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PRESERVATION

RATIONALES FOR INCOME SUPPORT

A Paper Prepared for the Royal Commission on Social Policy

Department of Social Welfare

4 December 1987

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## TABLE OF CONTENTS

	Paragraphs
INTRODUCTION	1-12
PART I: THE FRAMEWORK FOR ANALYSIS	
Introduction	13
The Framework Outlined	14-16
Definitions	17
The Uses and Limitations of the Framework	18-22
PART II: RATIONALES OF INCOME SUPPORT PROVISIONS	
Introduction	23-29
Unemployment Benefit	30-32
Sickness and Invalids' Benefit	33-34
Provisions for Widows and Other Solo Parents	35-40
Provisions for the Aged	41-51
Assistance to Families with Dependent Children	52-60
PART III: THE FRAMEWORK IN DETAIL	
Introduction	61
Social, Political and Economic Principles	
Underlying the Income Support System	62-65
- Social	66-85
- Political	86-92
- Economic	93-119
Social, Political and Economic Constraints	120-135
Objectives of the Income Support System	136-140
Operational Guidelines for the Income Support System	141-146
PART IV: A SCENARIO FOR REFORM	
Introduction	147-149
Rationales for Reform	150-178
A Sketch of Specific Provisions	179-197

## INTRODUCTION

- 1 New Zealand's current income support system is an aggregate of particular provisions brought into existence through legislation. The legislation provides a statutory basis for expenditure and defines entitlements. It does not, in any specific or comprehensive way, specify the objectives intended to be achieved through the provisions, nor the general principles underlying them, nor the rationales for their taking the particular form which they do.
- 2 Information on these matters does exist. However, it is seldom definitive and it is scattered over many sources, including records of parliamentary debates, election manifestos, public statements by government ministers, publications and reports of government departments, and public statements by departmental officials. Furthermore, particular enactments are made in the context of a general income support tradition whose sources are broader still, having been influenced by judgements about the appropriateness and effectiveness of previous income support policies, by social, religious, cultural and ideological values, by the writings of philosophers and academics, and by popular attitudes and beliefs. To formulate a statement of objectives, principles and rationales is not straightforward. It involves gathering information from many sources and subjecting it to analysis which is necessarily speculative at some points, not least because inferences have to be drawn about the goals of persons whose actions are a matter of public record but whose beliefs and intentions are not.
- 3 It is not improper for legislation to lack a statement of its objectives and principles. Parliament may make whatever enactments it wishes, for whatever purposes, provided they comply with procedural and constitutional requirements. However, the lack of a specification of objectives and principles will almost always be a serious impediment to the evaluation of the policies of which legislation is an expression. Those responsible for developing and implementing policy are acting in the dark if (to put the point crudely) they do not know what the policy is for.
- 4 The present paper, The Rationales for Income Support, grows out of an effort being made within the Department of Social Welfare to formulate a Departmental position on the objectives and principles appropriate to income support in New Zealand over the longer term (by which is meant the next two or three decades, rather than the next two or three years). Unfortunately, it has not been possible to advance progress on that exercise to the extent of finishing it by the deadline which the Royal Commission on Social Policy has given the Department for any submission it wishes to make on income maintenance objectives and related matters.
- 5 The Department's effort has developed to the stage of its having made a review of the commonly-asserted objectives of income support and principles which shape income support policies and guide the administration of delivery systems. The review provides what is, in effect, a menu of possible objectives and principles. It has the ambition of seeking to be comprehensive; it is intended to include

all objectives and principles which can make serious claim to providing a framework for future policy. The present paper does not make any submission on which objectives and principles should be adopted.

6 The specific coverage of the paper is as follows:

- it sets out an analytical framework for examining income support objectives and principles (Part I)
- it reviews the rationales which have been given or may be inferred for the current income support provisions, drawing attention to the diversity and complexity of the purposes which have been pursued (Part II)
- it sets out a "menu" of possible objectives and principles on which income support might be based, pointing to some of the policy implications of giving more or less weight to certain of them (Part III)
- it sketches out one possible direction of development as a device for giving a focus to any examination of the broad direction which future income support policy might take (Part IV).

7 The scenario does not represent a "Departmental position". It has been included because the Department has found it a useful device in focusing its own thinking, and hopes that it will prove similarly useful to the Royal Commission.

8 The preceding comments have been directed towards explaining the background and status of the paper. The remainder of this introduction will be given over to some brief observations about the issues traversed.

9 The purpose of an income support system might at first seem simple and obvious: to ensure that no one is in poverty; to meet the basic needs of individuals and families when they are unable to do so themselves; or to provide some security of income. The simplicity is deceptive. What do we take to be poverty? When are individuals deemed unable to provide for themselves? How does income security fit with obligations to be self reliant?

10 A great many answers have been given to these and similar questions. They are part of the arguments which ebb and flow about why certain provisions are as they are, about what reforms might be made. The arguments appeal to history ("this is how we do things in New Zealand"), to principles ("we have a collective responsibility as members of society to meet these needs"), to objectives ("the benefit system is supposed to provide this support"), and to notions of contribution and obligation ("I've paid my taxes so I am entitled to something back"). We have used the term rationale to denote these justifications for what we do, or what we might do.

- 11 For the purposes of this paper, the statutory income support system has been taken to be the range of benefits, pensions, superannuation payments, grants and subsidies paid to individuals and families by the Department of Social Welfare and the tax credits paid under Family Support and the Guaranteed Minimum Family Income by the Department of Inland Revenue. It is important to recognise, however, that the statutory income support system is only one part of the arrangements which are made to meet needs when the normal sources of income for an individual or family fail. People make private provision, for example, through insurance or superannuation. The state supports such endeavours by providing tax concessions. In addition there are occupational welfare arrangements the most extensive being the provision of sick leave and employer contributions to superannuation schemes. This paper does not give attention to the relationship between the statutory income support system and private and occupational provisions.
  
- 12 In this paper an effort is made to maintain an awareness of issues which arise from accepting a bicultural ideal. Some of the proposals made are specifically intended to stimulate further exploration of how that ideal might be expressed in income support provisions. However, the paper is not itself a product of a bicultural process.

## PART I: THE FRAMEWORK FOR ANALYSIS

### INTRODUCTION

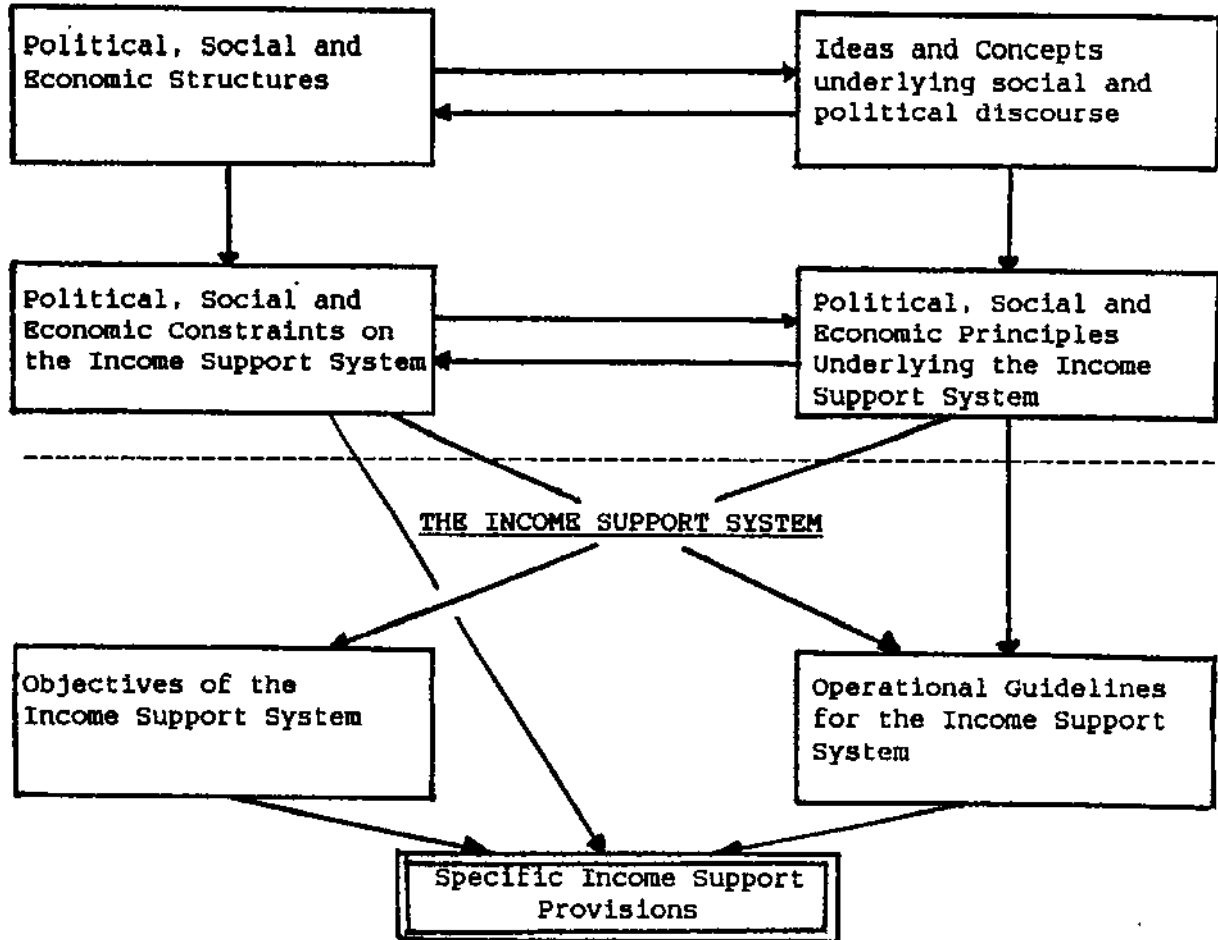
- 13 Current income support provisions in New Zealand are complex. Payments are made through an array of benefits, pensions, supplements, grants, credits and concessions which defies easy description. It is remarkably difficult to be certain when we try to discover why any particular provision is the way it is. Clear objectives and principles prove elusive in the midst of often conflicting rationales (justifications). The complexity reflects the nature of the objectives the system has been given and of the principles on which it is founded. Part I provides a conceptual framework and precise definitions as an aid to exploring the terrain.

### THE FRAMEWORK OUTLINED

- 14 The various benefits, grants etc are the visible part of an income support system. The system has three components: specific provisions; objectives - the outcomes which it is hoped to achieve through the system; and operational guidelines - the rules which govern the design and operation of the system.
- 15 The income support system is set within a political, social and economic environment. The influences on the income support system from that environment are twofold:
- (i) those which arise in the realm of ideas and concepts about what should be possible rather than what is possible, and about human motivation. Such influences are here called the underlying principles of the income support system. They have their basis in beliefs about economic, social and political arrangements.
  - (ii) constraints which either are a direct consequence of political, social and economic structures (for example, the need for governments to maintain electoral support, the age structure of the population, the presence of diverse cultural groups, and the productive capacity of the economy), or are implied by the political, social and economic principles underlying the system (for example, the principle of individual freedom limits the power of administrators to determine how assistance is provided).

16 The framework is depicted in the schema below. In the real world, all parts of the system interact; for example, the income support system will have an influence on institutions, ideas and behaviour. However, the schema emphasises the particular directions of influence discussed in this paper.

THE ENVIRONMENT OF THE INCOME SUPPORT SYSTEM



DEFINITIONS

17 The elements of the framework are defined more formally below; the definitions are used throughout this paper.



### Income Support System

The system of benefits, pensions, grants and tax credits operated by the state to distribute cash assistance (or reduce taxation) to individuals or families in order to increase their net income.

### Objectives of the Income Support System

The aims of the income support system specified in terms of outcomes for those receiving assistance.

*Example: To prevent poverty.*

### Operational Guidelines of the Income Support System

General rules which guide the design and functioning of the income support system.

*Example: Eligibility should be based on need.*

### Underlying Principles of the Income Support System

Fundamental propositions concerning political, economic, or social arrangements which significantly affect the income support system.

*Example: All individuals should be self-reliant to the best of their ability and primarily responsible for their own welfare.*

### Political, Social and Economic Constraints

Limitations on the degree to which objectives can be reached, and which are consequences of political, social and economic structures, or of principles underlying the system.

