTC only partially meets the criteria. It is not truly for poverty relief, as it applies only to working parents and has an income range up to $73,800 before it phases out.[62] A one-time payment of $1,200 does not really smooth income over one's life cycle relative to need. It does provide a modest amount of security against "events," if the birth of a child can be classified in such a way. It also does redistribute income towards those with dependants, but again only if they are working families. Finally, it does a little redistribution according to gender by giving working women the freedom to have children and lessening slightly the economic consequences.

Using my criteria, the PTC also falls short. Though the cost of the programme is reasonable ($30 million out of a $42 billion budget), the programme fails badly on the targeting criteria because it is does not give all deserving people (both in and out of work) some benefit nor does it provide benefits equitably among those in work. Even though the PTC has been designed to avoid some of the notch effects by a somewhat gradual abatement regime, it has added to the overall complexity of the Family Credits, as shown in Table 9, so that it may discourage people from applying if they were previously not getting one of the credits.[63] Though the PTC theoretically encourages people to continue to work in order to receive the benefit, given its relatively small size, I would argue that it will have little impact on most new parents' decision to keep working or not.

Table 9 - Family Assistance Thresholds

	Threshold where Family Support + Child Tax credits disappear	Threshold where Parental Tax credit extinguished
One child • newborn	33,500	37,500
Two children • newborn and 5 years	41,700	45,700
Three children • newborn, 3 and 8 years	49,800	53,800
Four children • newborn, 3, 9 and 14 years	58,000	62,000
Five children • newborn, 4, 8, 13 and 17 years	69,800	73,800

Source: New Zealand Treasury

Finally, a word should be said about administrative issues. While it may at some point be desirable to have a fundamental rethinking of whether the current set-up of the tax system is indeed the best one, at this point, credits like the PTC go directly against the philosophy of low compliance costs both for the individual and for the IRD. In point of fact, fewer people are filing tax returns. As mentioned in Chapter 3, the tax system's primary objective is to raise revenue with minimum economic cost, while meeting the Government's equity objectives. To meet this objective the tax system has two major design features. First, it emphasises simplicity and efficiency and thus has few exemptions or rebates, relatively low marginal tax rates, and a broad tax base. Second, the tax system does not require everyone to file a return (particularly low-income and middle-income earners). The introduction of new tax assistance such as the PTC reverses this move to simplicity, with new taxpayers required to file a tax return.[64] People who do not already file tax returns would require a new point of contact with government agencies when they apply for a new tax credit such as the PTC.

Conclusion

Social welfare can be provided through either the tax or social welfare systems; however, as in the case of the Parental Tax Credit, programmes that are not well thought out from either a policy or design perspective will undermine the value of the system as a whole. While there are obviously political and budgetary considerations involved in the passage of any social welfare legislation, policy goals and implementation objectives need to be considered explicitly for any new programmes.

In addition to being a "partial failure",[65] the PTC is also perhaps an example of the "global failure" of the tax and welfare systems. That is, there seems little thought of how the two systems are or can be integrated with one another in an way that makes sense from the perspective of both the beneficiaries (e.g., economic <u>and</u> non-economic incentives) and the government and society (e.g., fiscal and administrative issues). Both Atkinson's and my criteria would need to be expanded to take more account of this global framework.[66]

CHAPTER 6: OTHER FACTORS TO CONSIDER

Introduction

As this fellowship evolved and I began to have a greater appreciation of the complexities of the social welfare system in New Zealand, there were some issues that I did not have the time or expertise to address in depth but wanted to include in this report as issues with a direct bearing on the success or failure of the social welfare system. They should be explored in greater depth in any further examination of this topic.

Welfare to Work Issues

One issue that struck me is the fixation here on work and its ability to solve the welfare "problem". As in the United States, New Zealand has focused its attention on work as the ultimate solution to welfare dependency. While much can be made of the value of work, given the current state of the New Zealand labour market, with generally low entry-level wages and limited opportunities for low-skilled workers, it is far from clear that work is ultimately "welfare" enhancing for everyone.

