

Poverty and Benefit Dependency

David Green

First published by New Zealand Business Roundtable,
PO Box 10-147, The Terrace, Wellington, New Zealand
<http://www.nzbr.org.nz>

ISBN 1-877148-71-7

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Design and production by *Daphne Brasell Associates Ltd, Wellington*
Typeset by *Chris Judd*
Printed by *Astra Print Ltd, Wellington*

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LIST OF ABBREVIATIONS

ACC	Accident Compensation Corporation
AFDC	Aid to Families with Dependent Children
BDL	Benefit datum line
BHPS	British Household Panel Survey
CSJs	Community Service Jobs (Wisconsin)
CSO	Central Statistical Office (Britain)
DPB	Domestic Purposes Benefit
EMTR	Effective marginal tax rate
Eurostat	Statistical Office of the European Communities
FES	Family Expenditure Survey
FTP	Family Transition Program (Florida)
GMFI	Guaranteed minimum family income
GST	Goods and services tax
HEIS	Household Expenditure and Income Survey
IFS	Institute for Fiscal Studies (London)
JOBS	Job Opportunity and Basic Skills Training
OECD	Organisation for Economic Cooperation and Development
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act 1996
TANF	Temporary Assistance for Needy Families
W-2	Wisconsin Works

ACKNOWLEDGMENTS

I am very grateful to Peter Bushnell, Ron Crawford, James Cox, Ross Judge, Roger Kerr and Bryce Wilkinson for their advice in the preparation of this study, and for Greg Dwyer's assistance, which has been invaluable.

EXECUTIVE SUMMARY

In recent years it has become common to claim that there has been an increase in poverty. Church leaders complain about the demand for food banks and newspapers run stories repeating the claims of poverty analysts that poverty is on the increase. Many New Zealanders, however, looking at their pay packets, noting the standard of living of people around them, comparing their lifestyle today with that of 20 or 30 years ago, or contrasting New Zealand's living standards with those of the developing world, find these claims implausible.

Yet, over the last generation or so, there has been a manifest increase in dependency on welfare benefits, not least because of the rising number of children being raised by only one parent. The material standard of living of people who rely on welfare benefits is lower than it would have been if they had relied on full-time work. And, other things being equal, one parent cannot provide as effectively as two parents for the financial, emotional and educational needs of a child.¹ But should these social developments be interpreted as an increase in poverty and social exclusion or as a rise in welfare dependency?

To describe a rise in welfare dependency as an increase in poverty implies that the behaviour of individuals who are perceived to be poor had nothing to do with their predicament. They are the victims of circumstance. On the other hand, to say that they have become dependent on welfare implies criticism of their behaviour and directs attention towards solutions that involve behavioural change on their part. Blame is not the issue, not least because in modern usage blame has a purely negative connotation. It implies accusation and no more. The real issue is personal responsibility. To speak of responsibility is not to rest content with pointing a finger of accusation, but to draw attention to what people can do to improve their situation. While disability arising from serious injury or illness may prevent a small number of people from improving their lot, this disadvantage does not apply to the majority of beneficiaries.

This publication attempts two main tasks. First, it examines the claims of those who analyse recent social changes using concepts such as poverty and social exclusion. Second it argues that the changes are best understood as a growth of dependency and suggests how a free society can best assist its least fortunate members without causing welfare dependency.

In New Zealand there are three main rival views about the purpose of a social security system: the 'relief', 'integrationist' and 'independence' traditions.

The 'relief' tradition aims to relieve hardship by providing cash (or equivalent) support. It is based primarily on sympathy for those people who are poor, often stemming from religious sentiment. New Zealand's food banks are a typical example.

Supporters of 'integration' focus on the 'economic distance' between sections of the population and call for the political system to guarantee a standard of living that enables every person in New Zealand to participate in community activities regardless of the effort expended. They appeal to the solidarity of all New Zealanders by talking of citizenship, participation or belonging, but their ultimate ambition is to use the powers of government to compress the economic distance between the top and bottom earners. Such an intrusive use of political power is not compatible with the ideal of a nation of free and responsible individuals. As a doctrine it is inseparable from the ideal of a society that puts leaders in charge and expects little of the masses. The leaders defend their power as necessary to advance the interests of the led, who are to benefit from compulsory income transfers.

The 'independence' tradition aspires to encourage everyone to be self-supporting and therefore capable of making an independent contribution to the good of all. It goes hand in hand with the ideal of a free society built on the personal qualities of its members. Supporters of this tradition are concerned about the low quality of life of people who have come to depend on welfare benefits for their main means of support.

The debate about poverty and dependency reflects the chief intellectual dispute of the twentieth century – between collectivism and liberty 'rightly understood'. Neither has been uniquely the property of any one political party and today all of New Zealand's main political parties draw upon elements from each.

The tradition of 'collectivism' puts its faith in the capacity of leaders and has little confidence in the qualities of the rank and file. It is based on a view of the human condition that explains behaviour as the result of forces beyond individual control. Most people are held not to be in command of their fate, a view sustained by two powerful intellectual currents for much of the twentieth century. Marxism held that forces outside the individual dictated events (the economic structure) whereas Freudianism emphasised inner forces that impelled people to behave irrationally. Both theories assumed, even if their protagonists did not

always say so, that the leaders were immune from the forces that moulded others. Sometimes this division into 'sophisticated' leaders and the 'helpless' mass led to tyranny, but in the West it led to paternalistic-but-democratic government of which the ostensible task was to use the political system to serve the interests of a section of the population – the working class or those who are poor.

Marxism is no longer taken seriously, but the tradition of paternalistic government remains with us. Paternalistic leaders are inclined to adopt a wide definition of the 'poor' or 'deprived' who are said to benefit from political action – in part because they see themselves as leaders of the majority, and partly because of the electoral imperative that a majority of votes must be won. This inclination is one of the main causes of the modern tendency to exaggerate the level of poverty.

The counter view – liberty rightly understood – had fallen out of favour by the early part of the twentieth century. It assumed that all people are capable of independent judgment and that the purpose of life is the rational pursuit of ideals, preferably by individuals applying themselves to the improvement of social conditions in whatever way they believed best. Adam Smith, John Stuart Mill and Immanuel Kant were leading exponents. It rested on the ideal of the self-improving individual, capable of self-support, serving others and upholding the shared institutions of civil society as a personal obligation. Believers in liberty, like believers in 'relief', were naturally concerned for the well-being of individuals who looked to the government to require other people to support them rather than to their own efforts – not out of any lack of sympathy, but because such people were not participating to the full in their birthright of liberty.

Liberty 'rightly understood' does not hold that the basic building block of capitalism is the self-interested individual; rather, it maintains that the fundamental building block of a society is the self-improving character. The institutions of a free society – not least the law, marriage and the family – are structures necessary to sustain and encourage a society of independent-but-united, self-improving but not self-serving individuals. The ideal is of strong characters who are capable, when circumstances require it, of standing apart from the crowd on matters of principle, and yet prepared when necessary to sacrifice their own interests for the good of others and to play their part in upholding the morals and institutions that persist – indeed can only survive – so long as they are supported by the daily actions of each person going about his or her ordinary affairs.

A public policy to assist people in poverty, according to this tradition, should not be content with handing over cash or goods and services but rather seek to discover why an individual is not independent. Paternalists sometimes claim that no one is truly 'independent', by which they mean 'isolated'. But the independence valued in the liberal tradition is not 'isolation'; it is the capacity to serve others and, at the very minimum, the capacity to be self-supporting and thus not an avoidable burden on other people.

The book is organised as follows. First, it will be useful to put the poverty debate in its historical context. This is the task of Chapter 1 which traces the debate from the early nineteenth century to recent times, focusing on British and American experience as well as that of New Zealand. It shows how the concern about poverty over that period has been inextricably bound up with public policy issues.

Armed with the historical and international background, Chapter 2 then explores the changing poverty debate in New Zealand. It concentrates on discussion of how best to measure the material standard of living of New Zealanders and how to compare changes over time. There is little doubt that expenditure rather than income best measures the actual standard of living of people. A measure that takes account of free and subsidised goods and services is better than cash expenditure declared in a survey (such as the Statistics New Zealand Household Economic Survey). This 'consumption' measure gives the fullest account of the material standard of living being experienced within the country.

Chapter 3 then turns to public policy issues. The claims of poverty lobbies in Britain, America and New Zealand that poverty has increased are not valid. The real problem is that there has been an increase in benefit dependency. Chapter 3 asks how best this dependency problem can be overcome.

THE HISTORICAL BACKGROUND

Modern poverty analyses are usually said to have begun with the work of Charles Booth, whose *Life and Labour of the People in London* was published between 1889 and 1904.² Seebohm Rowntree, whose study of the town of York was first published in 1901, quickly followed him.³ Booth and Rowntree are distinctive because they tried to study poverty by means of systematic surveys, thus putting its measurement on an apparently 'scientific' footing. The desire for exactitude has been a prominent part of poverty analysis ever since. However, as Rowntree's critics at the time pointed out, the exactness was misleading, for the phenomenon under investigation was more complex than any statistical measure of income could ever capture.