*Examples: The needs of electoral politics, the age structure of the population, and the productive capacity of the economy.*

## THE USES AND LIMITATIONS OF THE FRAMEWORK

- 18 The framework is one way of conceptualising the bases of many of the rationales given for statutory income support systems, and of categorising the various influences on policy making. It also provides a way of distinguishing the operational guidelines which might be adopted from the objectives we might want to achieve, and of specifying a normative income support system based on some underlying principles.
- 19 An alternative approach is to begin by formulating broad social objectives as a way to put some order on the realm of ideas. This paper proceeds by identifying underlying principles for two reasons. First, doing so makes explicit the value positions and assumptions rather than leaving them to be inferred from broad social objectives. Second, it is possible that the principles which might influence the income support system are a wider range of ideas and

concepts than those which can be derived from some set of broad social objectives. However, underlying principles can be related to broad social objectives. The "standards of a fair society" set down in the terms of reference of the Royal Commission on Social Policy can make some claim to being a current New Zealand statement of such objectives. They are used as a reference point in later discussions.

- 20 The framework can also be seen as a model for rational analysis of policy options according to underlying principles, income support system objectives and specific programme objectives. Such a model assumes the possibility of obtaining agreement on social policy objectives as a basis for policy formation, and of developing specific policies and programmes which are consistent with them.
- 21 We need to note arguments against such assumptions. First, some would argue that policy making is essentially a political process, the outcomes of which reflect the exercise of power by various interest groups. Appeals to principles and objectives are made as rationales for change, but they are subordinate to interest and power. Second, the utility of a search for an overall plan has been questioned, given the pace and extent of social change and the continuing likelihood that political opportunism will predominate in policy making. What is needed is flexible, evolving social policies, not grand plans. Third, the likelihood of reaching some agreement on broad social objectives at a level of specificity which allows them to be realised in programmes is, it is argued, unlikely. In addition, "Banner Goal" objectives (e.g. "To achieve a fair distribution of income") create a 'facade' of social policy consensus behind which irreconcilable positions on values and principles can be held without disabling any social policy initiatives. Attempts to explicate more specific objectives might be counter-productive.
- 22 These criticisms weight against any wholehearted espousal of rational model-building based on the framework as the answer to social policy dilemmas. They do not, however, invalidate an investigation of possible objectives, founded on and at times constrained by various principles. Such an analysis should allow us to identify the value positions which are inherent in any formulation of an income support system.

PART II: RATIONALES OF INCOME SUPPORT PROVISIONS IN NEW ZEALAND

INTRODUCTION

- 23 The purpose of the following discussion is to illustrate the way in which the rationales given for income support provisions appeal to a wide variety of what are here called objectives, operational guidelines, principles and constraints.
- 24 Over the last 90 years New Zealand has put in place a comprehensive system of income support with complex rules and criteria governing eligibility. The system exists, and there are some clear broad reasons why it exists. But when one tries to identify the rationale for particular provisions, it is often remarkably difficult to be precise.
- 25 This is partly because the system has grown and developed over nearly a century, so that provisions appropriate for one stage of the process have been carried forward to situations where they are less appropriate. It is also partly because legislation and explanatory material have tended to focus on the facts of provision, leaving the explanation to commentators. But it is perhaps mostly because provisions often fulfil a number of different purposes, and over time the emphasis given to each may change without any explicit justification.
- 26 When the present benefit structure was established under the Social Security Act of 1938, some clear statements were made concerning the rationale for the system. In particular the aim was said to be to provide for all those "in need". In introducing the Bill, Walter Nash, the Minister of Finance, made clear his view that need conferred a right to a claim on the resources of the country:

This Bill transfers, in the form of monetary benefits, to those who need it the right to demand a certain amount of existing production from those who would otherwise control it. (NZ Parliamentary Debates, 252: 324).

The Minister of Health, Mr Nordmeyer, was even more explicit about the responsibilities of the state for meeting needs:

We can spread the cost of disasters that would otherwise bring ruin to individual citizens. We have embarked on a comprehensive social security scheme embracing the needs of all those in the community whose need was great - a scheme that would provide adequate benefits for those who needed them most ... (NZPD, 252: 324).

- 27 The preamble to the 1938 Social Security Act indicated that "disabilities" giving rise to need were seen to derive from a range of circumstances: "age, sickness, widowhood, orphanhood, unemployment, or other exceptional circumstances". While need could be presumed to exist in certain specified categories of person,

it would also be recognised in others: comprehensive coverage of everyone in need was the aim. The first Labour Government, reacting against the austere treatment of many people in need during the Depression, played down the possibility of different degrees of deservingness. But the particular provisions of each benefit as they have developed since 1938, suggest that in 1987 some kinds of need are considered to confer a greater claim on the resources of the community than others. What is seen as an appropriate balance between individual, family and community responsibility for meeting need depends on how that need arose.

- 28 The 1972 Royal Commission on Social Security advanced the discussion of what a rationale based on "meeting need" might mean. In its discussion of the principles and aims of social security, the Commission stated:

Need, and the degree of need, should be the primary test and criterion of the help to be given (RCSS: 65).

However, the system should also aim to give people "a sense of participation in and belonging to the community". The Commission linked the definitions of "need" and "poverty", and claimed that they can be understood only in relation to accepted standards in a community at a particular time. "Poverty" and "adequacy of income maintenance" are described as relative and subjective concepts:

"Need" relates to the "adequacy" of income to give a "reasonable" standard of living compared to that enjoyed by most of the community (RCSS: 107).

- 29 It is common to hear appeal made to the concept of need as the rationale for a wide range of provisions. However, an examination of many present provisions, and of the arguments advanced for and against them, reveals not only the elasticity of the concept of need, but also the significance of other rationales. Such an examination also reveals multiple objectives and the appeal to a range of principles.

#### UNEMPLOYMENT BENEFIT

- 30 According to the 1972 Royal Commission, the unemployment benefit "aims to help people who are physically capable of work but who, through no fault of their own, are unable to find work" (RCSS: 291). Thus the main objective of unemployment benefit is to prevent poverty by providing some compensation for loss of income. However, the criteria for this benefit indicates appeal to particular principles and constraints, in particular a concern with both fiscal constraints and a desire to encourage independence and self reliance.

- 31 The 1972 Royal Commission pointed out that the number of people eligible for unemployment benefit depends on general economic circumstances. However, the particular provisions of the benefit recognise that people in this group have some ability to improve their situation. Self reliance is more strongly encouraged for this group than for others. For example:
- A person who leaves a job for an inadequate reason, refuses a suitable job, or fails to take steps to find employment, becomes ineligible for a period.
  - Entitlement is reduced for people with high earnings prior to becoming unemployed.
  - The rate of unemployment benefit is limited to the income lost through becoming unemployed.
  - Recipients without children receive a lower rate after tax than childless beneficiaries in other categories, suggesting some kind of weighing up of rationales: unemployed people should be encouraged to find work; but families with children must be kept out of poverty.
- 32 Unemployment benefit provisions also differ from those of other income tested benefits in including a greater expectation that families will take responsibility for young people. No benefit is payable to young people under 16 years, and a youth rate continues to age 20 (18 for other benefits). The main reason for these differences seems to be to encourage young people to enter the workforce and become economically independent. Another reason, also pointing to the desirability of self reliance in young people, is the existence of youth rates of pay in the labour market.

#### SICKNESS AND INVALIDS' BENEFITS

- 33 The basic rationale for both sickness and invalidity benefits is meeting need by compensating for loss of income. The sickness benefit is short term, and provides for those temporarily incapacitated from work; the invalids' benefit provides for those permanently incapacitated. Because the capacity of sick and invalided people to obtain paid work is less than that of unemployed people, some of the provisions of these benefits are less stringent. More generous provision is made for young people, for instance, through higher rates for 18-20 year olds, and in some cases eligibility at age 15.
- 34 Sickness and invalids' benefits are income tested except for blind people whose personal earnings are disregarded in assessing eligibility. The reasons for this different treatment are historical:

a pension for people who had lost their sight was introduced in 1924, while other permanently incapacitated people did not become eligible for assistance until 1936. The treatment of the blind reflects the idea that they should be encouraged to participate and belong in the community - a notion paralleled in current ideas of normalisation for severely disabled people.

#### PROVISIONS FOR WIDOWS AND OTHER SOLO PARENTS

- 35 The history of state provision for widows and other solo parents illustrates the way in which the rationale for financial support can change over time, as social conventions change. In this case conventions about proper roles of men and women within families have shaped changes in social security provisions.
- 36 Widows' pensions were introduced in 1911 to support widows "of sober habits and of good moral character" who were caring for children under 14 years old. The Act stated that pensions had to be used for the support of children. At that period it was not usual for mothers to engage in paid work: while women cared for home and family, men provided financial support. In the widows' pension the state recognised a responsibility to replace that support when a husband died. We can infer that the rationale for the pension was to prevent poverty in families with young children suffering the loss of the breadwinner, and to provide some compensation for the loss of his income.
- 37 The 1938 Social Security Act extended the (renamed) widows' benefit to include older widows who had raised a family but were no longer responsible for the care of dependent children. In doing so it confirmed and extended the assumptions about roles within families that were implicit in the widows' pension: not only mothers of dependent children, but women whose children were no longer dependent could be expected to be financially dependent on a male breadwinner. Provision for widows without dependent children conferred recognition of the contribution they had made to society by raising a family, and compensated them for loss of the opportunity to earn their own livelihood.

They had gone through the years and brought up four children or more; they ... could not go back into industry and were stranded completely ... She has lost the possibility, in most cases, of earning her own living. (Nash, NZPD, 252: 330)

- 38 By the 1970s solo parent families - including those headed by separated, divorced, deserted and unmarried women, as well as widows - had become much more numerous. Discretionary provision had been made in 1968 to ensure a stable income to women, with or without dependent children, who had lost the support of a husband or who were unmarried. The 1972 Royal Commission on Social Security recommended the establishment of a statutory benefit to provide for all kinds of women alone and solo parent families. It noted: "Surveys carried out in other countries reveal that solo-parent families, particularly fatherless families, face a high risk of poverty" (RCSS: 242). The

Royal Commission's recommendations were explicitly based on an assumption that most married women were financially dependent (RCSS: 270), and that male economic support of families was still the norm. The loss or absence of that support placed families at risk of poverty.

- 39 In spite of the Royal Commission's recommendations, the statutory domestic purposes benefit established by the 1973 Social Security Amendment Act explicitly excluded widows, for whom more generous provision was made through the widows' benefit. While this omission was made quite explicit when the Bill was introduced, the reasons were not. The Minister simply said provisions were "on a similar basis" to those for widows (N.J. King, NZPD, 386:3295, 3297). While the domestic purposes benefit is available in certain circumstances to older women without dependants, eligibility criteria are more stringent than for widows' benefit: widows can qualify for assistance at an earlier age. The small differences between the provisions of the widows benefit and the domestic purposes benefit appear to reflect a judgement by the community that solo parenthood arising from circumstances beyond control (death) give a stronger claim to assistance than solo parenthood which is "social or partly voluntary" in origin (Hanson, 1980: 136-137). Thus the rationale for these benefits reflects community attitudes and beliefs, as well as social circumstances.
- 40 Changes in both attitudes and social circumstances since the 1970s point to further developments. First, increasing tolerance of diversity in family relationships (for example, of de facto unions, of unmarried mothers, and of divorced and separated people) suggests that the reasons for distinguishing between widows and other solo parents are less compelling than they used to be. Secondly, increased labour force participation of women means an assumption of need resulting from loss of the male breadwinner is less valid. The Department of Social Welfare's 1987 Briefing Papers state the aim of the domestic purposes benefit as "to provide income support for people whose domestic responsibilities preclude them from full time paid employment, and who are otherwise unsupported." It could be asked whether the widows' benefit should aim for any more than this.

#### PROVISIONS FOR THE AGED

- 41 The Old Age Pension Act of 1898 stated,

It is equitable that deserving persons who during the prime of their life have helped to bear the public burdens of the colony by the payment of taxes, and to open up the resources by their labour and skill, should receive from the colony a pension in their old age.

Several elements in the rationale for an old age pension are alluded to here, and were recognised in the provisions of the pension. Merit, or deservingness, was ensured by restricting pensions to persons of good character. Contribution to the colony and "belonging"

were established through a residency test. Lack of income (or need) was established by a means test. These ideas - merit, contribution, belonging and need - have remained important justifications for provision for the aged.