There has been some discussion by Keith Rankin and others about a universal basic income concept,[67] which would give all citizens a cash grant of some fixed amount but would increase taxes to pay for it. This latter feature has made it largely a "non-starter" in New Zealand and elsewhere. Although the concept has received little play in mainstream discussion, maybe it should, as an alternative way of thinking through the issue of poverty relief. The concept of a "demogrant", however small, might be worth thinking about as an alternative to the work-based system now in place.[68]

A related issue worthy of further analysis and research is the issue of family structure and its impact on how we think about tax and welfare assistance, particularly for sole mothers. Despite a recent increase, New Zealand has one of the lowest rates among the OECD countries of sole mother employment at 36%.[69] It also has the largest differential between the rate of employment for sole and partnered mothers (nearly 30 percentage points). Although recent government policies, such as work testing, expansion of childcare subsidies and increased free earning zones, have tried to encourage more sole mothers to work, the policy has been less successful for Maori and Pacific Island women, who tend to be younger, lower skilled and less urban.[70]

The New Zealand Labour Market

Part of the reason for the "success" of welfare reform in the U.S. is the fact that since the passage of the Temporary Assistance to Needy Families (TANF) legislation in 1996, the U.S. domestic economy has continued to grow at a rapid rate and absorb more workers. The work testing and time limits requirements have not been tested in the U.S. and will not be until it faces an economic downturn and higher unemployment.

Besides the issue of labour market growth, it is also important to think about the type of labour market growth and how it may affect people's transitions through the tax and benefit systems.

Specifically, much of the growth in the New Zealand labour market over the past decade has not been in full-time jobs, but rather in part-time or casual ones.[71] This change in type of job may reflect a changing view of employers from a long-term "investment" in employees to a shorter term, purely contractual relationship. The result of this part-time, casual labour market may be a class of workers that are permanently transitional.

Overall growth, the particular sectors of the market that grow, and the type of employment that is created all will, I believe, have an impact upon the transition for workers from total or partial dependence on the benefit system to true economic dependence.

CHAPTER 7: WHERE TO FROM HERE?

Introduction

This report has presented the results on my seven months "on the ground" in New Zealand and has attempted to give my honest opinion of where things stand in mid-1999. Yet, I would not feel as if the fellowship had really achieved its full benefit unless I left some suggestions for further work.

Evaluate, Evaluate, Evaluate!

The first suggestion of how to proceed from here is to stop and evaluate the current tax and social welfare regime before making any more major changes. I have found the lack of formal programme evaluation of the tax-benefit interface in New Zealand stunning. Although the analytic framework laid out in Chapter 5 may be a useful tool to begin to examine policy proposals, much more detailed longitudinal studies are necessary to give policy analysts, politicians, academics and the public some idea of whether any of the Government's tax and social welfare programmes have actually made a positive difference in people's lives. Given the current paucity of data and of good, well-rewarded analysis, it is nearly impossible to determine the effectiveness of many of these programmes.

Sit Down and Discuss

Even with good data and programme evaluation, it will be impossible to move forward until there are a common set of goals and objectives among the players. One of the social workers I spoke with said that he thought that what was missing in the tax and social welfare debate was the "Kiwi way". Asked what he meant by this, he explained that it was getting a bunch of people with different perspectives to sit down at a table, close the door and hammer out an agreement as to the way forward. Others have also identified the lack of a common set of goals and objectives as one of the reasons for piecemeal policymaking and "marshmallow" debates in Parliament.[72]

Independent commissions such as the Super 2000 Task Force can in theory be useful tools for coalescing debate around a common set of goals and objectives. However, as was seen with the 1986 Royal Commission, when there is not the will to co-operate and work together, commissions can be a waste of time and resources.

Possible Policy Alternatives

Notwithstanding the comment above about the need to evaluate before making further changes, I include here some policy changes that may be worth considering or instituting on a trial basis to see what impact they may have on improving welfare in New Zealand.