The Booth and Rowntree surveys were something of a departure from earlier studies that had been concerned to discover how best to encourage independence. As Gertrude Himmelfarb has brilliantly described in her classic, *The Idea of Poverty*, during the late eighteenth and early nineteenth centuries writers were concerned to encourage the capacity for independent self-support.⁴ Among these writers were Adam Smith and his disciple Frederick Eden, as well as later economists such as Nassau Senior who influenced the poor law reforms of 1834. These writers were guided by an ideal, namely the belief that the quality of life would be better if individuals lived as free and responsible persons. Moreover, the late eighteenth and early nineteenth century writers believed that such a life was in the common good. They were conscious that Britain was undergoing a dramatic change from a social order in which the majority of people lived out their days in a single locality and perhaps worked for a single master to a life in which individuals took responsibility for choosing their occupation, locality and style of life. As Alan Macfarlane⁵ has shown, there was far more individualism in pre-modern times than has been supposed, but by the second half of the eighteenth century the freedom of the individual was a noticeable reality that was being remarked on by many observers.

Most people welcomed the emerging freedom. The opportunity to find new work or move to a new locality was preferable to tied labour or lifelong work for a harsh employer. However, for some the exercise of responsibility was an unwelcome burden. Some individuals could not

cope at all, and some could not cope all the time. The emerging issue for public policy was how to give help to those who needed it without encouraging others to abandon the effort to be self-supporting. By the 1830s the folly of undiluted paternalism in public policy had become obvious. When Alexis de Tocqueville visited England in 1833 he estimated that one-sixth of the population were reliant on poor relief, a much higher proportion than elsewhere in Europe.⁶

THE POOR LAWS

The Elizabethan poor law had developed during a paternalistic age when Justices of the Peace (JPs) set wages and regulated the movement of people. This paternalism continued to be a powerful reality until the 1830s, despite the developing ethos of personal responsibility. Liberal critics of the old paternalism, and the style of poor law that went with it, sought a different role for the state that recognised the value of liberty whilst safeguarding the interests of the less fortunate.

The critics tried to distinguish between three groups. First, there were some people who were too ill or frail to earn a living at all. It was accepted without question that they should receive assistance at the public expense. Second, there were people who were able bodied and could normally earn a living but were temporarily unable to do so. They could receive temporary help from the public purse, so long as it was calculated to encourage an early return to work. Third, there were people capable of work but not able to earn very much. Until 1834 the wages for these people were often subsidised by the poor law authorities but after that year their situation changed.

Liberal writers took the view that, even if a person was only capable of labouring for mere subsistence, to do so was more honourable than relying permanently on others. To supplement wages seemed harmless enough but in practice it had brought about a behavioural response by employers, who lowered wages. It also altered the conduct of workers, who did not seize opportunities to earn more and who were inclined to take on commitments they could not meet, particularly by having larger families than they could afford.

The Poor Law Report of 1834 complained about the "mischievous ambiguity of the word *poor*"⁷ and made a distinction between the relief of *indigence* and the relief of *poverty*. The commissioners believed that able-bodied people genuinely unable to support themselves – the indigent – could be "safely and even beneficially" assisted by means of a legal system of relief. This conclusion was a rejection of the argument of Robert

Malthus, a prominent critic of the poor law, that the able-bodied poor should only be aided by private charity.⁸ A public system of relief was defensible, said the commissioners of 1834, but only if organised according to very strict principles.

Mere poverty, in the sense of a shortfall between income and expenses, raised a different problem. Because of the ambiguity of the word 'poor', the impression had been given that anyone with a low income was entitled to a share of public funds, even if their low income was the result of reduced work effort or a failure to acquire a useful skill. Moreover, demands for 'rights' were couched in vague terms such as 'fair', 'reasonable' or 'adequate', which tended to raise expectations such that public discontent was often greatest in localities where relief was the most generous.⁹

The practice of subsidising low earnings had blurred the boundary between independence and dependence, and undermined the sense of personal responsibility of those receiving poor relief. Every person, the commissioners believed, should reap the reward of his or her own prudence and hard work, and pay the price of his or her mistakes. A policy of open-ended subsidy undermined the natural consequences of human conduct. The effect of the poor laws was "to repeal *pro tanto* the law of nature by which the effects of each man's improvidence or misconduct are borne by himself and his family", and by the same token "to repeal *pro tanto* the law by which each man and his family enjoy the benefit of his own prudence and virtue".¹⁰

Consequently, wage subsidisation and unconditional relief had produced harmful effects on character. Knowing that their well-being did not depend on their exertions, some workers had become reluctant, idle, indolent, ignorant, lazy, dishonest, dissolute and ultimately "callous to their own degradation".¹¹ Moreover, irresponsible employers had lowered wages, and this had in turn lowered the wages for the workers of independent character, making their lot harder still. The evidence was that once this process began, the deterioration tended to spread.

To end the progressive degradation of the independent labourer the commissioners sought to create a "broad line of distinction between the class of independent labourers and the class of paupers".¹² This end was to be accomplished by making the lot of the able-bodied pauper less attractive – "less eligible" in the famous phrase of the commission – than that of the independent worker. It was only by "making relief in all cases less agreeable than wages", they said, "that any thing deserving the name of improvement can be hoped for".¹³ The distinction was to be maintained

by aiding the able-bodied pauper only in the workhouse, except for medical relief. Here food, shelter, work and discipline would be regulated to encourage an early return to independence.

Fundamental to the thinking of the commissioners was the stipulation that individuals would enter the workhouse by choice. There would be no test of their means or merit. If they applied for relief on workhouse terms they would be provided with a sufficient diet and clean accommodation, but subject to work and discipline. If they preferred that to an independent life, so be it. The test was "self acting". By applying for aid the individual crossed the line between pauperism and independence.¹⁴

Although historians have described the system as harsh, it was humane in its intentions. The natural result of not working was starvation to death. The commissioners sought to be "kinder than nature" by maintaining a safety net without entirely removing the consequences of unwise behaviour. They did not want to encourage idleness by paying able-bodied persons whether they worked or not; but rather than offer potential idlers a choice between work or starvation they presented them with a choice between independent work or residence in the workhouse environment of wholesome food and accommodation combined with the discipline of work.

There was little sympathy at the time for able-bodied individuals who simply refused to work, but there was much for families whose breadwinner could only command a low wage. The commissioners thought carefully about the predicament of such families and came to two conclusions. First, families on a low wage should not be shielded from the consequences of their actions to such an extent that they no longer felt responsible. If they could only afford one or two children it was the couple's responsibility to limit their family. Second, the commissioners discovered from their investigations that families in which the man was an independent worker, even if on a low income, lived happier and more wholesome lives; whereas families dependent on poor relief tended to live a degraded existence that provided a bad environment for the raising of children. Independence, they concluded, even on a low income was better for the parents, the children and the whole community.

Thus, the reforms of the 1830s were concerned to encourage independence wherever possible. They reflected the new climate of opinion that had led to the return of a Whig government in 1831 under Lord Grey. His administration promptly enacted the Reform Act of 1832

to widen the franchise, and the Poor Law Amendment Act of 1834, which abolished outdoor relief. Edwin Chadwick, one of the leading lights at the time, summed up the new mood of hostility to paternalism and confidence in human creativity. He described how the upper classes had sought to help the people who were poor through charities and profuse expenditure financed from rates which, he thought, had proved "the most potent means of retarding the improvement of the labouring population". The best way for the wealthy to help people in poverty would be "in acting with the labouring classes rather than for them" by enabling them to act for themselves through organisations such as provident institutions.¹⁵

In keeping with this spirit, a new Friendly Societies Act was also passed in 1834 to encourage mutual aid associations. Before 1834, JPs had been required to satisfy themselves that new societies were desirable and that there was not already another society fulfilling the same need, a measure that discouraged competition and the improvements it tended to bring. The 1834 Act removed this restriction. Prior to 1834 JPs also had to be satisfied that the rules of a society were "fit and proper", but after the Friendly Societies Act was passed the government barrister (later the registrar) had only to be satisfied that they were "in conformity with law". Justices of the Peace were formerly empowered to establish that two actuaries or persons skilled in calculation had approved the tables of contributions and benefits of the society. This requirement was abolished and the aims of friendly societies were widened to include any lawful purpose. This liberal framework of law allowed people to band together to meet their own needs through mutual organisations as they believed best. The rise and significance of these mutual aid associations is described in my earlier book, *Reinventing Civil Society*.¹⁶

Britain continued to maintain a system of public relief throughout the nineteenth century, at a time when some other countries rejected the idea, not least New Zealand and most Australian states. By the time that Booth and Rowntree were writing about poverty the ethos of 1834 had changed somewhat, but the central concern to maintain independence remained.