42 The justification for support on the grounds of merit was repeated in 1938 at the introduction of what came to be called universal superannuation: the aged should not, it was asserted, be expected to undergo the demeaning processes of means testing (Report of Select Committee 1938). In 1976 the Minister of Social Welfare defended the universal provision of national superannuation at a level above other benefits on the grounds that "pensioners should not be placed in the degrading position [of being] forced to live on a small benefit" (NZPD, 407: 3425). One of his colleagues argued in debates on the legislation that the aged should be paid "a proper weekly wage, whether they wished to work or not", and it is significant that national superannuation was and is pegged to wage rates and taxed.

43 The notion of recognising the contributions made by older generations during their working lives is an important part of current arguments over the tax surcharge on national superannuation. The most frequently heard objection to the surcharge is that it takes away from people what was theirs by right because of contributions made. Various interpretations of what constitutes contribution are evident, ranging from financial contribution to a fund from which subsequent payments are made, to contribution generally as a member of society. The 1972 Royal Commission echoed the original Old Age Pensions Act:

At a certain age people should gain rights to benefit by virtue of their past contribution to tax revenue and production irrespective of their means. (RCSS: 204)

The argument continues to be put. It asserts a principle of intergenerational equity; a belief that the objective of state provisions for the aged should be to redistribute income between generations. Self-reliance by earning a market income is not to be expected after age 60. Instead, the community should take responsibility for income support by paying what might be seen as a dividend on past contributions.

44 There is also the perspective of need. The old age pension was introduced primarily to meet the income needs of destitute elderly colonists, efforts to enforce family obligations to support them having failed. It was paid at a low level and severely means tested. In 1938 provisions for the aged were incorporated in a social security system which was based on the principle that those whose need was the greatest would receive the most (Nordmeyer, NZPD, 252: 324).

45 Until 1976 the age benefit was means tested. The obligation of the community, as reiterated by the Royal Commission in 1972, was to ensure only that all those over the age of 60 had an income which prevented their being in poverty. The age benefit was used to "top up" universal superannuation, the payment of which, argued the Royal Commission, did not need to be at levels meeting the objective of



participating and belonging because it was based on financial contributions. For most, therefore, provisions were needs related. The level at which income needs were met was and generally still is set by the married couple rate of income tested benefit. It is significant that that remains the benefit level for those 60 and over who are for some reason ineligible for national superannuation, and a work test is in theory applied to any support given.

- 46 In 1976 the age benefit and universal superannuation were merged into national superannuation. As already noted, its provisions reflect an emphasis on merit and general contribution. Those rationales were frequently appealed to in the arguments supporting the universal nature of its provisions, and the level of payment. Self reliance and need were not given weight. National superannuation is not work tested and only recently has some deduction been made on account of other income.
- 47 It can be argued that the tax surcharge introduced in 1985 recognises the objective of meeting needs. One of the rationales given at the time of its introduction was that it would target payments rather more on those who needed them. But the surcharge cuts in at a much higher level of income and abates at a much slower rate than other benefit abatement regimes. "Need" in this context is clearly a rather more generous concept than that operating for other benefits. The surcharge was also justified on the grounds of budget constraints and the longer term expenditure implications of an aging population (1984 Budget: 14-15). Thus the surcharge can best be seen as a means to redistribute payments amongst those eligible by age for support in order to restrain government expenditure without creating greater inequalities in the overall distribution of income for those aged 60 and over.
- 48 Finally, though the morals test has gone, belonging remains important. National superannuation has a residency requirement, it is not portable, and entitlement is lost in periods of absence from New Zealand of more than 26 weeks. The community is only expected to take responsibility for those who give evidence of belonging. Once that is established, however, the community responsibility is absolute. There is no requirement for self reliance through, for example, private superannuation, nor for any claim to be made on relatives.
- 49 What then can be said about the rationales for current provisions for the aged in terms of the framework set out in Part 1 of this paper? First, there are multiple objectives at work: preventing poverty amongst the aged, redistributing income between generations, providing income for a meritorious group who have "earned" it.
- 50 Second, meeting "needs", belonging to the community, and some notion of past contributions are important in determining specific provisions of national superannuation. The latter would seem to legitimate income support for the aged on a more generous basis than

has been established for other groups. The 1972 Royal Commission took some care to set out income support measure which would enable recipients to participate in social life and gain a sense of belonging. It is ironic that the aged, the group who most clearly belong in terms of length of residence and, often, capital accumulation, are given the most generous provisions to allow them to continue to do so.

- 51 Third, and of growing importance, are the tensions arising out of underlying principles and constraints. There is a questioning of the interaction between principles of self reliance and community responsibility. How far can we expect people to make their own provision for retirement, and how far should the state provide? There are considerations of equity between generations and within generations. And there are concerns about the effects of economic conditions and demographic changes. How far do budgetary constraints and the effects of an ageing population limit the options we can consider in providing for the elderly?

#### ASSISTANCE TO FAMILIES WITH DEPENDENT CHILDREN

- 52 The mere existence of family assistance provisions indicates that the community recognises some responsibility for children. However, the balance of responsibility between families and the state has varied over time. The objectives of the two main programmes existing today - family benefit and family support - are quite distinct.
- 53 Family benefit is a flat rate universal payment presently \$6 a week per child. The most common rationale given in the past was to improve the lot of children in society; it was seen as an investment in children. This rationale remains. The Act stipulates that the benefit be spent on the "education and maintenance" of the child, and the benefit is paid to the primary carer of the child, usually the mother. The orphans benefit also reflects a community concern that children are "maintained" by providing, under certain circumstances, an income in the child's name when birth parents are not available to ensure financial support.
- 54 Behind the concern for maintaining children lie two principles. The first, which was stated by Nash when the universal family benefit was introduced in 1946, is that as members of society children have some right to community concern about their well-being, and are deserving of some community support (NZPD, 270: 632). This is almost always seen as being provided through the parents or guardians who act as the community's agents in the socialisation process. This point was recently made explicit by Easton in arguing that family benefit should be seen as the child's income. (Easton, NZ Listener, 17.10.87).

- 55 A second, related, rationale is that an investment is being made in the future of the nation. In 1926 (when means tested family allowances were first introduced), and again in 1938 and 1946, a strong theme in parliamentary debate about family assistance was the desirability of encouraging people to have children. Universal family assistance has also been seen as an investment in the quality of the future population; in the words of the 1972 Royal Commission on Social Security, "an investment in human resources" (RCSS: 216).
- 56 Another rationale for the universal family benefit is to achieve a degree of horizontal equity in the distribution of income. As the 1972 Royal Commission put it, "a major consideration is to ensure that the costs of rearing children at all levels of income are equitably spread throughout the community" (RCSS:238). The state recognises that people with dependent children incur additional costs; the universal family benefit is a mechanism for redistributing market income in a way that is seen as fairer to families with children. The universal family benefit continues to be paid "as recognition that all parents incur costs in rearing children" (DSW Briefing Papers, 1987).
- 57 The weight given such rationales for family assistance measures has declined. The Department of Social Welfares 1987 Briefing Papers imply that other objectives such as assisting low income families are more important. Perhaps more significant, the value of the family benefit has been allowed to fall to a level which makes it negligible as a community investment in children, or a contribution to the costs which parents incur.
- 58 The objective of supplementing family or household income with child related payments to prevent family poverty and to secure a vertical redistribution of household income has come to dominate. Current arguments for or against particular family assistance measures are couched in terms of vertical equity; family benefit is inappropriate because it goes to some families who do not "need" it. Family care, the forerunner of family support, was introduced in 1984, "to provide relief for low income families with dependent children [and to] provide substantial protection for families in order to facilitate restraint in the forthcoming wage round" (1984 Budget: 12).
- 59 Family support, which in 1986 replaced both family care, tax rebates and the child supplement formerly paid to beneficiaries, has similar objectives. The introduction of indirect taxation and the need to restrain wages were seen to increase pressure on low and middle income families. Thus specific economic constraints strengthened the movement towards emphasising vertical redistribution. The new provisions aim to redistribute income to low and middle income households with dependent children and provide relief to those "less fortunate than others" (Minister of Social Welfare to Minister of Finance, April 1987).

- 60 The move away from universal child-related payments at what was in 1946 quite a high level reflects changes in the rationales for family assistance provisions. That children belong to parents who chose to have them has been emphasised: families are, income permitting, to be fully responsible for the financial support of dependent children. The responsibility of the community, exercised through the state, is to ensure that families have sufficient income to do so, rather than to contribute to the costs all families bear.

### PART III: THE FRAMEWORK IN DETAIL

#### INTRODUCTION

61 Part III provides a foundation for the prescriptive exercise which follows. We use the conceptual framework outlined in Part I as the basis for listing and describing elements which might be used in designing an income support system. This part of the paper does not argue for the adoption of particular principles or objectives. Rather it aims to provide a comprehensive menu of useful options, with some discussion of issues which might arise if particular choices were made. The first section identifies social, political and economic principles which might provide a basis for an income support system. The second section discusses constraints, which exist because of political, social and economic structures, or which are implied by underlying principles. The third and fourth sections, on objectives and operational guidelines, set out a range of "building blocks" for constructing income support systems.

#### SOCIAL, POLITICAL, AND ECONOMIC PRINCIPLES UNDERLYING THE INCOME SUPPORT SYSTEM

62 Principles are defined as:

- (a) assertions of positions to be regarded as of fundamental merit or moral superiority, as good or just or right; or as
- (b) assumptions about the fundamental nature of human beings and their behaviour.

The use of terms like assertions and assumptions is deliberate. Principles are grounded in values, beliefs and "ways of seeing the world" which vary from person to person and over time, and are often culturally specific and inconsistent. They should not be interpreted as a set of general universal laws. (See Morris, 1986: Preface; Hill and Bramley 1986, for discussions of such principles and their role in social policy.)

63 Two general points deserve mention. First, some of the principles set out below define end points in a range of possibilities, and some are in opposition to each other. One difficulty of social policy formation is to balance seemingly contradictory principles, each of which is to be given some weight. Second, principles can act as imperatives for action, or as limitations on action; they tell us what we might try to do, and limit what we are able to do. The definition of constraint adopted in this paper reflects this.

- 64 We have tried, wherever possible, to use New Zealand sources. The terms of reference of the Royal Commission on Social Policy provide a contemporary New Zealand set of standards and foundations from which principles can be derived. A second contemporary New Zealand source is the recent New Zealand Planning Council publication by Judith Davey, Social Policy Options. For the economic section the New Zealand Treasury briefing papers (Government Management, Volume One, Wellington, 1987) have also been drawn on. Puao-te-ata-tu, the 1986 report of the Ministerial Advisory Committee on a Maori Perspective for the Department of Social Welfare, has also been used. Wherever possible we relate the statement of a principle to a New Zealand source. A more general source, and the basis of much of the discussion is the British, American and Australian literature on social policy.
- 65 A distinction is made between principles which have their origins in ideas and concepts about the political, the social and the economic arrangements of society. It is useful to make such distinctions; discussions about equality, for example, are greatly clarified by distinguishing between political, social and economic equality. (See Morris, 1986: 190). But it is important to acknowledge that in many cases the distinctions are blurred.

Principles Based on Values Assumptions and Assertions About Social Arrangements

- 66 For a society to exist there must be some agreement, albeit implicit, on the parameters of community life. This section is an exploration of the possible dimensions of such an agreement.
- 67 We first note the importance given in most western societies to individuals as individuals. This gives rise to the following principle:
- (a) The individual is the basic and indivisible unit of society: all individuals are unique and as such should be valued, cherished and treated as of equal intrinsic worth.  
(RCSP, 1987: 2, 6; Treasury, 1987: 124)

In this sense the equality of men and women of whatever race is founded on their worth as individuals. Similarly, the value of social institutions like the family lies ultimately in the welfare accruing to the individuals they include. This is not to define away the identity such social groups might give the individual, nor the possibility of subordinating self interest to group interest. It follows from this principle that the individual should be the basic unit for social policy, although circumstances may exist which make it more sensible and effective to deliver the policy through an agent (such as a parent).

68 An emphasis on the individual is, of course, a Pakeha cultural tradition. The Maori tradition places much more emphasis on the whanau, on the individual within a kinship group. A principle consistent with this is:

(b) The whanau is the basic and indivisible unit of society

69 Emphasising the individual as the basis of social policy does not resolve many important issues. First, individuals do not enter the world with equal abilities and characteristics. This variation in innate abilities is compounded by socially determined inequalities such as institutional racism or sexism. One of the difficulties of social policy is to decide by how much to compensate for the sources of inequality. (Flora and Heidenheimer, 1981: 32). We return to this issue in paragraph 79 below.