Increase the Financial Incentives to Work?

The first set of programmes are those that increase financial incentives for working. One possible change is the expansion of the employment subsidy regime along the lines of the U.S. Earned Income Tax Credit (EITC) or the U.K. Working Family Tax Credit (WFTC). While the current Child Tax Credit is similar in many respects to these programmes, there are two notable differences that make them potentially more powerful in improving the lot of the low-wage worker. The first is the phasing in of benefits for work as found in the EITC. That is, at the lower end of the earned income scale, the amount of the EITC increases as wages increase, so that there is a real incentive to increase work effort. The EITC also has a fairly long "tail" where benefits phase out, so that any notch effects are fairly muted.

The second feature is an interesting aspect of the WFTC credit which might be worth adopting or piloting in New Zealand, a "hold-harmless" feature that allows a recipient to get the credit for a six-month period, even if he/she stops working during the period. This helps ease some of the risk averseness that many new job entrants have to losing jobs and risking income loss before they return to the benefit rolls. While this feature can obviously result in some gaming behaviour, where recipients will take jobs and leave them once they have received the WFTC, the work incentive effect may be worth it.

If we evaluate the two foreign programmes against the criteria in Chapter 5, we see that they do pretty well. Using Atkinson's general criteria for poverty relief programmes, we see that both programmes do provide poverty relief (at least to those who work). They also redistribute income to people with children and somewhat according to gender.[73] Both programmes do fairly well under my design criteria as well, particularly with respect to incentivising work,[74] having reasonable budgetary and administrative costs and benefit targeting.[75] The "cons" of both programmes are the typical ones for a tax credit programme: high error and fraud rates (caused by post-hoc auditing), discrimination against those without dependants, a work disincentive in the phase-out range (particularly for second earners), and a marriage penalty for two-earner couples.[76]

Two other financial incentives are also worth mentioning briefly - increasing the minimum wage and instituting a tax-free threshold for earnings. Both of these policies have advocates[77] and detractors.[78] From a tax design perspective (and not a labour market one), I think that neither policy is sufficiently effective at targeting the marginal worker to make it a useful tool. That is, while these policies may be of some benefit for the person trying to cross the threshold into independence from the social welfare system, they tend to benefit everyone who happens to working (e.g., dependant students, secondary earners, etc.), rather than helping only those in need.

Test Whether More Generous Financial and Non-Financial Assistance Works?

A related set of possible policy changes would be to pilot an increase in overall assistance to beneficiaries to see what changes would encourage less dependency. Programmes such as the COMPASS (in New Zealand),[79] JET (in Australia),[80] or SSP (Canada)[81] are all examples of experimental pilots that test what types of financial and non-financial assistance promote independence.

Institute Time Limits for Certain Benefits?

The cornerstone of the new welfare reform initiatives in the U.S. is the notion of time-limited benefits.[82] In addition, most U.S. unemployment insurance programmes have a time limit on them as well.[83] Can a case be made for time limits in New Zealand?

Julian King of the Social Policy Agency studied unemployment benefit time limits in other OECD countries and came to the conclusion that, despite evidence from the U.S. and Sweden that time limits do encourage job-seeking behaviour and limit the length of time on unemployment, he could make no such claim that it would have the same effect in New Zealand.[84]

Nevertheless, the new work requirements in the Community Wage and DPB programmes mandates some form of work activity to be undertaken as a prerequisite for benefit receipt. Although not time limits per se, these requirements do send some of the same behavioural cues as time limits.[85]

Simplify Benefit Programmes to Make Trade-Offs More Transparent?

The final suggestion for possible programme reform is to make the benefit system much simpler. Without rehashing the entire debate over targeting or universality,[86] it is clear that many low-income New Zealanders are mystified by the complexity of the interface between the current tax and benefit systems. The multiplicity of brochures at any WINZ office testifies to just how many different programmes there are.