Among the clearest statements of the liberal view at the beginning of the twentieth century was that of the Majority Report of the British Royal Commission on the Poor Laws of 1909.¹⁷ The main author of the Majority Report was Helen Bosanquet of the Charity Organisation Society. She wrote several articles and a book describing her underlying philosophy.¹⁸

In every country there were people who, for one reason or another, were without the necessities of life and in England, the legal responsibility

for self-support lay, in the first place, upon each individual, if capable; in the second upon the family; and failing both upon taxpayers.¹⁹ Bosanquet upheld the principle of a public duty to help:

... no greater blow could be struck at the feeling of unity which holds a community together than that a part of it should be allowed to perish for want while another part could have assisted and did not.²⁰

But to say as much was just the start: "a community owes much more to its members than the mere maintenance of life; and it is by aiming so low that it achieves such deplorable results".²¹ True respect should involve making demands. We cannot grow as people without a struggle to overcome difficulties. Consequently, thoughtless help, Bosanquet said, could make matters worse. In particular, some people neglect relationships that would allow them to ask for help in a spirit of mutual respect: they allow friendships to wither, or neglect family ties, or do not join organisations that would lend a helping hand. As Oxford University's Jane Lewis argues, Bosanquet's whole thrust was to help people to make the most of their capacities by acquiring a plan of life.²² Mere doles weakened their resolve and encouraged the acceptance of lower standards. Raising the horizons of people and introducing new interests in life, not designing new administrative machinery, was the key to success.²³

Bosanquet faced squarely the unavoidable side effect of any system of government relief. The very fact of its existence caused "many to fail who might otherwise have succeeded" in their duty of self-support.²⁴ The problem of public assistance was, therefore, to offer help "in such a way as to diminish rather than to increase the number of those requiring it".²⁵ Two approaches were available:

... the one to make the conditions of assistance so disagreeable that no one will accept them who can possibly help it; the other to make the assistance so effective that it will ultimately remove the cause of distress.²⁶

Bosanquet did not favour the policy of simple deterrence recommended in 1834, but rather supported the second approach. The true test of good administration was:

... the degree of success which it achieves in combining a policy which shall not encourage laziness and self-indulgence with one which shall be really remedial in the assistance afforded. It fails when it is attractive to the profligate, but it fails no less when it is deterrent to those who might be restored by its services to health and independence.²⁷

The poor law as it stood in 1909 was not succeeding in this task, and the most serious failure had been in dealing with the able bodied. The policy of the authorities had aimed at deterrence, but it had "failed conspicuously to deter the idle and worthless who are indifferent to humiliation so long as they are well-fed".²⁸ Bosanquet emphasised the diversity of those who needed assistance:

The population which comes within the scope of the Poor Law is made up of the most heterogeneous elements. Individuals of every age, of every shade of character, of every degree of physical or moral incapacity, with every variety of disease or disability, are all brought together by the one common fact that they demand to be maintained at the cost of the community.²⁹

No society can simply pay anyone who asks – and so someone must decide whether or not to assist a particular individual and what form the assistance should take.

Should we, therefore, do nothing? Should we "stand by and never lend a hand to our brother in his difficulties?". Is there no way by which "the strong can help the weak, the rich help the poor?". Bosanquet continues:

The strong can help the weak, there is no doubt about that; they may even help the poor to be less poor; but money will play a very subordinate part in their work.³⁰

The economic position of any individual, or group of individuals, is, she argues, so dependent upon "qualities which are not primarily or obviously economic" that we will only discover the best method of improving the economic position of the people if we enlist "the whole mind and interests of the people in question".³¹

The Majority Report of the British Royal Commission on the Poor Laws of 1909 did not maintain that deficiencies of character were always and necessarily the problem:

There are some who are physically or morally incapable of independence under any administration; and there are many who are not to be tempted from it by anything less than sheer necessity.³²

However, there were also many people who:

... simply follow the line of least resistance, who are quite capable of earning their living, and will do so in the absence of any temptation to the contrary, but who are easily drawn into loafing and thriftlessness by the prospect of relief. It is to these people on the borderland that an unwise policy of relief on easy terms is fatal; they quickly lose the habits of energy and foresight, and become in the true sense of the word pauperised.³³

Bosanquet accepted that:

... in specially selected cases of men thrown out of work by unexpected misfortune, the wisest as well as the kindest form of help may be to give an allowance whilst they seek new work. But it is a form of help which is most wisely given privately, out of charitable funds. When given wholesale from public funds there is no form of relief which may so quickly demoralise a neighbourhood.³⁴

What distinguished Bosanquet and her liberal colleagues from the turn-of-the-century socialists were their very high expectations of human potential. As Cambridge University scholar Stefan Collini has shown, character was a 'democratic' virtue closely linked to liberalism.³⁵ Character had been associated with a spirit of assertiveness, not least by the new working-class voters after 1867. For writers such as John Bright or Samuel Smiles, the language of character was "a public affirmation of one's own worth in the face of a daily experience of the condescension of the well-born and well-connected".³⁶ It especially implied a revolt against the 'artificiality', and 'outward polish' of the aristocratic 'upper-crust'. For the down-to-earth democrat, it was essential that the personal qualities of an individual should be genuine.³⁷ Smiles, for instance, insisted constantly that character was unrelated to social position. The true worth of a person was a separate matter.³⁸

There was another element to the late-Victorian idea of character. It was an ideal that expected each to cultivate fortitude in the face of adversity. Today it is common to claim that we live in a fast-changing world driven by global competition, as if we were the first to do so. The Victorians, however, had the same sense and with no less justification. According to Collini:

Victorian intellectuals were self-consciously members of a society in the van of progress: the first arrivals in the future cannot be sure what to expect, and no particular technical expertise can be guaranteed in advance to be relevant.³⁹

Consequently, it was best to rely, not so much on 'training' in any particular skill or expertise, but on more general virtues of character, such as courage, adaptability and endurance. As Collini noted, 'character' was "an ideal peculiarly suited to a future of unknown circumstances".⁴⁰ The ideal Victorian possessed self-command and was ready for anything. Each person was determined not to 'crack' under pressure or 'let the side down'.⁴¹ Good character, in the sense described by Collini, remains as important today as in Victorian times.

BOOTH AND ROWNTREE

By the time that Booth and Rowntree began to develop their poverty lines at the end of the nineteenth century, the focus had changed. The concern since 1834 had been to establish the line between independence and dependency. The central concern of Booth and Rowntree was to establish a poverty line and to measure how many people were below it, whether in work or not. Their analysis implied that the problem was a shortage of money that could be overcome by giving people more. In her book, *The Strength of the People*, Bosanquet criticised the new tendency to treat those below the 'poverty line' as incapable of self-support. We "manufacture" our poor by "our crude belief that the Poverty Line is a question of money, and that by merely putting money or money's worth into a man's hands we can raise him above it" and by our "ignorant meddling which robs human lives of far more than we give in return".⁴²

Quite apart from restoring credibility to the "mischievous ambiguity of the word poor", the idea of a poverty line lent itself to exaggeration. When he studied the whole of London, Booth had divided the population into eight classes (A–H). He found that class A (loafers and petty criminals) comprised 0.9 percent, class B (the 'very poor') 7.5 percent and classes C and D (the poor) 22.3 percent. Altogether that meant that 30.7 percent of the population of London was classified as 'in poverty' and 69.3 percent as 'in comfort'.⁴³ This was the basis of the alarmist claim at the time that one-third of the population of the capital was in poverty.

However, Booth by no means advocated a simplistic approach to reform and retained much of the moral concern of earlier reformers. Initially he had studied 900,000 people in East London only. Those in class A, about 11,000 people, were the lowest class of 'loafers' and petty criminals. Class B (the 'very poor') contained 100,000 persons, about 11 percent of the population studied. They lived largely on casual earnings and were at all times more or less 'in want'.⁴⁴ Booth looked upon them as "helpless and incompetent" and urged that they be put under the tutelage of the state:

Put practically ... my suggestion is that these people should be given an opportunity to live as families in industrial groups, planted wherever land and building materials were cheap; being well housed, well fed, and well warmed; and taught, trained, and employed from morning to night on work, indoors or out, for themselves or on Government account; in the building of their own dwellings, in the cultivation of land, in the making of clothes, or in the making of furniture.⁴⁵

They would be "servants of the State", who would have wages credited to them at a "fair and proportionate rate". If they did not work well enough they would go to the workhouse where they would be unable to live as a family; but if they worked well they could go out into the outside world again as free persons. Careful provision for children would be made: "incompetence need not be hereditary".⁴⁶ This "limited Socialism", as Booth called it, would mean that the undesirables in class A would be no longer confounded with "the unemployed" and would be "gradually harried out of existence". Class B "would be cared for, and its children given fair chances".⁴⁷ Perhaps most important of all, the absence of competition from members of class B would enable the 'respectable' working classes C and D to earn higher wages and, thus, more easily raise themselves by their own endeavours.

There were about 200,000 people in classes C and D. Members of these classes were not 'in want', according to Booth, but he called them 'the poor' because "they would be much the better for more of everything". This was a use of language that did not assist clear interpretation.⁴⁸ In the whole of London 8.4 percent of the population constituted the main problem (classes A and B) and even in East London, with its concentration of casual labourers, classes A and B comprised only 12.3 percent of the population.

The second pioneer of the modern poverty study was Rowntree. He conducted three surveys in York: in 1899, 1936 and 1950. The 1899 survey distinguished between 'primary' and 'secondary' poverty. Families were in primary poverty if their "total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency". Families were in secondary poverty if their "total earnings would be sufficient for the maintenance of merely physical efficiency were it not that some portion of it is absorbed by other expenditure, either useful or wasteful".⁴⁹

Rowntree found that 10 percent of the population of York was in primary poverty in 1899. He also calculated a figure for secondary poverty, to allow comparison with Booth's estimate of 30.7 percent for London. Rowntree's estimate of secondary poverty for York in 1899 was 28 percent. Rowntree later abandoned efforts to calculate secondary poverty because he believed there was no reliable way of estimating it. In 1936, using the 1899 measure of primary poverty, Rowntree found only 4 percent of the population of York were below the poverty line. In that year he also used a higher standard to take account of additional items such as newspapers, tobacco and beer. Against the higher standard

Rowntree found 17 percent of the population in poverty. In 1950, also using the higher 1936 standard, he found only 2 percent to be in poverty.