70 A second difficulty is the obvious interdependence of individuals. We are born dependent, and wellbeing is much concerned with our relationships with others. (Watson, 1980). A particular difficulty for the income support system is to decide what are, and what ought to be, the income dependencies between individuals in a variety of social settings. (Some possible principles are discussed in paragraph 81.)

71 A third difficulty, already noted, is the belief amongst Maori and other cultural groups that the individual only exists as part of a kinship group, and that the emphasis on the individual is culturally specific. One approach to this difficulty is to ask: What assumption is to be made about human motivation? The answer to this question has much to do with what is seen as good, just or indeed practicable in social policy. Four principles reflecting assumptions about human motivation are:

(c) Individuals are rational, maximising, and self-interested.

(d) Individuals are socially-orientated and at times altruistic members of social groups such as families, cultural groups, social classes, communities or nations.

(e) Individuals are social beings whose behaviour can best be explained in terms of the influence of their social environment.

(f) Individuals are self-conscious moral agents whose behaviour can best be explained as self chosen actions governed to a greater or lesser extent by ethical considerations.

72 We can think of these principles as being, respectively, at the heart of the concepts of economic man, socio-cultural man, sociological man and man as an ethical being or moral agent. (The term man is used to mean all individuals.) It should be noted that the categories are "ideal types"; reality suggests they are tendencies rather than discrete and incompatible categories. Nevertheless, the weight given

to particular assumptions about human motivation reflects views about what is a good and just society, and about what institutional arrangements will promote it. (See Clark and Asquith, 1985: Chapter 1; Morris, 1986; Hardy, 1983; Plant et al, 1980). What, then, are the implications for social policy of placing the emphasis on the various interpretations of the individual and his or her behaviour? (The impact of assuming the primacy of economic man is considered in paras 101-119).

- 73 If the emphasis is placed on socio-cultural man (as it is in much of the social administration literature), social policy (and within that the income support system) might place considerable weight: on membership of social groups; on the obligations which arise amongst members of such groups to support each other; on the extent of agreement on such obligations; and on collective arrangements to meet some obligations. One way to look at institutional arrangements for income support in such a setting is to see them as part of a social contract. Such arrangements, however, are socially and culturally specific. No guarantee would exist of the alleviation of poverty based on basic and universal human rights. The merit of any welfare provisions would be assessed by some utilitarian measure of their consequences.
- 74 Within such a framework the income support system would have to operate in ways which both reflected and reinforced current social values as part of a welfare state which was concerned with playing an integrative role in society. Such an approach gives emphasis to the social context of the individual and his or her behaviour. This perspective is central to the cultural values of Maori and some other ethnic groups in New Zealand. An income support system which gave emphasis to such a principle would take into account not only the interdependencies which exist within all families, for example the dependency of children, but also the culturally different perspectives of the dependencies which ought to exist, for example those within whanau groups.
- 75 The sociological approach is only briefly discussed since the arguments are usually framed at the level of the role of the state in society rather than being concerned with institutional arrangements such as the income support system. One interpretation is that such structures are benign, a useful response to societal needs and part of the social system. Indeed particular sorts of arrangements, such as universal provisions, might invoke changes in behaviour which promote community values (Titmuss, 1986). An alternative view is that income maintenance systems are part of an apparatus to sustain capitalism; they help, it is argued by some Marxist writers, to maintain social and economic arrangements that are inimical to the interests of most individuals.
- 76 It is in the concept of man as a moral agent that a different perspective arises, that of human rights. Beginning with Kant's notion of never treating the individual only as a means, but always at the same time as an end, and assuming that individuals are self



conscious beings, it can be established that respect is due to all individuals as rational moral agents. Rational moral agents cannot be indifferent to conditions which incapacitate any individual from acting autonomously. Thus, any moral view of society must recognise the maintenance of human life and the development of autonomy as basic and universal obligations. In other words, all human beings have a right to sustenance and to sufficient resources to be autonomous. There is, of course, considerable debate over the conditions necessary to meet these basic needs. One recent study defined autonomy as the absence of arbitrary power (including that due to total economic dependence on others), ill health and ignorance. (Plant et al, 1980: 47; see also Plant in Sampford and Galligan, 1986: Chapter 2; Weale, 1978; Stoljar, 1985; Watson, 1986; Plant et al, 1980).

- 77 One of the standards of a fair society set down for the Royal Commission on Social Policy is a "fair distribution of the wealth and resources of the nation, including access to the resources which contribute to social well-being". (RCSP 1987:3). A rights-based approach to this standard provides a useful perspective. A minimum position might be:

(g) Individuals have the right to sufficient resources to sustain life and enable them to be autonomous.

A human right can be said to exist only if arrangements exist to secure a moral entitlement to enjoy the right. In such a way, an income support system could be based on the existence of a morally-based human right. One characteristic of this approach is that the legitimacy of obligations is not dependent on arguments about the merits of outcomes. This is of significance when consequences such as increases in well-being are hard to determine and quantify, and issues of aggregating the well-being of individuals arise. Also, it permits some definition of need as necessity which is not self defined.

- 78 The rights-based approach can yield an alternative principle:

(h) All individuals have the right to sufficient resources to allow them to develop their potential to the full.

While definitional problems are sidestepped here this principle can be seen as being at the opposite end of a continuum of choices about rights to resources to that given above. Most distributional issues are resolved in the economic system. But arguments about rights to resources are social and political; they have to do with being part of the community and the arrangements those within the community make. It is useful to see arrangements emerging from such arguments as part of the social contract which members of a society come to and which provides the basis for income support measures over and above the minimum established on human rights grounds.

- 79 We now return to the three issues raised earlier: the unequal endowments of individuals (notably innate abilities, ascribed status and inherited wealth); the complexities caused by interdependence between individuals; and the challenge that the emphasis on the individual is inappropriate for significant cultural groups.
- 80 One approach to unequal endowments is to attempt to establish programmes for "equal opportunity" which compensate, at least in part, for the socially-determined component of the unequal endowments. The following general principle could be established:

- (i) Each individual should receive a genuine chance to develop his or her abilities to the full. (RCSP, 1987: 3; Davey, 1987: 3)

It is important to note that pursuit of equal opportunity does not guarantee equality of outcome. Also, an attempt to provide more equal opportunities is likely to redistribute wealth and interfere in socialisation processes within families to a much greater extent than hitherto sanctioned. (O'Higgins in Bean, 1985; Plant in Bean and Whynes, 1986).

- 81 The issue of interdependencies between individuals is relevant to the income dependency relationships which occur in society. We can propose as alternative principles:

- (j) The individual should be self-reliant to the best of his or her ability and primarily responsible for his/her own welfare.
- (k) The family unit should be primarily responsible for the welfare of its members.
- (l) The community through its collective institutions should be primarily responsible for the welfare of its members.

Or, for a particular group in society:

- (m) The community should be particularly concerned to ensure the well-being and development of children. (RCSP, 1987: 6).

- 82 The particular mix of interdependencies which exist and which we see as appropriate is socially and culturally specific, and it varies over time. Any consensus at the level of the society as a whole is usually very diffuse and often contested. One difficulty for the income support system is that it is seen to effectively endorse some particular principle, albeit not always consistently, and thus becomes part of the contested ground. (See Uttley, 1980; Goodin, 1985; Higgins, 1981; Tulloch, 1987.) The debate is often heated because financial dependency is one dimension of the intimate relationships of kinship or marriage.

- 83 The above principles are not absolute, nor mutually independent. Individual self reliance in the sense of depending on market income is strongly asserted for adult New Zealanders but is suspended for some, eg. those over 60 years of age. Similarly, an emphasis on family responsibility often means that an individual is not only responsible for his or her own welfare but also for that of others within the family group. The income support system cannot be neutral to the issues of income dependency. Indeed, much of the debate about particular provisions concerns their impact on self reliance or family obligations. It is an example of the interaction between the income support system and its social and economic environment. This discussion points up the difficulties of operating an individual-based social policy without making some assumptions about what dependency relationships are appropriate.
- 84 The challenge of the Maori cultural tradition is to the notion of an individual based social policy itself. Many would argue that cultural diversity is evident, that it is a source of strength, and that tolerance of difference is to be encouraged; that there should be, therefore, a principle of respect for individual and cultural differences.

(n) The identity and culture of different people in the community should be accepted, and cultural diversity understood and respected. (RCSP, 1987: 4; Davey, 1987: 4)

Tolerance is to be valued in what is seen as a pluralistic society. The extent to which differences are accepted and acted upon is in tension with the notion that any social policy, such as an income support system, which impacts on many members of society needs some minimal level of agreement on its broad configuration if it is to have legitimacy.

- 85 A much stronger principle is contained in Puao-te-ata-tu:

(o) "The state should attack and eliminate deprivation and alienation by:

- (a) Allocating an equitable share of resources.
- (b) Sharing power and authority over the use of resources.
- (c) Ensuring legislation which recognises social, cultural and economic values of all cultural groups and especially Maori people.
- (d) Developing strategies and initiatives which harness the potential of all of its people, and especially Maori people, to advance."

It may be that the differences between Pakeha culture, with its individualist "heritage", and Maori culture are such that separate systems are required to recognise cultural values and harness the potential of all Maori people to advance.

Underlying Principles Based on Values, Assumptions and Assertions About Political Arrangements

86 The first group of political principles concern the structure and legitimacy of government. One of the foundations of New Zealand society, referred to in the terms of reference of the Royal Commission on Social Policy, is democracy based on freedom and equal rights. (RCSP, 1987: 4) The following four principles concerning democracy, freedom and political equality can be derived from this foundation. They reflect the Westminster political tradition brought to New Zealand by the British colonists.

(a) Government should be through democratically elected representative institutions

This underpins such New Zealand traditions as parliamentary sovereignty, majority rule and the customary rights to vote, petition and engage in political activity.

(b) Individual freedom and autonomy should be valued to the point that it does not conflict with the legitimate freedoms of others

This includes such freedoms as the right to own and use property, to protection from arbitrary arrest and interference, and to freedom of speech. (See also Davey, 1987: 4)

(c) All adults should have equal political rights

This includes such rights as equally valued votes, equality before the law and procedural equality - the right to like treatment in like circumstances.

(d) Adherence to the rule of law

No one including the state should act outside the framework of the laws, disputes should be settled according to the law, and actions by the state should be legitimated by legislation.

87 These four principles establish guidelines for the income support system, and place limits on the exercise of power within it. For example, they require that the income support system should have its basis in specific legislation, that the use of discretion by officials should be limited, and that the settling of disputes should be by appeal to the law. One significant point is that procedural rights to equal treatment do not imply equal rights to the same results unless similar circumstances pertain. Nor do they imply equality of outcomes (in terms of resources). For example, the right to apply for a benefit and to expect procedural equality does not imply an equal right to a benefit being granted, nor a right to its being granted equally (in dollar terms).

88 A claim that state redistribution through bureaucratic systems restricts legitimate freedoms (and in particular property rights) is part of the New Right critique. In considerable part, the criticism

arises because of a narrow definition of freedom, as freedom from the arbitrary will of another, rather than including freedom to accomplish goals. Arguments can be made that "freedom from" depends on "freedom to" and vice versa; we are only free from interference to do something - otherwise the idea of freedom is meaningless. The freedom of a poor man to do something might depend on some restriction on the freedom of a rich man to enjoy all his property. A recent commentator concludes that the negative impacts are necessary conditions for other equally important freedoms to exist, and that the gains outweigh the losses. (Goodin, 1985: 152-55; see also Bosanquet, 1983, Hardy, 1983, Higgins, 1982.)

- 89 A second set of political principles focuses on the rights of Maori and other cultural groups. The Treaty of Waitangi has been described as a foundation of New Zealand society (RCSP, 1987: 5). A principle expressing this is:

(e) The State should adhere to the principles of the Treaty of Waitangi

The Treaty guarantees to Maori people full possession of their land, forests, fisheries and other treasures (including language), and extends to them the protections the Crown offers all the people of New Zealand. The Treaty can be seen as a contract establishing a partnership between the Crown and the tangata whenua. Interpreting the articles is not easy: the extent to which the treasures referred to in Article 2 of the Treaty establish rights over and above those customarily part of the protection of the Crown for all citizens is by no means well-established in law or in society. Some of the issues for an income support system are:

- whether the Treaty creates particular rights regarding the level of income support services;
- the extent to which recognition of Maori rights to cultural treasures requires particular provisions for delivery of services as ends in themselves (rather than as means to meet objectives such as accessibility);
- the extent to which cultural considerations and Treaty obligations require separate provisions (for example, a different unit of assessment) as a consequence of distinctive and enduring beliefs and values relevant to the distribution of welfare. (Puao-Te-Ata-Tu, 1986; Treasury, 1987: 340-49; RCSP, 1987 (1): 14-19).