While the current system of targeting benefits has evolved over the course of time, it may be appropriate to take a step back to ask what this system has achieved and at what cost. It may be appropriate to give up some of the perceived efficiency and equity gains and rethink just how complex a social welfare system a country with 3.8 million people should really have.

BIBLIOGRAPHY

Articles, Books and Government Documents

Acs, G. *Does Work Pay? An Analysis of the Work Incentives under TANF*. Washington: The Urban Institute, 1998.

Alstott, A. L. "The Earned Income Tax Credit and the Limitations of Tax-Based Welfare Reform". *Harvard Law Review* volume 108 (1995): pp. 533-592.

Ashton, P. "The Working Families Tax Credit: A Reform Worth Having?" *Quarterly Economic Bulletin* volume 19 (1998): pp. 23-32.

Atkinson, A. B. *Incomes and the Welfare State - Essays on Britain and Europe.* Cambridge: Cambridge University Press, 1995.

Barr, N. *The Economics of the Welfare State.* Stanford: Stanford University Press, 1998.

Barr, N. *Fundamentals of Social Security Analysis*. Unpublished lecture given at R.I. Downing Lecture. Melbourne University, 1999.

Becker, G. S. "Guess What? Welfare Reform Works". *Business Week* (May 24, 1999): p.12.

Blank, R. M., Card, D. and Robins, P. K. *Financial Incentives for Increasing Work and Income Among Low-Income Families*. Cambridge, Massachusetts: National Bureau of Economic Research, 1999.

Boston, J., Dalziel, P. and St. John, S., eds. *Redesigning the Welfare State in New Zealand: Problems, Policies and Prospects*. Auckland: Oxford University Press, 1999.

Bradshaw, J. et al. *Policy and the Employment of Lone Parents in 20 Countries.* West Yorkshire, England: University of York, Social Policy Research Unit, 1996.

Eissa, N. and Hoynes, H. W. *The Earned Income Tax Credit and The Labor Supply of Married Couples.* Cambridge, Massachusetts: National Bureau of Economic Research, 1998.

Ellwood, D., *The Impact of the Earned Income Tax Credit and Other Social Policy Changes on Work and Marriage in the United States*. Unpublished lecture given at the Conference on "Income Support, Labour Markets and Behaviour: A Research Agenda." Canberra: Australian National University, 1998.

Gold, S. D. and Liebschutz, D. S. *State Tax Relief for the Poor*. Albany, New York: Rockefeller Institute of Government, 1996.

Goodger, K. and Larose, P. *Changing Expectations: Sole Parents and Employment in New Zealand*. Unpublished lecture given at the 6th Australian Institute of Family Studies Conference. Melbourne: 1998.

Green, D. *From Welfare State to Civil Society: Towards Welfare Reform that Works in New Zealand.* Wellington: New Zealand Business Roundtable, 1996.

Houghton, R., Nelson, D. and Niblock, S. *Our Lives in Their Hands - Looking at Life on a Benefit*. Dunedin: Anglican Methodist Family Care Centre, 1998.

Howie, C., and Ramsey, C. *The Reforms: Riding the Rollercoaster: A Summary of New Zealand's Economic and Social Reforms, 1984-1998.* Dunedin: Otago Daily Times, 1998.

Keating, M. and Lambert, S. *From Welfare to Work: Improving the Interface of Tax and Social Security* (*NATSEM Discussion Paper #35)*. Canberra: National Centre for Social and Economic Modelling, Faculty of Management, University of Canberra, 1998.

Meadows, P. "The Working Families Tax Credit". *National Institute Economic Review* (1998): pp. 74-77.

McClure, M. *A Civilised Community - A History of Social Security in New Zealand 1898-1998*. Auckland: Auckland University Press, 1998.

New Zealand Department of Social Welfare. *Rates of Income Tested Benefits and Allowances.* Wellington: Social Policy Agency, 1999.

New Zealand Now - Children. Wellington: Statistics New Zealand, 1998.

New Zealand Now - Income. Wellington: Statistics New Zealand, 1999.