Despite his focus on the 'poverty line' – and unlike later poverty analysts – Rowntree did not fall into the trap of explaining poverty as if it were entirely the result of outside forces. He thought that primary poverty was the result of lifestyle change. The life of the labourer, he said, comprised "alternating periods of want and comparative plenty".⁵⁰ During early childhood the future labourer might be in poverty until brothers or sisters were able to contribute to the family income. Then came a period of plenty when the labourer was earning but living at home, a period that continued into marriage until children came along. During this period it was essential to save in preparation for raising children. The third phase was a period of want until the children were old enough to earn. Then followed a period of plenty after the children began to earn, continuing after the children had left home until retirement. In old age a period of want might follow if savings were insufficient.

Thus, said Rowntree, the 7,230 persons in primary poverty in York: "represent merely that section who happened to be in one of these poverty periods at the time the inquiry was made". Many, he said, "will, in the course of time, pass on into a period of comparative prosperity".⁵¹

Rowntree did not shrink from identifying human folly as among the causes of poverty. He compared the age at which skilled workers and unskilled labourers married in 1898 and 1899. Nearly one-third of the labourers married under 23 years of age, while less than one-fifth of the skilled workers did so; and 58 percent of the labourers married under the age of 26, compared with 49 percent of the skilled workers.⁵² Marrying young reduced the time available for saving in preparation for the lean years of raising children.

Thus, Rowntree had little in common with the modern egalitarian. His concern was to define the minimum income on which someone could reasonably be expected to live and to measure over time how many people were above or below the line. Even though the line was raised, by the 1950s he reported accurately that few people were in poverty. Later analysts had no such scruples.

Rowntree's 1936 study had a big impact on the Beveridge Report of 1942 and the reform of national insurance that followed. Beveridge took the view, based on the 1930s poverty surveys by Rowntree, Bowley and others, that from three-quarters to five-sixths of want was due to the interruption of earnings and that the remaining quarter to one-sixth was

due to failure to relate income to the size of the family.⁵³ Beveridge assumed that most people would be in work and self-supporting and that the main problem was the interruption of earnings through ill-health or unemployment. National insurance was intended to tide most people over until they got back on their feet, or to provide for people who were permanently incapacitated or too old to work.

To deal with the minority – a quarter to one-sixth – whose income was insufficient for their family size, Beveridge proposed child allowances.⁵⁴ This recommendation was a departure from the view of earlier researchers, who believed that the decision to have children was a responsibility of parents. Beveridge saw children in more collectivist terms as part of his plan to pay for pensions. He was worried that the low reproductive rate of the British would undermine the insurance basis of his plan as the proportion of elderly people increased. Unless the reproductive rate was "raised very materially in the near future", said the Report, "a rapid and continuous decline of the population cannot be prevented". This fact made it "imperative to give first place in social expenditure to the care of childhood and to the safeguarding of maternity".⁵⁵

The primary objection of Bosanquet to Rowntree's 1899 poverty line was that it weakened each person's sense of personal responsibility. As we have seen, Rowntree weakened the emphasis placed on personal responsibility and this had an influence on public policy through Beveridge, but both Rowntree and Beveridge still retained a strong commitment to personal responsibility. They took it for granted that the great majority of people would be self-sufficient through work.

The thinking of Rowntree and Beveridge, we can say, brought about a weakening of personal responsibility but not its abandonment. It was not until the 1960s that personal responsibility was cast aside in its entirety.

THE REDISCOVERY OF POVERTY

The focus on the poverty line perceived as a measure of sufficiency predominated until the early 1960s when a very different kind of argument began to be applied. Writers began to use statistics as a call to action against 'the system'. In this view there was 'structural poverty' and the system itself was at fault. It followed that, if poverty was structural, it could not be blamed on individuals. Thus, no one could be responsible for his or her own predicament and to attribute personal responsibility

was to 'blame the victim'. In America, Michael Harrington's *The Other America: Poverty in the United States* led the way in putting this argument, claiming that about 50 million people in the United States were 'poor' in 1962.⁵⁶

Harrington was not particularly careful about the facts he deployed. In the Appendix to his book, where he defended his estimates of poverty, Harrington said: "If my interpretation is bleak and grim, and even if it overstates the case slightly, that is intentional ... My moral point of departure", he said, "is a sense of outrage, a feeling that the obvious and existing problem of the poor is so shocking that it would be better to describe it in dark tones rather than to minimise it".⁵⁷ American sociologist, Christopher Jencks, later described this attitude as "lying for justice". Harrington also deployed the language of 'exclusion' that was to feature so prominently in later years:

The American poor are not poor in Hong Kong or in the sixteenth century; they are poor here and now, in the United States. They are dispossessed in terms of what the rest of the nation enjoys ... They live on the fringe, the margin. They watch the movies and read the magazines of affluent America, and these tell them that they are internal exiles.⁵⁸

It is this "sense of exclusion", he said, that intensifies the pessimism of the poor and "intensifies the exclusion".⁵⁹ Poverty, he argued:

... should be defined psychologically in terms of those whose place in the society is such that they are internal exiles who, almost inevitably, develop attitudes of defeat and pessimism and who are therefore excluded from taking advantage of new opportunities.⁶⁰

Harrington's book is widely regarded as having sparked the 'War on Poverty' in the United States.

In the United Kingdom the nearest equivalent to *The Other America* was *The Poor and the Poorest* by Brian Abel-Smith and Peter Townsend, published in 1965.⁶¹ Defining the poverty line as 140 percent of the basic national assistance scale plus rent and/or other housing costs, the authors found that nearly 18 percent of households were in poverty, some 7.5 million people including 2.25 million children.⁶² The tone of the study was not as emotive as Harrington's and it did not lead to a 'war on poverty' in the United Kingdom. However, it was instrumental in the formation of the Child Poverty Action Group, to campaign subsequently on behalf of the poor.

In both Britain and New Zealand increasingly emotive studies were to follow, but the 'rediscovery of poverty' did not really start in New

Zealand until the 1970s when the Royal Commission on Social Security took the lead. That development is the subject of Chapter 2, but first I will describe the reaction to the 'War on Poverty' in the United States and its consequences – developments that were to have a significant impact on opinion in New Zealand.

THE REDISCOVERY OF INDEPENDENCE

During the 1980s, as a reaction to the unexpected effects of the War on Poverty in the United States, confidence began to be restored in the earlier ideal of independence. In the late 1980s the American Enterprise Institute established a seminar group that included many of the leading lights in American poverty analysis from the main points of the political spectrum, not least Michael Novak, Charles Murray and Lawrence Mead. The group produced a report in 1987 entitled *The New Consensus on Family and Welfare*.⁶³

Some poverty, said the report, could be understood as a simple lack of income, but a distinction should be drawn between poverty due to insufficient income and 'behavioural' poverty. The pursuit of welfare policies based on the image of the beneficiary as a victim was not only failing to remedy poverty but was also causing it to increase. Cash transfers paid without regard to the self-damaging behaviour of some (but not all) welfare recipients were failing to solve the problem of the dependent poor. Indeed, such payments reinforced dependence and encouraged more people to fall into the same trap.

The approach advocated in *The New Consensus on Family and Welfare* differed from earlier analyses of poverty in a number of ways. First, traditional social policy was not rejected outright. Some people, such as the frail elderly and the mentally disabled, should receive generous benefits. However, the report argued that the poor should be disaggregated according to the reasons for their poverty: the elderly, the able-bodied unemployed, the disabled and sole parents. It was recognised that personal circumstances counted and money alone would not cure poverty for all groups. People who are poor due to self-damaging conduct – the underclass – lived in a condition worse than one of low income alone.

Second, the champions of the new consensus focused on understanding the personal life strategies that had proved successful in enabling people to escape from poverty. They were, therefore, interested in people who began life in a bad environment, perhaps with a broken

family, much neighbourhood crime, surrounded by drugs and alcoholism, but who nevertheless escaped. What is it, they asked, that enabled some who started with disadvantages to escape from poverty and how were they different from those who did not escape? Novak and his colleagues concluded that the probability of remaining in poverty was low for those who followed three rules: (1) complete high school; (2) once an adult, get married and stay married (even if not on the first try as they put it); and (3) stay employed, even at a wage and under conditions below an individual's ultimate aims. For the able-bodied, the focus of policy should be on getting people back to work by means of an independence plan that incorporated the lessons drawn from those who had successfully risen above their humble origins. Welfare should be temporary.