- 90 The report of the Advisory Committee on a Maori Perspective for the Department of Social Welfare recommended a further principle:

(f) The state should attack all forms of cultural racism in New Zealand that result in the values and lifestyle of the dominant group being regarded as superior to those of other groups, especially Maori, by:

- (i) Providing leadership and programmes which help develop a society in which the values of all groups are of central importance to its enhancement; and
- (ii) Incorporating the values, cultures and beliefs of the Maori people in all policies developed for the future of New Zealand.

The Department of Social Welfare has accepted this recommendation which imposes an obligation to avoid monocultural assumptions in the design and operation of the income support system. It should also be noted that the principles concerning political arrangements which we listed above derive from Pakeha traditions. Some would argue that Maori traditions would give emphasis to iwi-based institutions, assert the primacy of the whanau, and define political rights in ways more aligned with ascribed status.

91 A third set of principles relevant to income support system concern the role of the state in society:

- (g) The state should act to ensure personal security and security of property, and to maintain law and order  
(Davey, 1987: 5)

The relevance of such a principle at an administrative level is obvious; the system should not be open to abuse, nor be abusive of recipients, causing social unrest. From such a principle, however, we can derive a much more extensive role for the state in income redistribution:

- (h) The state should ensure a distribution of resources which maintains or promotes social cohesion and social order

It has often been argued by those seeking to explain the rise of the welfare state, that one of the most important reasons has been a desire by governments to maintain law and order in the face of potential unrest. (Mishra, 1977; Hill and Bramley, 1986; Gough, 1979; Flora and Heidenheimer, 1982). An income support system giving emphasis to such a principle would be concerned with stigma and "social distance".

92 The next two principles concern the role of the state with respect to individual welfare. The terms of reference of the Royal Commission on Social Policy include the state amongst those institutions with collective responsibility for wellbeing. But there is a considerable debate about the extent of the state's responsibility. The following principles can be seen as indicating the extremes of the range.

- (i) The state should ensure the welfare of all its citizens, and act to enable all to develop to their full potential

The rise of economic liberalism as a political and economic creed has led to a questioning of such an extensive state role; it is one significant element in the "crisis of the welfare state" thesis. The arguments have an ideological as well as an empirical base. (Johnson, 1986; Bosanquet, 1983; Klein and O'Higgins, 1985). A principle consistent with this stance on the role of the state is:

- (j) The state should limit its powers to matters of law and order, defense, the minimum necessary regulation of commercial and social affairs, foreign affairs and the relief of destitution

It is important to note the political nature of the arguments. They concern the nature of just relationships between the state and the individual, and, in consequence, normative positions on the role the state should play in individual welfare.

#### Principles Based on Values, Assumptions and Assertions About Economic Arrangements

- 93 The terms of reference of the Royal Commission on Social Policy set down as one of the foundations of New Zealand society: "The operation of a mixed economy with private, co-operative and public activity" (RCSP, 1987: 5-6). This foundation is based on a set of principles which are very significant for social policy. For one thing the principles about the economic system are given particular weight as limitations on social policy. Budgetary considerations are an obvious example. At a deeper level, the primacy of beliefs about the proper or good economic system effectively define the role of social policy and its field of operation, e.g. whether it should be concerned with the distribution of wealth and income or with how that wealth and income are created.
- 94 The particular set of economic principles espoused by some powerful contemporary policymakers is discussed first and consideration is given to the relevance of these principles to the income support system.

- (a) People value goods and services and seek to obtain more of them

The pursuit of goods and services by individuals and society is taken as given, and there is a desire to expand the productive capacity of the community through economic growth. (See Treasury, 1987: 30; Davey, 1987: 2; RCSP, 1987: 3).

- (b) Resources are scarce: they have to be allocated, and each particular use has opportunity costs

Individuals and society face choices about how to allocate and use resources. Each use has a cost because it means some other use cannot be pursued.

(c) Resources should be used efficiently

95 Principles (a) and (b) mean that resources should be used in ways which maximise individual welfare. (Treasury, 1987: 3; Charles and Webb, 1986: 6). It is important to note that welfare, in this context, means what individuals see as in their interest and efficiency is achieved when, for any given distribution of income, welfare is maximised. The concept of efficiency does not address the issue of what is an equitable or just distribution of income. (Charles and Webb 1986:66). When attempts are made to change the real world distribution of income towards one which is deemed more equitable, inefficiencies will generally result because the instruments available to effect the redistribution, eg. benefits and progressive income taxes, will tend to alter behaviour in undesirable ways. This is what is meant by the "equity-efficiency" trade off.

96 The view of welfare expressed above is predicated on the following assumptions made about how individuals exercise choice. They are:

(d) Individuals freely initiate actions and act rationally to achieve chosen ends;

(e) Individuals are the best judge of the merits of those ends;

(f) Individuals make choices which will maximise their welfare;

(See Charles and Webb, 1986: 20-23, 28; Whyne in Bean, 1985: 99; Treasury, 1987: 11-12, 124).

These behavioural assumptions do not deny the possibility of altruistic behaviour, nor of self-seeking opportunism by individuals. However, behaviour over the usual range of circumstances is seen as essentially self-regarding. It follows that individuals will respond to changes in incentives in ways which will maximise their welfare, though the extent of such change is a matter of considerable debate (Treasury, 1987: 7; Charles and Webb, 1986: 69, Murray, 1984: 146).

97 The principle associated with this is that:

(g) Individual choice should be valued above all

(Treasury, 1987: 11-12, 124 and Annex; Charles and Webb 1986: 33). As we have already noted, this principle is founded on some important assumptions about the nature of individuals and their ability to use freedom. For example, the liberal thinkers to whom appeal is made for the philosophical underpinning of free market philosophies assert that justice is innate in independent adults and is best given expression through their free interaction. (Bosanquet, 1983: Part I).



98 The set of principles about scarcity, the nature of individuals and human behaviour form the basis for a model of economic arrangements. Some would assert that the model established by the various principles is value free and empirically based. This positivist economic interpretation masks the important values and assumptions which underlie the model. The economic model is usually associated with other values which are, it has been argued, important in societies with capitalist economic structures. (See Gough, 1979; Taylor Gooby, 1981). One value which is of significance for the income support system can be stated as the following principle:

- (h) Economic independence enhances welfare. (Treasury, 1987: 178, 401; Davey, 1987: 2-3; Murray, 1984: 67-68)

Economic independence is often "operationalised" to mean paid work. The value of work has, of course a long tradition as an end in itself, as something of moral value, establishing a set of values often summarised as the "work ethic". Self reliance is an obligation for able-bodied adults, though that obligation may be discharged by caring for actual or prospective workers in return for financial support.

99 Finally, the economic model provides a prescription for the best way to solve the problems of allocation, namely the free market.

- (i) Voluntary contractual arrangements between individuals and groups operating in a competitive marketplace are the most efficient way to allocate resources. (Treasury, 1987: 3-4, 40-41; Charles and Webb, 1986: 66-67; Whynes in Bean, 1985: 99-106; Culyer in Bean, 1985: 122-23)

The market, it is argued, provides the quickest and most accurate information through the price mechanism (Treasury, 1987: 4-5). It encourages technical efficiency and innovation through competition and risk-taking (Treasury, 1987: 4-5; Charles and Webb, 1986: 69). Economic inequality is an inevitable and tolerable result (Bosanquet, 1983: 9-10), a necessary part of the incentive to produce (Murray, 1984: 146; Culyer in Bean, 1985: 122-26; Plant in Bean and Whynes, 1986: 96-99; Charles and Webb, 1986: 69). Above all, the market is seen as the best way to maximise welfare amongst those who participate in the market place. At the level of society as a whole the market is seen to act through the efficient allocation of resources to maximise economic efficiency and welfare.

100 In summary, therefore, the economic principles outlined above provide a powerful model of economic arrangements which is claimed to be both descriptive of how people behave, and prescriptive of how economic arrangements should be structured. The market, the focal centre of the model is presented in both normative and positivist terms, as the good economic order and the real economic order. (See Charles and Webb, 1986).

The Economic Model and the Income Support System

- 101 Concern about the response of individuals to government interventions in the market leads those following the principles on which the economic model is based to advocate only a limited role for the statutory income support system. Adults are expected to be financially self reliant. Dependency on the state is seen, at best, as an unfortunate necessity both for the recipient of the support and for the taxpayers who have to finance it. The income support system consistent with these economic principles is residual. It is concerned with the ability of some people to support themselves through the marketplace, and with some of the consequences of market operations for personal and family incomes. Some would argue that income support measures do not promote the welfare of recipients because the taxation by which they are funded is coercive and promotes inefficiency to the point that even those obtaining the direct benefits are worse off in the long run.
- 102 This extreme position is contested both by some who continue to accept the general validity of the model, and by those who have fundamental reservations about the values and assumptions on which it is based. The following discussion considers three aspects of the relationship between the economic model and the income support system: the constraints that particular principles impose; the role of the market in the provision of income support; and the claim that the application of the economic principles is not always appropriate to social policy, including income support.

Constraints

- 103 The principles about scarcity, the desire for wealth and the efficient use of resources are significant constraints for two reasons. First, that scarcity exists is a fact, whatever the level of expenditure for income support overall established by political processes. Because limits exist particular choices have opportunity costs, a fact which is not always recognised in the income support system because of the focus on the needs and entitlements of individuals and families. If income is redistributed to one category of claimants, then the ability to assist another is reduced. (Charles and Webb, 1986: 118-22).
- 104 Second, it can be argued from the principles that income support measures inevitably have efficiency costs. For one thing, they require taxation which many see as a disincentive to work. Taxes have costs, and this establishes an upper limit to the amount available for redistribution. For another, the provision of benefit is a disincentive for the recipient to become economically independent by joining the paid workforce. In this way economic principles act as constraints on both the overall level of expenditure, and on the levels at which benefits are set. In particular, given the importance placed on paid work, the economic principles imply that benefit levels be set below wage levels. (Treasury, 1987: 169-70). It is upon these assertions about incentives that the concerns about poverty traps and welfare dependency rest.

- 105 The assertions do not go unchallenged. For one thing the economic model itself is equivocal at a theoretical level about the incentive effects of taxation (higher taxes might encourage more work to maintain net income). And the empirical extent of the disincentive effect is a matter of much debate. Second, labour force participation is influenced by other factors some of which may be more important than a comparison of benefit and wage rates. Some factors are consistent with financial considerations (eg. cost of child care). Others are based on the social benefits of paid work, such as status or psychological well-being. Third, many people are required to give support to others as part of the complex interdependencies of family and community life. Those requirements may preclude paid work but be very useful to society as a whole eg. voluntary care of relatives. Welfare dependence may permit the "independence" of others.
- 106 The incentives argument is most prominently about the supply of labour. The presumption is often made that the labour market is operating in such a way that all adults can enter it on an equal basis and obtain work. There is little current evidence that this is the case. Indeed, if value is to be placed on economic independence and self reliance there might well be a case for intervening in the labour market to increase the opportunity for all those seeking paid work to enter it with some prospect of success.
- 107 Two other principles from the economic system which have implications for the income support system are the value placed on individual choice, and the definition of welfare as that which individuals see as in their best interests. These principles provide an argument for the provision of assistance in the form of income support rather than by provision of services in kind. This is, of course, consistent with the importance given the market as a distributive mechanism.

#### Market Provision

- 108 The primacy given the market is an argument for the market provision of income maintenance. It suggests that private provisions should be promoted by encouraging individuals to insure against loss of income through ill health, unemployment or old age. The statutory income support system becomes in this scenario a residual, low paying backup system, designed to reduce disincentives to market provision, but recognising that the market might fail some individuals or vice versa!
- 109 It is in conditions of "market failure" that the statutory income support system most commonly intersects with the market economy. There are two dimensions to market failure, as it affects the income support system. The first is that a private market may not exist to cover all the contingencies which commonly lead to loss of market income. There is, for example, no insurance against loss of financial support through marital separation. The second is that some individuals may not be able to purchase cover through the market, either because of particular conditions, or through lack of

income. The latter can be described as the failure of the market economy to allow all adults to obtain income sufficient to meet their needs.