Schmitdz, D. and Goodin, R. E. *Social Welfare and Individual Responsibility - For and Against*. New York: Cambridge University Press, 1998.

Shaw, A. et al. *Moving off Income Support: Barriers and Bridges*. London: Department of Social Security Research, 1996.

Stephens, R. J. "The Interaction and Co-ordination of Taxation and Expenditure Programmes". *Tax Conversations, A Guide to the Key Issues in the Tax Reform Debate*. Ed. R. Krever. London: Kluwer Law International, 1998.

Stephens, R. J. "Radical Tax Reform in New Zealand". *Fiscal Studies*, volume 14, no. 3 (1993): pp. 45-63.

Walker, R. and Wiseman, M. "The Possibility of a British Earned Income Tax Credit". *Fiscal Studies*, volume 18, no. 4 (1997): pp. 401-25.

Interviews, Meetings & Presentations[87]

Arthur Grimes, Director, Institute for Policy Studies, Victoria University of Wellington, April 30, 1999

Campbell Roberts, Director, Salvation Army, Christchurch, June 18, 1999

Canterbury University, Economics Department, Christchurch, June 18, 1999

Catherine Goodyear, Director, Anglican Methodist Family Care Centre, Dunedin, May 14, 1999

David Card, Professor, University of California (Berkeley), (visit to New Zealand), May 12, 1999

Derek Gill, State Services Commission, February 15, 1999

George Barker, Law and Economics Consulting Group, March 5, 1999

Inland Revenue Department, Social Policy Group, February 23, 1999

John Yeabsley, New Zealand Institute for Economic Research, March 8, 1999

Labour Market Policy Group, Department of Labour, various meetings

Mark Prebble, Department of Prime Minister and Cabinet, February 23, 1999

Massey University, Economics Department, March 15, 1999

Michael Cullen, Labour Party, Deputy Leader, April 27, 1999

Michael O'Brien, Social Policy Faculty, Massey University (Albany Campus), Auckland, March 22, 1999

Ministry of Women's Affairs, Policy Staff, various meetings

Nicholas Barr, London School of Economics (visit to New Zealand), April 27, 1999

Otago University, Economics Department, Dunedin, May 14, 1999

Pattrick Smellie, National Affairs Editor, *Sunday Star Times*, various meetings

Peter Browning, Baptist Social Services, Auckland, March 22, 1999

Peter Harris, Council of Trade Unions, March 16, 1999

Robert McLeod, Arthur Andersen, March 25, 1999

Roger Kerr, Executive Director, New Zealand Business Roundtable, March 11, 1999

Ross Tanner, States Services Commission, February 23, 1999

Social Policy Agency, Research Staff, January 27, 1999

Stephanie McIntyre, Anglican Social Justice Ministry, March 16, 1999

Susan St. John, Senior Lecturer, Economics Faculty, University of Auckland,
March 23, 1999 (meeting and presentation)

Tax-Benefit Group, The Treasury, various meetings

Thalia Wright, New Zealand Council of Christian Social Services, June 4, 1999

Tony Gavin, Work and Income New Zealand, April 23, 1999

Victoria University of Wellington, Commerce Faculty and Students, various meetings and presentations