These arguments should, however, be distinguished from 'culture of poverty' theories and particularly the 'cycle of deprivation' theory of poverty, both of which treat people as if they are largely or wholly the creatures of their circumstances and upbringing. For writers like Murray and Novak, people are social animals, much affected by upbringing, incentives and cultural mores, but also, people are free moral agents capable of rising above their circumstances. What interests these writers is how people who started life under huge disadvantages in fact triumphed over them. This pattern of escaping from poverty by hard work and moral probity resonates powerfully with Americans because they can recall waves of poor immigrants who arrived in the United States keen to make the most of the opportunities it offered. For a large part of New Zealand's history the same ethos was dominant.⁶⁴

The third difference between *The New Consensus on Family and Welfare* and earlier analyses of poverty related to its focus on moral/cultural institutions. Why is it that tried-and-tested methods of self-improvement were not being followed by the 'underclass'? This leads to an examination of institutions that reinforced, without compelling, patterns of behaviour, such as churches, voluntary institutions and the family. Traditionally, such institutions, especially the family, taught values like the acceptance of personal responsibility and duty, a commitment to hard work and integrity, but in the 1960s and 1970s self-control and impulse restraint were debunked. Morality came to be called convention and defiance of convention was admired along with self-expression. The cost of debunking ordinary values, said the authors of *The New Consensus on Family and Welfare*, had been borne by the poor. It should be a central concern of public policy to uphold the family based on marriage.

Fourth, the new thinkers hoped to re-create a two-sided ideal of self-reliance and community. The images they invoked were drawn from American history. They pictured settlers clearing forests, working for themselves and their families but all turning out to help both family and neighbours to build barns, schools and churches. Each was self-reliant but also a contributor to the common welfare. This ethos of personal responsibility combined with a personal sense of obligation to make a positive contribution to the wider community was, they believed, essential to a fulfilled life. Again, New Zealand's history is not wholly dissimilar.

Thus, Novak and his colleagues urged a new conception of self-reliance and community in place of the one-sided doctrine of rights. Instead of seeing people as the bearers of rights or claims on the public purse, they saw them as contributors to the common welfare. Those who failed to support themselves were also failing to give service to others. Novak and his colleagues urged that welfare recipients be viewed, not as victims of circumstance, but as potentially free, responsible, choosing, valuing citizens who needed temporary help in order to restore them to full citizenship. To send welfare recipients cheques through the post is to write them off as irresponsible, contributing citizens: it is to disrespect them. To direct attention to the flaws in their own conduct, however, is to respect them as capable of more and thus to encourage an increase in self esteem.

Having surveyed the debates about poverty and public policy since the 1830s we can now see our own predicament more clearly. Chapter 2 turns to the details of New Zealand's poverty debate.

2

POVERTY IN NEW ZEALAND

DEFINITION OF THE POVERTY LINE

The manner in which a writer defines poverty reflects underlying assumptions about the human condition and preferred role for government. If the paramount purpose of government is to uphold a society in which as many people as possible can be independent, then the focus will be on the number of individuals relying on the state and the objective of government policy will be to keep the number as low as possible – not for the sake of reducing taxes, but because the quality of life without independence is much impaired. Behind this view lies a conception of the ideal life that is not defined by consumption but by the personal qualities of each person. To strive to be self-sufficient is to fulfil one of the fundamental obligations we owe to one another, namely not to rely needlessly on other people. More positively, it is to equip oneself to make a positive contribution to society.

To focus on relative income or relative deprivation, in the manner of the typical modern poverty study, suggests a desire to define as many people as possible as poor in the hope of stimulating political action on their behalf. The underlying assumption is of an inert group that requires the delivery of benefits by the political system. Moreover, the 'relative' approach is not built on respect for the actual or potential independence of those people in poverty. The aim of public policy is not to empower these people to make contributions to the good of all, but to give them cash. The practical result, to be explained more fully below, has been to diminish the personal qualities of welfare recipients, thus reducing their capacity to contribute to the common good. The assumption is of powerless people who are excluded – with 'no stake in society' – who can, however, be 'included' by means of cash transfers.⁶⁵

In *The Invention of Permanent Poverty* Norman Dennis describes how the process of 'poverty inflation' occurred in Britain. The re-definition of poverty allowed an ever-increasing number of people to be identified as the class requiring political action on their behalf. Over the years the poverty line was raised to catch ever more people: Rowntree had been concerned with physical efficiency; then the line was the benefit level; then a percentage of average or median income; and then it became

'exclusion' from the dominant lifestyle. At each step the intention was to exploit the sympathy that the term 'poverty' evokes.⁶⁶

This raising of the poverty line has made it far more difficult to assess progress over time. Rowntree's studies of York between 1899 and 1950 provide an example of an attempt to maintain a comparison against an absolute 'poverty line' over a long period. As Chapter 1 showed, Rowntree's poverty line had to be re-adjusted over the years as lifestyles changed but it did represent a reasonably stable benchmark.⁶⁷ His approach was to define the minimum 'basket of goods' necessary to sustain life and to discover how many people fell below that line. Rowntree's minimum-basket-of-goods approach had fallen out of favour by the mid-1960s, though it still has adherents today and remains the basis of the official poverty line in the United States. That poverty line defines a person or family as poor if the cost of a stipulated basket of food is more than one-third of their income.

Some poverty lobbyists, such as Townsend, argue that 'absolute poverty' disintegrates on close inspection because apparently objective needs are in reality 'socially determined'.⁶⁸ Tony Atkinson, in making the same point, gives the example of taking a bath. To obtain a job today it would usually be an advantage to look clean, for which a bath or shower is necessary, whereas similar cleanliness was not essential during the nineteenth century.⁶⁹

But because lifestyles change from generation to generation, it does not follow that any fixed definition of sufficiency is useless. Moreover, the claim that acceptable minimum standards of poverty are 'socially determined' and vary over the years does not mean that a relative definition of poverty would always be preferable. A definition based on the 'acceptable minimum' can serve a useful purpose, not only over a relatively short period of 10–15 years, but also as a means of permitting comparisons between generations. As Dennis has shown, a principal concern of poverty researchers until the early 1960s was to establish whether children were better off or worse off than their parents and grandparents.⁷⁰ Relative definitions obliterate any such comparison. Rowntree's 1899 poverty line was 79 percent of the average income, but not even the most audacious egalitarian has suggested that the contemporary poverty line should be set at that level.

Buchanan and Hartley discussed the use of relative and absolute measures of poverty in their book *Equity as a Social Goal*.⁷¹ They concluded that "A relative definition of poverty that fully and routinely adjusts the poverty line for changes in average income levels does not make sense".

Such a technique almost guarantees that a more or less unchanging proportion of the population will always be 'in poverty', regardless of increases in their overall living standards. Consistent with their argument that compassion should motivate efforts to help those people who are poor rather than to modify inequality in the distribution of income *per se*, Buchanan and Hartley recommend as follows:

People who are below or near a defined poverty level ought to be the focus of government income transfers. The United States Panel on Poverty and Family Assistance suggested that the poverty level "should represent a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs". The expenditure bundle constituting needs is a matter for debate and public discussion. Periodic adjustment of the bundle through an explicit public process would encourage the necessary debate. Such a procedure is far preferable to an automatic indexing of a previously defined set of expenditures to average weekly earnings or even to the consumer price index, which includes many goods or services in the consumption bundle that could not be regarded as necessary expenditures to avoid poverty. Periodic debates about the appropriate definition of poverty would also have the beneficial effect of emphasising that the appropriate goal of policy is poverty assistance and not reducing inequality.

NEW ZEALAND'S POVERTY DEBATE

As the New Zealand historian David Thomson has shown, until well into the 1930s public policy in New Zealand was dominated by the 'independence' tradition: a simple humanitarian concern to relieve poverty combined with a concern that public policy should not undermine the spirit of independence.⁷² The Social Security Act 1938 signified a departure from New Zealand's earlier tradition under which the payment of benefits as of right had been resisted. It meant that the state was no longer the last resort for people down on their luck, but a regular source of income obtainable without effort.

It was not long before the first generation of beneficiaries seized the opportunity to profit at the expense of the next.⁷³ However, for the first couple of post-war decades the prevailing view in New Zealand was not based on egalitarianism but on the doctrine that a person was entitled to a basic income simply because they were a New Zealander. It was not until 1972 that the Royal Commission on Social Security in New Zealand raised the stakes by redefining the entitlement in more egalitarian terms.^{74,75} New Zealanders facing hardship were no longer entitled to a basic income but to a share in the prosperity of the society even if they had made little or no direct contribution to it.

The Royal Commission on Social Security concluded that "the essential principles" on which "our social welfare system and its administration should be based" include the following:

*The community is responsible for giving dependent people a standard of living consistent with human dignity and approaching that enjoyed by the majority, irrespective of the cause of dependency.*⁷⁶

The Royal Commission on Social Security's essential principles included the following aims:

First, to enable everyone to sustain life and health;

Second, to ensure, within limitations which may be imposed by physical or other disabilities, that everyone is able to enjoy a standard of living much like that of the rest of the community, and thus is able to feel a sense of participation in and belonging to the community;

Third, where income maintenance alone is insufficient (for example, for a physically disabled person), to improve by other means, and as far as possible, the quality of life available.⁷⁷

The Royal Commission on Social Security's conclusions assumed that people were entitled to a standard of living they had not earned. It gave precedence to rights or claims on the earnings of other people, instead of duties to others.⁷⁸ And it assumed that the main task of government was to deliver income to people. It further assumed that the political process is a battle for control of the means by which income or wealth can be taken from one set of people and given to another.⁷⁹ It stands opposed to the counter view that the main task of government is to maintain laws and institutions that allow people to be independent and self-reliant and in a position to help others.