- 110 Many contemporary income support provisions arose out of the past failures of the market to meet income security needs for a wide enough range of people at a cost which many were willing or able to pay. The collective non-market provisions which resulted, the old age pension in New Zealand being one of the first, can be explained in terms of the economic model. The provisions are, some would argue, a more efficient expression of the (welfare creating) altruism of individuals than voluntary charity. Less generously, they can also be seen as a more efficient way for individuals to purchase security from social disorder than the market was able to provide. (Hill and Bramley, 1986: 69-70). Others have argued that income support for people with a disability is an efficient way to ensure a socially optimal investment in prevention and, subsequent to disability, in individual development (Haveman et al, 1986: 32).
- 111 Imperfect markets should not be presumed to be worse than some non-market alternative. They can be improved by encouraging competition and providing better information. Collective provisions, it is argued, have their own "failures", and decisions about which situations should be left to individual provisions and which met collectively are open to empirical analysis.
- 112 This does not, of course, address the issue of low income as a constraint on the purchase of provision. The gradual movement away from reliance on self and family for basic income support came about not primarily because of the failure of insurance or superannuation markets, but because of the failure of the market economy to generate and sustain a distribution of income which was regarded as just. Family support is a contemporary example of a policy whose *raison d'être* is just this. The justice of any distribution of income cannot be determined by applying the principles of the economic system unless the values underlying those principles are adopted, and justice defined in purely procedural terms. Given those conditions there is no need to go beyond the principles of the economic system: the efficient system is the just system, and the distribution of income which arises from the market is just.

#### The Appropriateness of the Values and Assumptions

- 113 Many would argue that the history of income support provisions in Western societies, at least since the first Poor Law, is evidence of a different conception of what is just. (eg. Morris, 1986). It is inappropriate in this paper to do more than list some of the questions which have been raised about the assumptions and values of the economic model. The implications for the income support system of the economic principles being abandoned will be considered only briefly.

- 114 Some see the private market, perfect or not, as not appropriate for the provision of basic income security. Instead the community, usually through the state should come to some decision about appropriate income levels and then provide them for all through universal grants. This is sometimes called the basic income approach. The value placed on economic independence in the economic model is abandoned. More commonly the arguments are for some balancing of economic principles such as economic independence, with social principles such as a collective responsibility to ensure the welfare of all. This often leads to the collective provision of income support to categories deemed deserving. The decisions about which groups are deserving have a moral basis and cognisance is given to relationships which are seen as right and proper. For example, the obligations on parents to support children generally excludes children from statutory income support. Although income tests might be applied, market provision is secondary to the income security offered through the state.
- 115 Such redistributions are justified on the grounds of "welfare" or "need". This, of course, alters the definition of welfare (from that which individuals see as in their best interests) to include some socially determined standard of what is in all individuals' best interest. A relevant example is that all people should have access to sufficient income to "participate and belong". The market, it is argued, cannot determine such standards. Decisions about the distribution of income in society, or at the very least about the lower level of that distribution, are inseparable from notions of what is fair and just. They belong to the realm of politics.
- 116 Other critiques of the market approach to the distribution of income begin with the assumptions made about individuals in the economic model. The optimistic view of the individual as altruistic and justice-seeking is questioned as the basis for social relations. There is, it is argued, no guarantee that a just distribution will emerge from charitable activity. Interventions are justified on the grounds of protecting the less powerful from coercion by those with greater resources. (Bosanquet, 1983: 89-105; Charles and Webb, 1986: 39). The rationality of all individuals over all decisions is debated, not only in obvious cases of diminished autonomy, but also in the fact of high information costs (Charles and Webb, 1986: 33, 39; Bosanquet, 1983: 192-95).
- 117 The view of human motivation on which the economic principles are based is criticised in particular by those who emphasise the moral aspects of social policy provisions. The operations of the market, it is argued, give no guarantee that the sorts of obligations and relationships which should be promoted in the public interest, will be. (Watson, 1980; Charles and Webb, 1986: 69-71).

118 Finally, income support systems might be quite different if the market, imperfect or not, was discounted as a way to meet particular needs now customarily provided through it. There might be, for example, a greater provision of services in kind and a reduced emphasis on income supplements. Housing need is an area where there is current debate about the appropriateness of the market as a distributive mechanism.

119 The criticisms of market-based provisions and the principles which underlie the market economy are based on different but no less debatable assumptions about the nature of individuals and their behaviour, and about how the problem of scarcity might be met. One important conclusion about the economic principles currently given prominence is that they do not avoid such judgements, despite appearing to leave many of them to individuals in a market.

SOCIAL, POLITICAL, AND ECONOMIC CONSTRAINTS

120 The analytic framework developed in this paper postulates that income support provisions result from the interplay of objectives, operational guidelines and constraints. It is the existence of the constraints which may explain why certain policies and practices are not to be found within the system. Constraints are derived from the principles enunciated above, or are consequences of social, political and economic structures.

Constraints Arising from Social, Economic and Political Principles

121 It would be repetitive to provide a detailed discussion of the way in which principles function as significant policy constraints, but it is worth identifying the more significant of them. They are:

- that "individuals have a responsibility to be independent and self-reliant"
- that "individuals have the right to sufficient resources to sustain life and enable them to be autonomous"
- that "the identity and culture of different people in the community should be accepted and cultural diversity understood and respected"
- that "resources are scarce and should be used efficiently"
- that "individuals are the best judge of their ... chosen ends [being presumed to] make choices which ... maximise their welfare"
- that "the [income support] system should recognise and reinforce personal responsibility for meeting needs"
- that "individual freedom and autonomy should be valued"
- that the income support system should operate within a framework of "adherence to the rule of law"
- that the system should "adhere to the principles of the Treaty of Waitangi".

122 An example of the constraining impact of principles is provided by considering the possibility of replacing present provisions by a system of discretionary grants, dispensed to claimants by benefit adjudicators, and tied to particular expenditures. This system probably could be made to operate efficiently to relieve poverty. However, it would run counter to the principles that assistance should be based on rights rather than discretion, and that individuals are the best judge of how best to maximise their welfare.

## Social Constraints

### Constraints Arising from Recognition of the Multi-cultural Nature of New Zealand Society

- 123 Acceptance that New Zealand is a multi-cultural society, founded on a partnership between the indigenous Maori inhabitants and the European settlers, has implications for income maintenance which only now are coming to be widely appreciated by policy makers. Historically, policy thinking about income support has been squarely grounded in the assumptions of Pakeha culture. As a result, the approach to income support which has seemed most effective and straightforward to those making and executing policy has been strongly monocultural, and may have done serious damage to the efforts of Maori people to preserve or adapt fundamental elements of traditional Maori culture and to their welfare as a people. The essential constraint, given positive expression in Puao-te-ata-tu, is that policies are not to be monocultural, tailored to the perceptions and purposes of the dominant Pakeha culture to the detriment of Maori culture. In some policy areas this probably means that a single policy approach is inappropriate.

### Constraints Arising from the Avoidance of Gross Inequities and Injustices

- 124 Pursuit of efficiency and administrative convenience can result in differences in benefit provisions which are perceived as inequitable. There is a tension between maintaining consistency between different types of entitlements and striving to ensure that the specific provisions closely fit the circumstances of particular groups. Inconsistencies are commonly perceived as anomalies and are resented by those who see themselves to be disadvantaged. A current example is the different treatment accorded to those losing earnings because of accident and sickness.

### Technological, Physical, Geographical and Demographic Constraints

- 125 Policy options, and implementation procedures, are constrained by physical and technological factors. For example, the dispersal of New Zealand's relatively small population over a large area limits capacity of agencies delivering services to provide highly trained specialist staff in many areas. The current state of computing technology imposes constraints on the handling of information and the administration of programmes. The demographic structure of the population influences the balance between the numbers of funders and the recipients of services. This is especially relevant to the issue of income support for the elderly. A particular difficulty is caused by changes in the age structure of the population most importantly because these are not easily predicted. Similarly, long term trends in labour force participation, child rearing patterns, and common forms of relationship influence the provision of income support.



### Political Constraints

- 126 Any democratically elected government is understandably reluctant to initiate or persist with policies which will lose it votes. This can be an obstacle to the adoption of policies which may be effective, but be seen as symbolic of values which are contentious or which are not those a government wishes to endorse. Such constraints apply both to the introduction of new policies and to the termination of existing ones. They can thus act to perpetuate long-standing policies past the point where they are effective.
- 127 The political constraints on changes to policy should not be seen as simply reflecting a desire by governments to curry electoral favour and stay in power. The restraints which governments accept as being part of the reality of practical politics usually have behind them deeply felt social and political traditions within the wider society. Thus the acceptance by governments of political constraints on policy (the perception that certain policies, whatever the arguments in their favour, are "just not on") is one of the means whereby the values of the wider society are reflected in policy.

### Economic Constraints on Income Support

- 128 The productive capacity of the economy obviously places a theoretical limit on the level of state expenditure on income support. A practical constraint is imposed by the level of taxes which a society is willing to accept. Where this limit is actually located is a matter of contention. Indeed, there are those who suggest that the tax burden which people will accept is influenced by the nature of the income support system; a generous system, it is argued, may produce greater acceptance of high taxation, provided the funders are also the beneficiaries of the system. None the less, the nature and performance of the New Zealand economy, and prevailing ideas about appropriate levels of taxation, provide an unavoidable constraint on the sorts of income support provisions which can be regarded as possibilities.
- 129 The immediate budgetary constraint is determined by how much a government is willing to spend on income support. The amount is not usually determined solely by economic factors; it is influenced by the government's perceptions of the need for social security and the effectiveness and efficiency of the system in meeting the need.
- 130 The economic constraint also varies according to macroeconomic conditions and prospects. An economic constraint applies not only to whether a particular approach to state income support can be "afforded" at the time it is being considered, but also to whether it can be maintained throughout the sort of economic fluctuations which can be foreseen.
- 131 Constraints can also arise from a desire to avoid undesirable behavioural effects. Claims abound about the capacity of income

support measures to establish undesirable incentive structures, raising the spectre that in the long run some measures may do more social harm than good. There is a lack of robust empirical evidence about the magnitude of any such effects, but the possibility that income support provisions may have undesirable behavioural effects is a powerful constraint on new policy directions.

- 132 Certain types of income-tested benefit regimes can have an inadvertent effect which deserves special mention. This is the creation of a "poverty trap", which exists when the combined effect of benefit abatement and tax paid leaves beneficiaries with little or nothing of extra income they earn, discouraging them from improving their position. Avoidance of poverty traps is an important consideration in the formulation of income support options.

Constraints Arising From Limitation in Knowledge and what is Possible through Government Programmes

- 133 The achievement of income support objectives is constrained by lack of knowledge about social conditions and many social processes. For example, while an objective of family assistance provisions might be to minimise the effects of poverty in reducing the life chances of children, policies are built on only a limited understanding of the processes by which poverty impairs life chances. A lack of knowledge about process, or a lack of reliable information, means that outcomes are uncertain. Policy changes may be determined by considerations peripheral to the central issue of whether the policy is effective in meeting its primary objectives.
- 134 There are also constraints imposed by what it is possible to achieve through government income support provisions. The system is not capable of entirely eliminating financial hardship because there are some people who, irrespective of their income, manage their financial affairs in such a manner that on occasions they find themselves without money to meet essentials. Nor is it within a government's power to make people secure or confident or happy, although those ideals lie behind much of what is done in income support. A government's contribution is limited to fostering conditions which enhance people's chances of succeeding in their own pursuit of those ideals.
- 135 Constraints may also exist because the income support system has multiple objectives and guidelines which are partly incompatible, precluding the possibility of all objectives being full realised. Failure to recognise the constraint imposed by multiple objectives can cause policy maker's preoccupations to oscillate over time between different types of objectives, each change in emphasis being a reaction to the pressures generated by the neglect of others. This tendency to an oscillating tunnel vision is likely to be dampened by the cultivation of a better sense of historical perspective. Many income support issues widely viewed as uniquely contemporary at the time they are being debated have their counterparts in earlier provisions and earlier debates.