Notes

---

[1] Leviticus 23:22
[2] See e.g., Margaret McClure, *A Civilised Community* (Auckland: Auckland University Press, 1998); Jonathan Boston, Paul Dalziel and Susan St. John, eds., *Redesigning the Welfare State in New Zealand: Problems, Policies and Prospects* (Auckland: Oxford University Press, 1999); Alan Bollard, Ralph Lattimore, and Brian Silverstone, eds., *A Study of Economic Reform - the Case of New Zealand* (Amsterdam: Elsevier Science C.V., 1996); and Robert J. Stephens, "Radical Tax Reform in New Zealand", *Fiscal Studies*, volume 14 (1993).
[3] Social security in this report will refer to the broader concept of social welfare programmes, not simply pension programmes.
[4] McClure, p. 164.
[5] McClure, p. 171.
[6] The DPB is a programme that is largely for sole parents, although it can be used to care for the elderly as well.
[7] See Helen Bain, "Dpb 'shouldn't be a lifestyle choice' ", *The Dominion* (June 4, 1999): p. 2.
[8] McClure, p. 202.
[9] McClure, p. 212.
[10] This programme was designed to create a margin between earnings and benefit receipt
[11] It should be noted that New Zealand's share market, unlike the U.S. and many other world share markets, has not yet recovered to its pre-crash levels (partly due to calculation of stock value as ex-dividend).
[12] According to the Household Labour Force Survey (HLFS), the number of unemployed, both full-time and part-time, increased from 64,000 in 1987 to its peak in 1992 of 172,900. Statistics New Zealand, *Labour Market Statistics - 1998*, (taken from the Statistics New Zealand web site [http://www.stats.govt.nz] on July 30, 1999).
[13] McClure, p. 226.
[14] Although the rate structure was simplified and the base greatly broadened, the flat tax plan itself failed, due in part to its proposed cut in social spending.
[15] McClure, p. 223.
[16] McClure, p. 238.
[17] Some estimate the increase at ten-fold. Houghton, p. iii. Some in Government argued that the increase in the demand for food parcels was due to adjustment problems or poor budgeting on behalf of beneficiaries.
[18] Since 1938, there had always been a work-testing requirement, but in reality it did not begin to be enforced until 1991.
[19] The package could also be seen to be an inflation adjustment from the 1986 levels.
[20] *New Zealand Now- Incomes,* (Wellington: Statistics New Zealand, 1999) p. 22.
[21] Using Household Equivalent Disposable Income, the Gini was .253 in 1986 and .331 in 1997 (Incomes, p. 100). This compares to .306 in Australia (1994) and .344 in the U.S. (1995) (Incomes, p. 94).
[22] *New Zealand Now - Incomes,* pp. 85 et seq.
[23] Because of their much larger numbers, two-parent households still predominate in terms of total numbers in poverty.
[24] *New Zealand Now - Children,* (Wellington: Statistics New Zealand, 1999) p. 60.
[25] *Ibid.*
[26] According to the 1999-2000 Budget, of total tax revenues of $33.6 billion, the income tax will generate $15.6 billion, the GST will generate $8.6 billion, and the company (business) tax $4.3 billion.
[27] The credits are reduced by 18 cents on the dollar of annual family income between $20,000 and $27,000 and by 30 cents on the dollar of annual family income above $27,000.
[28] Tables 2-9 come from Deirdre Ross, *The New Zealand Tax And Benefit System,* Unpublished New Zealand Treasury Report, 23 June 1999. This report uses material from the 1999-2000 New Zealand Budget, from the Inland Revenue Department and from the Household Economic Survey.
[29] As discussed elsewhere in this report, there are several other factors that influence the decision whether or not to take up work: entitlement rules, the state of the economy and the labour market structure.
[30]These EMTR calculations do not account for the abatement of the Community Services Card, Childcare Subsidy or student loan programmes. The "Other" category includes both lower and higher