The Royal Commission on Social Security set the tone for much of the subsequent debate. Among many academics its egalitarian view still predominates, although there have been critics. Moreover, New Zealand's egalitarians are divided between two camps. The first favours a definition of poverty based on the Royal Commission on Social Security's recommendations. The second group favours a definition based on the dominant lifestyle within society expressed as a percentage of the median income.

The Royal Commission on Social Security proposed two major reference points for the "purposes of establishing the level of adequacy of benefits". They were the ruling (actual) rate of wages paid to building and engineering labourers, and the lower quartile level of adult male earnings as shown by the census and incomes and income tax statistics.

The Royal Commission on Social Security recommended that the married benefit rate (a couple without children) be set close to 80 percent of the designated earnings level after the payment of income tax and the single rate set at 60 percent of the married benefit rate. It also recommended that benefit levels be reviewed from time to time and adjusted if necessary.⁸⁰

The benefit levels proposed by the Royal Commission on Social Security came to be called the benefit datum line (BDL). Brian Easton, one of the pioneers of poverty analysis in New Zealand, is the champion of the BDL. During the 1970s he based his poverty line on the BDL.⁸¹ He continues to favour a poverty line based on the 1972 BDL, adjusted annually for inflation, though with one qualification (to be described below).⁸²

The chief source of information about living standards in New Zealand has been the Household Expenditure and Income Survey (HEIS), later known as the Household Economic Survey, which first became available for 1973–74. In a study that examines poverty from 1981/82 to 1992/93, Easton took the income after tax for each household recorded by the HEIS and transformed it into income per head using an equivalence scale. He opted for the Jensen scale of 1988, described in the Appendix.⁸³

Easton argues against calculating poverty figures on a household basis because there is a tendency for the poorest people to live in large households.⁸⁴ However, poverty that arises from behavioural choices that affect household size and structure is concealed if household data are adjusted to take account of these factors. For example, a couple who choose to have more children than they can afford have caused their own problem; and if a couple separate and one partner deserts the other and their children, the desertion has caused their poverty. These underlying causes of low income are obscured when an equivalence scale is used to adjust household data.

A study by Bryan Perry of the Social Policy Agency reveals the thinking behind the use of equivalence scales. For Perry the central question is:

What expenditure level would make a family of two adults plus three children as well off as one made up of two adults and one child which spends \$21,000 pa?⁸⁵

This is the question of an egalitarian. The question for someone concerned with independence and responsibility would be, 'What are the principles that should guide adults intending to raise a family without being a

burden on others?'. Among the answers would be, 'Do not take on commitments you cannot afford'. To pursue Perry's example, this translates into 'Do not have three children if you can only afford to look after one or two'. Looked at from the standpoint of public policy, the guiding principle would be, 'Do not encourage people to take on expenses they cannot afford'. In practice, this often translates into, 'Do not encourage adults in a casual partnership to have children', a subject to which I return in Chapter 3.

Easton's 1995 study measures the proportion of the population that falls below several poverty lines. One is the 1972 BDL for a married couple and adjusted for inflation (\$14,050 a year at 1991/92 prices). The second adjusts the 1972 BDL for changes in the *mean* equivalent disposable income. A third line is based on 60 percent of the *median* disposable income for each year. Its value at 1991/92 prices fell between 1981/82 and 1992/93. It was about 10 percent above the BDL in 1981/82 but fell below it from about 1991.

The three measures produce very different results. The BDL shows a sharp increase in the proportion of the population below the line in the early 1990s, when unemployment was high. The BDL suggested that poverty rose from 11.6 percent to 16.3 percent of the population between 1981/82 and 1992/93. The second poverty line, which takes account of changes in average disposable incomes, showed a small decline in poverty from 1981/82 to 1985/86 and a moderate increase thereafter. Around 12 percent of the population was reported to be poverty in 1992/93. The median disposal income poverty line shows "an almost counter intuitive" pattern comprising a fall in poverty from 15 percent of the population in 1981/82 to 11.7 percent in 1992/93.⁸⁶

It is because the median is prone to distortions that Easton prefers a measure based on the BDL.⁸⁷ The median, he says, is "useless for tracing poverty over time".⁸⁸ Easton explains that he is tempted to favour a poverty line based on average income because "the participation and belonging to" notion depends upon some overall community standard.⁸⁹ However, he ultimately stands by the BDL adjusted for inflation, with one proviso: that the poverty line should be a "constant real value" until "mean disposable incomes move 10 percent above (or below) the BDL" (after inflation). With that qualification, the concept of a "constant real value suffices as the best measure we have of the poverty level".⁹⁰ Easton attempts to justify the 10 percent threshold for adjusting the BDL for the movement in mean disposable incomes by suggesting that the BDL is subject to a margin of error of about 10 percent.

Easton is fully aware that poverty figures depend on the method of measurement, allowing what he calls "gee-whiz" headlines. In the 1995 article already quoted he produces seven poverty lines, each \$1,000 apart, with his BDL in the middle of the range. The lowest (\$11,050 at 1991/92 prices) is based on an income equal to three times the cost of a standard low-cost diet, which was one of the variants for a poverty line used by Edith Brashares of the Treasury.⁹¹ Using this line, 7.1 percent of the population were below the poverty line in 1981/82 rising to 9.5 percent in 1992/93. But if a higher figure is chosen, the result is very different. Easton's highest figure, \$17,050 at 1991/92 prices, is arbitrarily set to exceed the BDL by the same amount as the BDL exceeds the lowest poverty line. The highest poverty line suggests that 20.2 percent of the population were in poverty in 1981/82 rising to 34.9 percent in 1992/93.⁹²

Easton then examines the composition of people in poverty. He reverts to household data. Easton's conclusion is that children are "the greatest reason for poverty" and his recommendation for public policy is that, probably, the most effective method of dealing with family poverty is "still the simple strategy of increasing family assistance".⁹³

Despite Easton's recognition that people with children are more inclined to be poor, he attributes no significance to the lifecycle, or to the choices that people have made. His final conclusion is that, "poverty and hardship rose, on any reasonable definition, in the 1980s – the statistics confirm the anecdotal evidence".⁹⁴ Easton, therefore, is among those researchers who debate the poverty figures in a scholarly manner within very limited assumptions. They take for granted the validity of their underlying egalitarian beliefs and allow little or no room for individual responsibility. Easton uses cash income as a measure despite its known defects (to be discussed below) but he has resisted the temptation to which many egalitarians have succumbed – that of raising the poverty line every year as average incomes rise with the result that more people appear to be 'in poverty' when they are enjoying a higher real standard of living from year to year.

Easton's preferred poverty measure is, therefore, a cross between a relative and an absolute measure. His starting point is the 1972 BDL that was calculated, not as a sufficiency standard, but according to the theory that everyone has a right to share in the 'dominant lifestyle', or as the Royal Commission on Social Security put it, "to allow people to feel a sense of participation in and belonging to the community". Easton then holds that figure constant in real terms (by adjusting for inflation) with

the proviso that it should be raised if average disposable income moves more than 10 percent above the inflation-adjusted BDL.

THE DOMINANT LIFESTYLE AND THE MEDIAN

Bob Stephens, Charles Waldegrave and Paul Frater advocate a measure of poverty that is derived by "asking households to determine an income level which will give a standard of living which provides for a minimum adequate household expenditure".⁹⁵ They acknowledge the criticism of measures based on average or median income, not least that any benchmark is bound to be somewhat arbitrary.⁹⁶ If 50 percent of the average income level is chosen, then why not choose 40 percent or 60 percent? To overcome this problem, some academics have sought to define the typical community 'style of living' as the poverty line.

However, defining the 'dominant lifestyle' involves costly and time-consuming survey work. To establish the 'dominant lifestyle' in Britain, Townsend developed 60 indicators, including those related to diet, clothing and holidays.⁹⁷ Such extensive work has not been undertaken in New Zealand and the New Zealand Poverty Measurement Project was created to produce an authoritative measure of poverty in its place.⁹⁸ Its methods are described in two articles in the *Social Policy Journal of New Zealand*.⁹⁹

The main strategy employed by Stephens and others engaged in the New Zealand Poverty Measurement Project is to use focus groups comprising low-income families to gauge the level of the poverty line. By tapping into the experience of people on low incomes they hope to arrive at an authoritative poverty line:

It is their experience and knowledge of living on low incomes which is recognised by the Project as providing a more grounded basis for the establishment of a poverty threshold than that of academics or government bureaucrats, which allows us to know what people really need to live on.¹⁰⁰

The first focus group was made up of sole-parent households in Porirua and Wellington and the second set comprised people in Lower Hutt and Wainuiomata. The groups were asked to estimate the level of 'minimum adequate household expenditure'.¹⁰¹ The combined results reflected the views of about 130 households in the Wellington region. The average 'minimum' recommended by the groups was \$471 per week for a family of two adults and three children. Using this baseline, Stephens and his colleagues estimate that a reasonable poverty line was 60 percent of the

median equivalent household disposable income.¹⁰² They conclude that 10.8 percent of households were below that poverty line in 1992/93.