## OBJECTIVES OF THE INCOME SUPPORT SYSTEM

136 This section proposes possible objectives for an income support system. Despite a considerable contemporary debate over income support systems, a brief survey of the most recent literature failed to find a comprehensive list of objectives defined, as here, in terms of outcomes. Recent New Zealand commissions and task forces have offered a combination of principles, aims and objectives. For example, the Woodhouse Commission (1967) offered collective responsibility, comprehensive entitlement, and complete rehabilitation as "principles and objectives". In contrast, the 1972 Royal Commission on Social Security offered as "principles" community responsibility, needs-based provision, comprehensive coverage, categorisation of need, and integration with other systems. It proposed as "aims" sustaining life and health, enabling participation and belonging, and the provision of non-income services. (It rejected economic equality and the maintenance of economic status.) (RCSS, 1972: 65-66).

137 The list we propose follows and extends that provided by Catherine Jones (1985:104-105) who offered the following as "the formal or ostensible rationale for programmes of cash distribution":

- to relieve (if not remove) destitution,
- to prevent (or at least reduce the incidence of) poverty,
- to compensate for additional commitments incurred as a result of undertaking socially desirable responsibilities,
- to reward for effort and achievement.

### Possible Objectives

138 The first seven objectives listed below are framed in terms of short term goals. A longer-term perspective is taken in the remainder. Each statement of a possible objective is followed by a brief explanatory note about aspects of an income support system to which such an objective might give weight. A New Zealand example is given where useful.

#### To alleviate the immediate consequences of being in poverty

The system would provide assistance to those who could show that without it they would be destitute.

*Example: Immediate needs grants.*

#### To prevent poverty

The system would provide assistance to people deemed to be particularly at risk of poverty, and would place some emphasis on determining eligibility on a categorical basis.

*Example: Social security benefits.*

To redistribute market income to achieve an income distribution which is seen as more just

The system would contribute to income redistributive policies based on considerations of vertical or horizontal equity.

*Examples: Payments to low income carers of children to promote vertical equity (family support), or payments to all carers of children to promote horizontal equity (family benefit).*

To maintain income at a level relative to previous income

The system would maintain income, most commonly of those in the paid work force, during periods of non-employment and after retirement.

*Example: Earnings related accident compensation.*

To compensate for the costs, including loss of income, of particular contingencies

The system would identify contingencies such as injury, illness or congenital conditions, or loss of employment, and make payments related to the loss of income or to costs.

*Example: Disability allowance.*

To compensate for income foregone and/or public expense avoided as a consequence of undertaking socially desirable but generally unpaid work

The system would make payments in recognition of the opportunity cost to the recipient and/or the expenditure which would otherwise fall on the state.

*Example: Domestic purposes benefit for those caring for adult relatives.*

To reward the meritorious

The system would make payments to those deemed meritorious, usually on the grounds of their contribution to society.

*Example: War service pensions.*

139 A longer-term perspective suggests these possible objectives:

To facilitate the redistribution of income over the life cycle of individuals or families

The system would provide (or support) mechanisms by which the balance over time of consumption and savings by individuals or families is adjusted, in order to meet anticipated life cycle effects on ability to generate market income and on expenditure.

*Example: The defunct New Zealand Superannuation Scheme.*

To assist people to adjust to income losses following unexpected changes in circumstances

The system would make time-limited (income-related) payments to people facing loss of income due to such contingencies as separation or loss of employment.

*Example: Relocation grants.*

To invest in individuals for social and economic ends

The system would make payments to those who are preparing for socially and economically productive roles or to their agents.

*Example: Trainee grants.*

- 140 Three general points are made concerning these objectives. First, the objectives framed in terms of short term goals are not independent of those with a longer term perspective. The reason for life-cycle redistribution, for example, may well be to prevent poverty in retirement. Second, the objectives within the two categories are not independent of each other. Even when this appears to be so, the complexities of income support provisions are such that it is possible for a variety of objectives to be built in, for example in levels, categories, and residency tests. Third, these brief specifications of possible objectives ignore definitional difficulties. (What constitutes poverty? What distribution of income is just? What costs merit compensation?)

OPERATIONAL GUIDELINES FOR THE INCOME SUPPORT SYSTEM

141 As noted earlier, operational guidelines are defined as rules which guide the design and functioning of the income support system.

Possible Operational Guidelines

142 The first two guidelines concern comprehensiveness of coverage.

The system should recognise and reinforce personal responsibility for meeting needs

This guideline would result in a system which would: provide support only when personal resources were exhausted; penalise dependency; and emphasise exclusion rather than inclusion in its administrative practices.

The system should reinforce collective community responsibility for meeting individual and group needs

In contrast to the above, a system giving emphasis to this guideline would emphasise community membership, accessibility and universal provisions.

143 The following four guidelines concern eligibility.

Eligibility should be based on need

This is the principle most appealed to in New Zealand debates. For example, the 1972 Royal Commission (RCSS, 1972: 65) emphasised need as opposed to contribution as the "primary test". A system giving emphasis to such an operational guideline would take account of material need without reference to how that need arose. A negative income tax would be consistent with this guideline.

Eligibility should be based on the cause of need

The system would place an emphasis on distinguishing amongst types of needy applicant, and impose different requirements according to the circumstances which give rise to their need. A categorical income support system is consistent with this guideline.

Eligibility should be based on belonging

The system would be concerned with how the community is to be defined (for example nation state), and what indicates belonging (residence, payment of taxes, or citizenship). A guaranteed minimum income would be consistent with this guideline, with belonging defined in terms of residence or citizenship.

Eligibility should be based on financial contribution

The contributions would almost always be personal, although close association with a financial contributor, for example through marriage, might allow inclusion. This guideline is a feature of funded social insurance schemes.

- 144 The next two guidelines have to do with the income support system as a potential instrument of other social policies

The system should operate to promote certain values and attitudes in society

This guideline suggests that the income support system should play more than merely an instrumental role, and that the way in which its objectives are achieved should promote particular values. For example, a system giving emphasis to such a role might split benefit payments equally between adult partners rather than make payment rights assignable, which would be a more neutral position.

The converse principle may be stated as:

The system should operate in ways which are as neutral as possible to values and attitudes in society

- 145 The remaining guidelines concern the design of the system.

The system should be conceptually simple and comprehensible

The system should be based on entitlement rather than on the exercise of discretion

The emphasis on entitlement suggests a "positive legal rights" approach to eligibility which raises issues of procedural justice and power in welfare transactions.

The system should be flexible and robust ie. sustainable over time

The system should be designed so that it can respond to changing social, demographic and economic circumstances.

The system should link coherently with the income tax system

This guideline recognises that although tax and social security systems are complementary, there is potential for conflict between their provisions, eg. regarding units of assessment or definition of income.

The system should be administratively efficient, accessible to applicants and flexible in its treatment of individual circumstances.

The system should be consistent and sensitive in its treatments of cultural and other personal characteristics.

146 There might be some surprise that we have not proposed "universality", "targeting" or "fairness" as operational guidelines. The terms universal and targeted seem to us to confuse rather than clarify if proposed as operational guidelines. Family benefit, for example, is targeted (it is paid only to carers of children) but is universal within that category (it is paid to all carers). The terms serve best as descriptions of the means to achieve some objective. "Fairness" and "adequacy" are vague terms related to the level of payment. Whether a level of payment is fair depends on more fundamental objectives or principles.



## PART IV: A SCENARIO FOR REFORM

### INTRODUCTION

- 147 The paper concludes with a sketch of some possible changes in the income support system in New Zealand. The scenario is in no way the definitive view of the Department of Social Welfare. Rather it is illustrative: it explores the consequences of an emphasis on and thoroughgoing application of some particular principles, guidelines and objectives for an income support system to which some priority might be accorded over the next two decades.
- 148 It is also necessary to state that the scenario does not purport to be other than a Pakeha perspective on possible reforms. Its starting point is the current system, which has arisen from and continues to reflect a dominant European tradition. The issue of the compatibility of Maori culture and of current Maori aspirations with any individually based social security system has been raised in Part III of this paper, and is discussed at greater length in our paper on Units of Assessment.
- 149 Part IV begins with a discussion of the principles, objectives and guidelines which are given emphasis in developing the agenda for changes to the income support system. They are the rationales for reform. Then follows a brief description of the sort of policy structure which emerges when such lines of thought are pursued to the point of specifying some income support provisions. Some of the issues raised by those provisions are then briefly discussed.

### RATIONALES FOR REFORM

#### Retention of a Categorical System

- 150 One thing which emerges clearly from an examination of existing income support provisions is that they have different rationales, are subject to different constraints and are based on different principles. What is commonly referred to as "the income support system" is actually a collection of different systems. Analysis should proceed on the basis of examining what systems are required, recognising that each will have somewhat different principles and objectives.
- 151 There are good reasons for this even within a monocultural perspective. To attempt to set down a single set of principles which will define the proper scope of income support and its essential features for all cases is even more ill conceived if systems are to cater for a variety of cultural groups. What would be produced is a crude income support system, ill-fitted to the range of functions we traditionally have expected of it.

152 Our system is complex. It can only be adequately understood in its historical context, which reflects the development of a distinctive national tradition about the role of the state in providing assistance. The sorts of approaches to income maintenance which are feasible in New Zealand, and which New Zealanders are likely to regard as appropriate and desirable, will not necessarily be the same as for other countries. It is futile to seek to define a set of ahistorical principles detached from our specific national tradition and experience.

153 The idea of "deservingness" is deeply embedded in our tradition, although these days it is discretely screened from open view, being seen to connote sanctimonious moral judgments. It is part of the concept of some individuals have a legitimate claim on the state for assistance. For example, a person without a job is seen as meriting support not simply because he or she lacks an income. The "deserving" unemployed person is one who has been making conscientious efforts to obtain work but has not been successful. The effort to be self-reliant legitimates the claim on the state for support.

154 The various categorical benefits now existing and the conditions and tests attaching to them reflect the sorts of claims which have been recognised as legitimate. In brief they are:

- inability to earn an income due to lack of a job, illness, disability or family obligations;
- withdrawal from the labour force in old age to have a period of retirement before dying;
- an insufficient rate of earnings to provide an adequate level of support for families;
- involuntary loss of the support usually provided by husbands to wives or parents to children;
- assistance with the costs of raising children.

155 One of the advantages of a categorical system is the flexibility it provides in giving expression over time to the changing nature of "deservingness" and to the claims which can be regarded as legitimate. The idea that many of our income support provisions are designed to meet the legitimate claims citizens may make upon the state for support is retained in developing the scenario.

#### The Continued Legitimacy of Certain Categories

156 The discussion of legitimate claims raises two issues. The first is how the legitimacy of the claim is to be established. In New Zealand this has traditionally been part of the political process. Over time the state defines categories of individuals who may be seen to have legitimate claims for assistance. The income support system becomes part of some notional contract between the state, as agent for society as a whole, and the individual. This is assumed to remain.

157 The second issue is what should constitute a legitimate claim. If self reliance and economic independence are to continue to be valued in New Zealand society, this provides a starting point for the discussion of legitimate claims. The question becomes, which groups are deserving of support, and should not be expected to have to rely on the market or on family for financial support.

158 First there is the case of the aged

The principle rationale for support for the aged is to ensure that they have comfortable retirements, free from the obligation to be economically independent by working. Such a rationale makes appeal to the objective of rewarding elderly people for the contribution they have made to society in the past, as well as ensuring a sufficient income. Increasing life expectancy, and the possibility that individuals can make provisions for retirement during their years in paid work, raises issues about the age at which such support might begin, and whether or not an income test should be applied. A strong argument for universal provision exists if a period of respite from self reliance is seen as a reward for past contributions.

159 Second there is the case of those caring for children

The current system waives the requirement to be self supporting for those who carry on their own the responsibility of caring for children, ie. for sole parents. It does not do so for those in two parent families. The obligation of the family to support the carers of the children remains where the responsibility is shared between two parents. The assumptions about the distribution of caring roles within families, and the financial dependency (generally of women on men) which the lack of provision in effect sanctions, are increasingly being questioned.

160 If economic independence is accepted as proper for all adults within families, issues are raised about the equity of providing support for sole parent carers without similar provisions for all carers. Similarly, if self reliance is to be encouraged and if many parents of older children already work without obvious detriment to their children, some decision must be made about the extent to which the state is obliged to continue to support child carers as the age of the youngest child rises. One proposal consistent with these principles would be to provide a carer's allowance to a parent or guardian of all children, but only for a limited period of time related to the age of the youngest child.