[31] Levy for the Accident Compensation Corporation - the New Zealand accident reimbursement programme.
[32] These calculations are for sole parents 18 and older with 1 or 2 children and eligible for Domestic Purposes Benefit. It also assumes that the parent must pay for childcare. With no childcare costs, the replacement rates are lower.
[33] A. Shaw, et al, *Moving off Income Support: Barriers and Bridges* (London: Department of Social Security Research, 1996).
[34] Shaw, p.152-55.
[35] HES is the Household Economic Survey, and TAXMOD is Treasury's modified version of it.
[36] FIRST is the Inland Revenue Department's database of taxpayers.
[37] SWIFTT is the Department of Social Welfare's database of beneficiaries.
[38] HLFS is the Household Labour Force Survey put out by Statistics New Zealand. It tracks employment.
[39] The Mixed Member Proportional system was adopted in 1996. It gives voters two votes -one for a party and one for a specific member of parliament. In New Zealand, the practical result of the system is to put a limit on the power of the largest parties in Parliament and to encourage coalition building with the smaller minority partners.
[40] In theory, this may differ based on the particular issues involved, but in practice will normally be with the same group.
[41] Five years, with one possible renewal of three years.
[42] The seven points are: create better jobs, cut the cost of tertiary education, reduce waiting times in the public health service, reverse cuts in Superannuation, restore income related rents for state housing, crack down on burglary and youth crime, and raise taxes on those earning over $60,000 (to pay for the other six points).
[43] Besides reconciling its two fundamental missions, WINZ has had to implement the Community Wage scheme.
[44] In addition to the lack of data, another problem is that the three major data sets that would be used for analysis are largely incompatible. That is, the IRD data (FIRST) are based on individual taxpayer records over time, the DSW data (SWIFTT) are based on beneficiary data over time (which includes both families and individuals), and the HES/TAXMOD data are based on a sample of households on a one-off basis (not over time). While there is some work being done by Statistics New Zealand to create compatibility among the databases, without a fundamental shift in policy, full-scale compatibility is unlikely to occur in any major way.
[45] The current welfare reform process in the U.S. has benefited from such job growth, although many analysts have warned that when the U.S. has an economic slowdown, the time limits and welfare benefit reductions found in the new programme (TANF - Temporary Assistance for Needy Families) will be tested.
[46] More money for beneficiaries would mean more funding for their own operations.
[47] Obviously, a full-time well-paying job provides certainty and economic security, but many new job entrants do not get full-time or well-paying jobs.
[48] A process whereby the full deliberative legislative channels were bypassed and the legislation moved quickly through Parliament.
[49] R. Houghton, D. Nelson, and S. Niblock, *Our Lives in Their Hands - Looking at Life on a Benefit* (Dunedin: Anglican Methodist Family Care Centre, 1998), p. 88.
[50] Auckland, Canterbury, Massey, Otago and Victoria.
[51] Senior faculty are paid about half of what comparable faculty are paid in the U.S.
[52] Krista Hunter, "Benefit Payout Raises Hackles," *Timaru Herald* (April 20, 1999), p. 1.
[53] See Matthew Brockett, "IRD Worker Wore Clients' Suicides As 'Badge Of Pride,' " *The Dominion*, (June 17, 1999) p. 13.
[54] The American popular press has the same predilections, but given how much larger the press is, there is more room for thoughtful discussion of the issues.
[55] C. Howie and C. Ramsey, *The Reforms: Riding the Rollercoaster: A Summary of New Zealand's Economic and Social Reforms, 1984-1998*, (Dunedin: Otago Daily Times, 1998) p. 85.
[56] Atkinson, A. B., *Incomes and the Welfare State - Essays on Britain and Europe, (*Cambridge: Cambridge University Press, 1995) p. 225.
[57] For example, Nicholas Barr gives five objectives for effective social security policy: efficiency, supporting living standards, reducing inequality, social integration, and administrative feasibility. N. Barr, *The Economics of the Welfare State, (*Stanford: Stanford University Press, 1998) pp. 9-11.