Stephens and his colleagues go on to compare eight poverty measures including one based on 60 percent of household *expenditure*.¹⁰³ Because the expenditure measure produces a higher benchmark than their income measure, they found a higher percentage of households reported to be in poverty.¹⁰⁴ A further comparison is made with income after deducting housing costs.¹⁰⁵ On this basis 18.5 percent of households were found to be below the poverty line.¹⁰⁶

The early focus-group studies were followed by additional studies in the southern North Island in 1995 and 1996, and in Wellington and Auckland in 1996. These later studies confirmed that 60 percent of median disposable income was about the right level against which to measure poverty within a population.

Easton has been a severe critic of the focus-group method. He comments acerbically that: "apparently a small number of selected families are asked how much [expenditure] they think is necessary to maintain an adequate standard of living". We are told that their conclusion is "not very different from Stephens' preferred poverty line", namely 60 percent of median disposable income.¹⁰⁷

In their 1996 study Stephens *et al* took the opportunity to reply to Easton's criticism of the median income measure. The poverty line in any one year would not 'always' be 60 percent of the median income, they said, but would move up or down depending on the results of the focus-group interviews for that year.¹⁰⁸ Thus, their measure is 'expressed' as a proportion of the median income but is not permanently linked to it.

Despite the dispute between Easton and Stephens over their preferred measure, they belong to the same philosophical tradition. Both look upon the people they are studying as if the situation these people are in is primarily the result of outside forces over which they have little or no control. Personal responsibility plays hardly any part in the work of these authors. The following remark by Stephens *et al* exemplifies their attitude. They commented that "the focus group results indicated that poorer households never got the *chance* to accumulate assets when the children were younger".¹⁰⁹ The predicament of these households is explained as the result of factors beyond their control. Poorer households may, however, have decided to forgo material living standards in order to have a larger family than otherwise. Moreover, if, as we saw earlier, Rowntree had been the investigator he would have asked whether the poorest people had made an unwise decision to have children too soon, before

they could afford them. And, he might well have argued that any public policy remedy should not encourage others to put themselves in the same position.

MEASUREMENT OF THE STANDARD OF LIVING

If the methods of Easton and Stephens are defective, what is the best method of discovering the standard of living? The cash-income method of measuring poverty deployed by Easton and Stephens has been subject to strong criticism, not only by critics of egalitarianism but also by scholars in good standing in the world of poverty research.

Atkinson, for example, argues that modern evidence is 'purely statistical' and lacks the qualitative information contained in the earlier local studies pioneered by Rowntree and Booth and developed by Bowley and others. According to Atkinson, the strength of some earlier investigations was that researchers had conducted local surveys and spoken directly to the people being studied:

One of the contributions of early investigators was that they were actively involved in fieldwork and that a great deal of qualitative and background material entered into their assessment. In particular, they knew a great deal about the localities they studied. When Rowntree reported the percentage in poverty in York and Bowley that in Reading, their results were given credence in part because of the local and background knowledge they brought to bear. Moreover, it was one of the insights of such investigators that the individual family or household should not be seen as an independent observation unrelated to their neighbours or work-mates.¹¹⁰

Rowntree had studied 16,000 households in his 1936 study of York and when Tout studied Bristol in 1937 he examined a 1-in-20 sample, some 4,500 households.¹¹¹ The British Family Expenditure Survey, however, is a national 1-in-3,000 sample of about 7,000 to 7,500 households. New Zealand's Household Economic Survey is based on a sample of around 3,000 households (about 1-in-425). The academics who draw conclusions from these surveys have neither local knowledge nor the advantage of having conducted interviews (other than with a few selected members of focus groups).

This tendency to study people in poverty as anonymous survey respondents to be analysed *en masse* is not without significance, because it tends to go hand in hand with the assumption that the people under

investigation need to have things done for them or to them by public policy makers.

The cash-income method has been subject to withering criticism by Richard Pryke in *Taking the Measure of Poverty*¹¹² and Jonathan Bradshaw (and his collaborators) has advanced an equally compelling critique. Bradshaw has gone so far as to say that the measure of poverty 'determines the result'. The choice of measure:

... will have consequences for the proportion and structure of the estimated poor population and therefore the policies that should be pursued to reduce or eliminate poverty. In the end the choice of poverty measure will be determined, if not by the availability of the data, then by the purpose of the research.¹¹³

Bradshaw analysed a variety of poverty measures, focusing on 12. He found that the proportion of the population in poverty varied from 10 percent to 29 percent, depending on the measure used.¹¹⁴ Bradshaw then compared the overlap between the 12 measures and found that it varied from 99 percent to 3 percent. For example, only 5 percent of those who were reported to be in poverty when it was defined as 'spending of less than 50 percent of mean equivalent expenditure' were also found to be in poverty when it was defined as 'expenditure of more than 35 percent of income on food' (a measure similar to the official poverty line in the United States).¹¹⁵

Students of the poverty literature have long known that different measures of poverty produce very different results. Bradshaw cites several examples, including work by Hagenaars and de Vos of Erasmus University and Stein Ringen, then of Oslo University and subsequently at Oxford University. Hagenaars and de Vos compared 8 measures of poverty in the Netherlands and found that the overlap varied from 7 percent to 98 percent.¹¹⁶ Also in the late 1980s, Stein Ringen produced a forthright critique of the 'income' measure of poverty:

... it is an abstract and formal statistical exercise in which little or no consideration is given to how people in fact live ... low income does not necessarily mean a low standard of consumption ... One needs only to introduce some very simple and tentative information on the standard of consumption to demonstrate the inadequacy of relying on income information alone in the measurement of poverty.¹¹⁷

If Bradshaw and the other critics are correct in saying that the choice of measure determines the result, then poverty researchers should be careful to explain why a particular method is favoured over others.

INCOME VERSUS EXPENDITURE

It is widely known that the preferred measure of poverty throughout Europe is household expenditure not income. Initially it sounds odd that measures of expenditure and income could produce radically different results, but this has been the consistent finding of surveys conducted since the 1950s throughout Europe.

The London-based Institute for Fiscal Studies (IFS) has vividly demonstrated the importance of the expenditure measure. Using the income measure, the income of the bottom 10 percent of people in Britain was unchanged between 1979 and 1993. However, the same bottom 10 percent (according to income) in 1992 spent on average 27 percent more than in 1979 before the deduction of housing costs, a finding it describes as "startling".¹¹⁸ By 1995, they were spending 28 percent more.¹¹⁹

A table in the 1997 edition of the British Department of Social Security report *Households Below Average Income* (covering 1979–1994/95) shows just how much variation there is between income and expenditure. Three percent of the individuals in the bottom decile by income were in the highest decile for expenditure, and 19 percent were in the top 50 percent of individuals ranked by the level of their expenditure.¹²⁰ The ownership of durable goods gives further insight into the standard of living of the bottom income decile. In 1995, 75 percent of such individuals in Britain lived in a household with access to a video, and 85 percent to a freezer or fridge-freezer. Some 53 percent had the use of a car or van.¹²¹

The IFS examined the possibility that the difference between income and expenditure was the result of increased debt, but found it not to be the reason. Apart from the obvious explanation that some income was not reported, many households were moving into and out of the bottom income decile from year to year and drawing on their savings.

Although the IFS authors found the results of the comparison between income and expenditure "startling" they should not have done so, because it was consistent with all previous work. The Statistical Office of the European Communities (Eurostat) published a comparative study of poverty in Europe in 1990, covering the period 1980–1985. The report states that the choice between income and expenditure measures of poverty is "particularly important" because of the under-reporting of income. When income is under-estimated it leads to an over-estimation of the incidence of poverty. As a result of these difficulties, and after due allowance for the defects that also attend the expenditure measure, Eurostat decided to use household expenditure because it "better reflects

the availability of both declared and undeclared resources of low-income groups" and is a "more satisfactory" indicator of 'permanent income' than income declared at some point in time.¹²² The follow-up study, covering the period up to 1988, also measured poverty based on expenditure rather than income.¹²³

The very first British study to use the Family Expenditure Survey (FES) also encountered the problem of a mismatch between income and expenditure. Abel-Smith and Townsend pioneered the use of the FES and published their findings in *The Poor and the Poorest* in 1965. They compared gross income and gross expenditure from the 1963 FES and found that the discrepancy was highest for those with the lowest declared income.¹²⁴ The average gross expenditure was 167 percent of income for the lowest income group,¹²⁵ a discrepancy so large that they thought it justified a special inquiry.¹²⁶ This result was consistent with earlier evidence from the 1953/54 FES, which had found that 10 percent of those on national assistance reported expenditures more than twice the basic national assistance scale.¹²⁷ Social scientists, said Abel-Smith and Townsend (in 1965), had been aware for "many years" that in household income and expenditure surveys average expenditure "substantially exceeds income".¹²⁸ They gave the example of a study by Cole and Utting that had discussed the problem in 1956 and concluded that expenditure was overstated by 5 percent and income understated by 10 percent.¹²⁹

Atkinson has also acknowledged the importance of the distinction between income and expenditure. In a very honest discussion of modern poverty analyses published in 1989, he acknowledges that earlier scholars (including Abel-Smith and Townsend) had been careful to draw attention to the difference between the income and expenditure measures. However, "subsequent investigators, myself included", he says, "adopted the income definition without typically recognising the shift in emphasis".¹³⁰

New Zealand's poverty researchers are also aware of the embarrassing difference between expenditure and income. Stephens, Waldegrave and Frater refer to Australian, German and UK studies of the discrepancy.¹³¹ They acknowledge that, in New Zealand, only 45.6 percent of households in the lowest income decile are also in the lowest expenditure decile, and that 10 percent of households in New Zealand's bottom income decile are in the top three expenditure deciles.¹³² Indeed, Stephens has previously advocated the expenditure measure because expenditure provides a "better resource-based measure of poverty than income".¹³³

Some other researchers in New Zealand have shown more respect for the weight of international evidence. For instance, in 1995 Alison Robins of the Social Policy Agency analysed the income/expenditure discrepancy using data from New Zealand's HEIS.¹³⁴ Households were classified into four groups according to their annual household equivalent disposable income:

Lowest:	\$0–\$14,999
Lower:	\$0–\$19,999
Middle:	\$20,000–\$39,999
High:	\$40,000 and over.