161 Third, there are those whose inability to support themselves is a result of misfortunes over which they have little control

This covers provisions for sickness, disability (whether the result of illness, accident or congenital condition), and unemployment because of a lack of jobs. For such groups the obligation to be self-reliant remains, to be "re-activated" when their incapacity for paid work ceases and the opportunity to obtain employment arises.

Thus, unlike the aged and child carers, these people are subject to a "work test" unless they are certified as medically unfit for paid work.

- 162 Fourth, there is assistance to those who are in paid employment but whose rate of earning is insufficient to provide them with an adequate level of support

The need for such assistance arises because of the absence of any strict relationship between wage rates and levels of income required to ensure an adequate level of support. It would provide assistance for individuals with limited earnings as a result of incapacity or part-time work.

- 163 Fifth, there is assistance to parents with the costs of supporting children

Such assistance is predicated on the principle that all adults have an interest in the welfare of the next generation, and that the community should be particularly concerned with the well-being and development of children. While the primary responsibility for their welfare rests with parents at present (and there is no reason to think that this will substantially change over the next two decades), the state accepts some responsibility for assisting parents in this task.

- 164 The principle does not confine that assistance to low income families. For one thing the costs are common to all families. For another children are individuals and are entitled to recognition in their own right. The prevention of poverty is often given as a rationale for child allowances. While such allowances undoubtedly contribute towards this goal, it should not be seen as their primary objective. Poverty amongst people with children should be seen as just one aspect of poverty generally.

Benefits Rates at a Level Which Enables Recipients to Remain in the Mainstream of Social and Economic Life

- 165 Our income support system has traditionally involved the notion that levels of assistance should be sufficient to enable the recipient to remain in the mainstream of social and economic life. In the words of the 1972 Royal Commission, they must be able to "participate" and feel that they still "belong" to the community. In terms of the principles set out in Part III, those with legitimate claims for state support are entitled to something between sufficient resources to sustain life and a level of resources which might allow them to develop their potential to the full. The 1972 Royal Commission went on to define a reference point which was, they felt, an approximation of the income necessary to participate and belong. They then defined need as the gap between the income a household had and that reference point.

166 If such principles and guidelines are to continue over the next two decades, and there is at present no compelling evidence of a desire for substantial change, benefit levels will continue to be set with some relativity to the overall level of incomes in society. Long term benefits will be flat-rate and set at a level which enables those receiving them to remain in the mainstream of social and economic life.

Transitional Earnings-Related Payments Where Loss of Income is Unexpected

167 The ability to participate and belong, however, is also related to the discretionary spending power of particular individuals or households. There is ample evidence that expenditure increases with income, and that people enter into fixed commitments such as mortgages in the expectation that prior levels of income will continue. Thus while people's actual incomes may vary, their discretionary spending power in the short term may be the same. Over time, however, people can be expected to adjust to a lower income, for example by obtaining cheaper accommodation. One possible objective of the income support system is to smooth such transitions where they are unexpected.

168 Neither the variation in fixed commitments nor the dimension of time is well-catered for in the present income support system. It provides flat-rate benefits throughout the period of entitlement, albeit with some adjustment for accommodation costs. If weight is given the objective of assisting people to adjust to income losses following unexpected changes in circumstances, there is a need for the system to give recognition to the fact that commitments are made on the assumption of income being maintained.

169 This suggests that income related payments should be made when people lose income unexpectedly as a result of sickness, accident, unemployment or a marital separation which requires them to cease work to care for their children. We note the fact that such a provision could replace the earnings-related compensation payments of ACC.

170 But the principle of self reliance, and the value given to economic independence (in the sense of relying on market income) suggests that another objective of the system should be to encourage those who are unexpectedly deprived of income to return to work as soon as possible. If that is not possible the system should encourage them to rearrange their affairs to enable them to live on a lower income without the necessity of supplements to cover fixed commitments. (This is not to preclude the possibility of supplements for those with extra costs which arise from disabilities which cannot be adjusted.) This suggests that income related payments should be paid at a lower rate than previous income, and be replaced with flat rate payments after a period of time. Also, those whose movement onto benefit can be foreseen should transfer directly onto the flat rate. Three such groups exist: the aged; those moving onto benefits

without an employment history, or with employment of less than some specified period prior to application; and those obtaining eligibility because of child care responsibilities which are not the unexpected result of marital separation.

#### The Unconditional Right to Assistance to Sustain Life

- 171 The categorical system does not make provision for those who are not "deserving" in the previously defined sense, but who are in need of assistance to sustain life and health. If weight is given to the principle that all individuals have the right to sufficient resources to sustain life and enable them to be autonomous, the obligations of the state are not exhausted by meeting the statutory entitlements of those with legitimate claims. If that principle takes precedence over principles concerning self-reliance and responsibility for one's own welfare, even those who have received their entitlement have a right to some minimum level of resources no matter how gross their improvidence or how work shy they prove to be.
- 172 This principle implies that the state should ensure that there is a system of emergency grants paid at a subsistence level. At present a discretionary system does operate through state and voluntary agencies. The adoption of an unconditional right to assistance in order to sustain life would formalise it, make it a statutory responsibility, and set some sort of upper level. In principle the payments should be in cash, leaving decisions as to how the money is spent to the individual. In practice, however, some provision in kind might be more effective.

#### The Shift to a System Based on the Individual

- 173 Historically there has been a shift in the focus of income support from the extended family to the nuclear family and then towards the individual. The widespread expansion of social security measures in the last 50 years has arisen from an acceptance of the view that the responsibility for the financial support of people unable to work is generally the state's, not the family's. Currently there is a discussion of further changes in the balance between the principles of family responsibility for the welfare of its members, and of community responsibility through the state. The pressures for further changes towards treating adults within families as financially independent are likely to increase over the next two decades, at least in Pakeha society.
- 174 The arguments for a change towards the individual as the unit of assessment and assistance in the income support system have been set out in an accompanying paper: the adult might well be regarded as the fundamental unit of assessment and assistance; children should continue to be primarily dependent on guardians; but some acknowledgement of the individual rights of children might be made by payment of a small universal grant in their name.

175 The move to a individual-based system for adults would remove some of the problematic features of the current system.

- It would meet the guidelines of coherence with the taxation system;
- It is conceptually simpler, and entitlements would be more comprehensible;
- It removes the anomaly between provisions for accidents and sickness;
- It is, within Pakeha society, more "neutral" with respect to assumptions about the obligations and claims of relationships, removing the need to ascertain the nature of relationships between adults.

#### General Types of Provisions

176 The preceding analysis of possible principles and guidelines establishes four principal types of provisions, each resting on a somewhat different foundation.

Support for those without income by reason of misfortunes which are deemed to provide the basis for a legitimate claim on the state (ie. support for the sick, the disabled, accident victims and the unemployed).

Support for the aged.

Support for those without income by reason of their responsibility for the care of children.

Assistance by the state to parents in meeting the costs of supporting children.

177 It is also envisaged there would be provisions for "topping up" payments for persons in paid work whose rates of earnings were insufficient to provide adequate support. For many types of circumstances this would be done through partial payments of one of the standard categorical benefits covering disability, care of children etc. This aspect is not discussed explicitly in the sketch of provisions which follows.

178 As already noted there would be also be a guaranteed right to the minimum resources necessary to sustain life. This aspect is also not discussed further in the outline.

#### A SKETCH OF SPECIFIC PROVISIONS

179 The provisions which are implied by the preceding discussion of principles, objectives and guidelines are briefly summarised as follows.

#### Support for those without income by reason of misfortunes which are deemed to provide the basis of a legitimate claim on the state

180 Adults who became sick, unemployed or an accident victim would qualify as individuals for an initial period of income related income support (subject to some minimum and some maximum). After the initial period they would qualify (again as individuals) for a flat-rate level of assistance related to income levels in the community generally. There would be no time limit on this assistance.

181 Eligibility would be limited to those who satisfied any "belonging test" (based on residency perhaps), and who were either certified unit for paid work on medical grounds or demonstrably available for and actively seeking paid employment. The level of benefit would be determined by living arrangements (whether living alone or with at least one other adult), and level of income from other sources i.e. it would be income-tested. Payments would be taxable.

#### Support for the aged

182 Aged persons who satisfied the test of "belonging" would be eligible as individuals for a flat-rate level of income support related to the level of incomes in the community at large. The level of benefit would be determined by living arrangements (whether living alone or with at least one other adult). There would be no work test. The provisions would be universal i.e. there would not be an income test. Payments would be taxable. The income test and tax liability would be strictly individually based.

#### Provisions for parents not in the paid work force because of the responsibility to care for dependent children

183 A broadly uniform set of provisions are proposed to cover both solo parents and married persons not in the paid work force because they are caring for children. However, the proposals are more easily identified if they are specified for each of these two situations separately.



Provisions for solo parents not in the paid work force because of the responsibility to care for dependent children

- 184 Solo parents who satisfied the test of "belonging" would be eligible as individuals for a flat-rate payment until their youngest child was a certain age or for some specified period following the death of a partner or a marital separation. For those who gave up full time paid employment as a consequence of altered child care arrangements following the death of a partner or marital separation, payments would be earnings related for a specified period of time subject to the same limits noted in paragraph 180.
- 185 As with other benefits, the payments would be income tested and taxable. Recognition would be given however, to situations in which solo parenthood was accompanied by a considerable reduction in total household income. Where private provision had not been made for this through life insurance (in the case of the death of a partner), or ongoing financial contributions (by the departing partner), there would be a special transitional payment to cover financial commitments. This would be especially relevant in the case of separation where the earning partner departs.
- 186 Solo parents would also qualify for a supplement to the universal child payment. It would be income tested by the income of child and parent.

Provisions for other parents (called carers) not in the paid work force because of the responsibility to care for dependent children

- 187 Carers who meet the test of "belonging" would be eligible for payment until their youngest child was some age (perhaps the same age as for solo parents but possibly younger in recognition of the greater scope to engage in paid work because parenting responsibilities are shared). They would qualify for a flat rate benefit from the outset on the grounds that the childcare responsibilities were not entered into involuntarily or suddenly.
- 188 The carers would also qualify for a child supplement equal to the difference between half the cost of rearing a child and the universal child benefit. (Their individual entitlement would cover only themselves, and their spouse would be assumed to be responsible for half of the child rearing costs.)
- 189 The level of flat-rate benefit received would be subject to an income test on own income; the child supplement would be subject to an income test by child and carer income.

### Assistance for Children

- 190 Considerations of horizontal equity would be recognised by making a universal payment for all children. The individuality of children would be recognised by paying the universal child benefit to children (or to an agent) until they were deemed to be financially independent, e.g. by reaching some selected age or by completion of full-time education (as now).
- 191 Assistance with the costs of rearing children over and above those covered by the universal payment would be available to beneficiaries (including parents who stayed out of paid employment to undertake the role of carer). The amount would be based on the assessed direct cost of rearing children. It is presumed that parents have equal financial responsibility for children.

### General

- 192 Many of the existing supplementary payments would be removed. The transitional arrangements are considered to allow adjustments to be made in commitments prior to moving onto the flat rate of benefit. Those costs related to disability, however, might well be met.
- 193 The emergency provisions to meet the guarantee to sufficient resources to sustain life could be provided on contract by an agency such as the Salvation Army.

### DISCUSSION

- 194 The cost implications of moving to the individual as the unit of assessment and payment are considerable. It is difficult to assess what they might be, in particular some way into the future. The Task Force on Income Maintenance made some tentative estimates. (Benefit Reform 1986: 14.) It is clear that unless payments were at much lower rates than at present the cost of the income support system as a whole would increase.
- 195 The changes also effect a redistribution of income within the income support system from those with sole responsibility for children to those with sole or joint responsibility for young children. This is effected by giving all carers eligibility but for a limited time, rather than until children are independent as occurs with solo parent provisions at present. But within households with only one parent earning there would be a substantial difference in the distribution of total household income. As discussed in the paper on Units of Assessment, some would see this as an advantage and some as a disadvantage.
- 196 Most of the savings which might occur are dependent on behavioural changes. If transitional provisions act as an incentive for moving off benefit then they could be considerable. Universal provision has

been retained for the aged, but it is not inconsistent with the objective of the provision (income security in the last years of life) to raise the age as life expectancy rises.

- 197 Speculations on the social impact of the changes must be even more tentative. The payment of universal child payments in the child's name might promote a view of children as individuals with status separate from their parents. The move to an individual based system might have a similar impact on the status of women.

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