[58] Clearly, political aims are their own objective; however, political objectives by themselves seldom serve the long-term interests of the people.
[59] Another related issue is the idea of a short-term fiscal constraint versus a long-term investment in human capital.
[60] S. D. Gold and D.S. Liebschutz, *State Tax Relief for the Poor*, (Albany, New York: Rockefeller Institute of Government, 1996) pp. 19-20.
[61] This is another way of expressing vertical equity concerns.
[62] Arguably this could limit the number of working people having children to take advantage of the credit, but I think that it is unlikely to do so.
[63] It is estimated that 26,000 people will be eligible for the PTC, of which only 3,000 are newly eligible for a tax benefit. This represents less than two percent of all families in New Zealand.
[64] Even though this only represents about 12 percent of the total applicants (3,000 out of 26,000), it still reverses the policy direction.
[65] Partial failure is looking at the programme in isolation.
[66] Perhaps a criterion such as how well does it work with the existing system would be added.
[67] Keith Rankin, "A New Fiscal Contract? Constructing a Universal Basic Income and a Social Wage," *Social Policy Journal of New Zealand*, (Wellington: Social Policy Agency, 1997) pp. 55-65.
[68] See also, Anne Alstott, "Work vs. Freedom: A Liberal Challenge to Employment Subsidies", *Yale Law Journal* (volume 108, 1999), pp. 967-1058.
[69] K. Goodger and P. Larose, *Changing Expectations: Sole Parents and Employment in New Zealand,* Unpublished lecture given at the 6th Australian Institute of Family Studies Conference, Melbourne: 1998, p. 5.
[70] Ibid, p. 14.
[71] According to the 1996 New Zealand Census, "The biggest growth in employment since the 1991 Census has been in part-time work. Some 55.9 percent of the inter-censal growth in employment came from a growth in part-time employment - those usually working less than 30 hours per week. Part-time employment stood at 378,048 at the 1996 Census, up 51.7 percent or 128,844 since the 1991 Census. In comparison, full-time work increased by 8.8 percent or 101,568 to reach 1,252,764 over the same period." Statistics New Zealand, *Employment and Unemployment 1996 Census of Population and Dwellings*, Highlights. Taken from http://www.stats.govt.nz (visited July 29, 1999)
[72] The MMP system may tend to exaggerate this phenomenon.
[73] The EITC also has a programme for childless individuals and couples, but it is quite small.
[74] The EITC is better at this than the WFTC because of the ramp up of benefits shown in Figure A.
[75] Gold and Liebschutz, pp. 62-63.
[76] D. Ellwood, *The Impact of the Earned Income Tax Credit and Other Social Policy Changes on Work and Marriage in the United States*. Unpublished lecture given at the Conference on "Income Support, Labour Markets and Behaviour: A Research Agenda," (Canberra: Australian National University, 1998), pp. 1-2.
[77] See e.g., Tim Hazeldine, "You Can't Treat Workers Like Dead Fish," *New Zealand Herald*, December 20, 1996.
[78] See e.g., Tim Maloney, "Rise in Minimum Wage Could Hit Young People," *New Zealand Herald,* February 17, 1997.
[79] For further explanation of this programme, see Mick Rochford, "Evaluation of the COMPASS Pilot Programme," *Social Policy Journal of New Zealand* (Wellington: Social Policy Agency, 1994), pp. 163-172.
[80] For further explanation of this programme, see A. Nixon et al, "Facilitation of Sole Parents into Paid Work," *Social Policy Journal of New Zealand* (Wellington: Social Policy Agency, 1994), pp. 71-2.
[81] For further explanation of this programme, see R. M. Blank, D. Card, and P.K. Robins, *Financial Incentives for Increasing Work and Income Among Low-Income Families* (Cambridge, Massachusetts: National Bureau of Economic Research, 1999), p. 13.
[82] In the case of the federal TANF legislation, time limits are two years at a time and five years over a lifetime. States may have their own rules.
[83] Generally, twenty-six weeks for the first spell of unemployment and twenty-six weeks for a subsequent spell.
[84] J. King, "A Time Limit for the Dole," *Social Policy Journal of New Zealand* (Wellington: Social Policy Agency, 1996), p. 105.
[85] That is, encourage people to look for jobs at the time of their "re-upping" for benefits.

[86] See e.g., J. Boston and S. St. John, "Targeting Versus Universality: Social Assistance for All or Just the Poor," in J. Boston, P. Dalziel, and S. St. John, eds. *Redesigning the Welfare State in New Zealand: Problems, Policies and Prospects*. (Auckland: Oxford University Press, 1999), pp. 93-113.

[87] All of these interviews, meetings and presentations took place in Wellington, unless otherwise noted.