(Note: The 'lowest' group is contained within the 'lower' group.)

When averaged across all households with non-negative income, Robins found that disposable income exceeded total expenditure by \$28 in 1992/93.¹³⁵ However, the average expenditure of the lowest group exceeded its average disposable income by \$7,914, and the average expenditure of the middle group exceeded its average income by \$999.¹³⁶ Robins identified the main reasons for the excess of expenditure over income as "under-reporting of income, irregular gifts of money, borrowing and dissavings".¹³⁷

Even households in which the main source of income was benefits spent more than their declared income. Their average disposable income (\$15,889) was 97 percent of their average total expenditure. For those on low wages the discrepancy was even larger, with disposable income (\$19,585) equal to just 68 percent of their expenditure.¹³⁸

Statistics New Zealand also presents a comparison of income and expenditure in *Consumer Expenditure Statistics* that is summarised in Table 1. The information presented is derived from the Household Economic Survey. The average weekly expenditure of households in the lowest income group, defined as those earning up to \$13,900 before tax a year or approximately \$267 a week, in 1998 was \$373 a week (\$19,438 a year).¹³⁹ Their average weekly expenditure was reported to be more than double their average gross weekly income (\$171.40). The lowest decile includes households containing the self-employed that recorded a loss. Welfare benefits and New Zealand Superannuation account for 84 percent of the average weekly income for the lowest decile group. The reported income and expenditure for households in that decile and the next lowest decile should plainly be used with caution as indicators of their standard of living.

Table 1: Average household expenditure by household income group – year ended March 1998

<i>Annual gross income (\$)</i>	<i>Average weekly income (\$)</i>	<i>Average weekly expenditure (\$)</i>	<i>Average weekly expenditure: Average weekly income (%)</i>
Under 13,900	171.40	372.80	217.5
13,900 to 19,889	332.20	364.10	109.6
19,900 to 24,799	424.60	397.30	93.6
24,800 to 31,399	541.00	527.00	97.3
31,400 to 39,199	674.10	611.60	90.7
39,200 to 48,099	837.80	640.90	76.5
48,100 to 58,699	1,019.60	764.20	75.0
58,700 to 71,599	1,232.80	840.30	68.2
71,600 to 93,099	1,560.80	984.90	63.1
93,100 or over	2,651.20	1,330.10	50.2
All groups	944.10	683.10	72.4

Note: Income is before tax and from regular and recurring sources only. Expenditure is net of refunds, sales and trade-ins but includes GST.

Source: Statistics New Zealand, *Consumer Expenditure Statistics 1998*, Wellington: Statistics New Zealand, 1999, Table 4.4, p 68 and Standard Tables Household Spending 1998, Table 21, www.stats.govt.nz.

Further insight into the standard of living is given by the possession of amenities. Robins has produced estimates based on the HEIS. The distribution among households of selected amenities according to the 1992/93 HEIS is shown in Table 2. Amenities such as telephones, washing machines, fridges and colour television sets that were regarded as luxuries just a few decades ago are now owned by the majority of households in the lowest income group.

INCOME DYNAMICS

One of the main reasons for the discrepancy between income and expenditure is that different people or households are in each decile from year to year and they make use of savings accumulated during better times when their income is low.

Table 2: Ownership of household amenities by income group – year ended March 1993

<i>Amenities</i>	<i>Income groups</i>				
	<i>Lowest</i> (%)	<i>Lower</i> (%)	<i>Middle</i> (%)	<i>High</i> (%)	<i>All</i> (%)
Telephone	81	88	97	100	94
Washing machine	77	77	94	95	87
Clothes dryer	51	49	66	79	61
Fridge or fridge/freezer	98	99	100	100	99
Deep freeze	50	51	59	57	56
Colour TV	90	91	95	96	93
Video	59	54	77	84	69
Vehicle	76	77	94	95	87

Note: In addition, 3.7 percent of households in the 'lowest' income group paid vehicle-related expenses for vehicles they did not own, but presumably made use of.

Source: Robins, A, 'Statistics New Zealand Household Expenditure and Income Survey: What can it tell us about "standard of living"?', *Social Policy Journal of New Zealand*, Issue 6, July 1996, p 187.

The importance of movement into and out of the low-earning group is confirmed by the British Household Panel Survey (BHPS). It avoids reliance on a 'snapshot' by tracking the same individuals over time. Work began in 1991 when about 5,500 households agreed to take part in the survey. In a single year there was substantial movement in the income level of participants. Between 1991 and 1992, 39 percent of the individuals who began in the bottom income quintile had reached a higher quintile.¹⁴⁰ By 1995, 64 percent of those in the bottom decile in 1991 had risen above it, while 36 percent remained. Moreover, some individuals substantially increased their income. Of those in the bottom decile in 1991, 17 percent had reached the top five deciles by 1995.¹⁴¹ By 1996, 51 percent of those in the bottom quintile in 1991 had risen above it. Only 5 percent of the sample were in the bottom quintile in all six years from 1991 to 1996, and only 10 percent were in the bottom three deciles of the income distribution in all six years.¹⁴²

There is limited information available about income dynamics in New Zealand. George Barker reports on two studies of which the findings are not dissimilar to the British evidence. Smith and Templeton analysed

Inland Revenue Department data for 1980–87 and found that 25 percent of people who filed tax returns and who were in the bottom income quintile in 1980 had moved out within one year, and that 46 percent had moved to a higher income quintile in seven years.¹⁴³ More recently, an analysis by the Treasury of Inland Revenue data for 1991–93 showed that 25 percent of individuals who filed tax returns had moved out of the bottom income quintile in one year and 30 percent had moved in two years.¹⁴⁴

John Creedy undertook a detailed study of income dynamics in New Zealand using a random sample of taxpayers for the years ended March 1991 to 1993.¹⁴⁵ He found that people "with relatively low incomes receive, on average, relatively large proportionate increases [in income], and there is no systematic tendency for success to breed success or for failure to lead to further failure".¹⁴⁶ Creedy also found that there "is a substantial amount of apparently random relative movement from year to year in the income distribution".¹⁴⁷ Creedy used his results to model lifetime incomes. According to Creedy an important finding from this work "is that the present value of income over the 45-year period from 20 to 65 years of age displays less inequality than in *any* single year".¹⁴⁸

How can the argument so far be summarised? Recent claims by some academics that 'the poor are getting poorer' or that there are more people below the poverty line are based on the income measure. But income overstates the incidence of poverty because it is not an accurate measure of the standard of living being experienced by those people who are poor. Expenditure is a more reliable measure. However, as the next section will argue, cash expenditure does not fully capture the standard of living either.

CASH EXPENDITURE OR TOTAL CONSUMPTION

So far, I have used the term 'expenditure' to mean actual spending declared in a survey. But, as Pryke¹⁴⁹ has cogently argued, this definition leaves out goods and services in kind that are provided free to the consumer, such as health and education services.¹⁵⁰ Estimates of the value of such free goods in Britain have been made by the Central Statistical Office (CSO) (now the Office for National Statistics) and published regularly in *Economic Trends* and *Social Trends*, but are either ignored or given little weight by the poverty lobby. Not so long ago, it was common for anti-poverty campaigners to insist on the importance of the so-called

'social wage', and trade unions made raising the social wage one of their central demands. But precisely because the 'social wage' has led to a big increase in the quality of life for people in the bottom two income deciles, the British poverty lobby is now inclined to neglect it. The CSO estimate for 1994/95 showed that such people received benefits in kind (mainly health and education) worth on average £3,610 (about NZ\$12,000) per annum. Missing out the value of these benefits ignores over 47 percent of their 'final' income.¹⁵¹

Eurostat is also aware that surveys of expenditure do not take into account goods and services provided free, such as education, health care and the use of the home and other durable goods. Some European Union member states use the 'expenditure concept' (that is, goods and services paid for by the consumer) but the majority use the 'consumption concept' which also takes into account free goods and services that are consumed.¹⁵²

British poverty analysts Abel-Smith and Townsend have also urged use of a wider definition of income, including capital appreciation, because it was "a major source, if not the major source, of the wealth of the rich". They also called for the measurement of benefits in kind, or 'fringe benefits'.¹⁵³ They did so because their intention was to understand the true condition of the rich as well as that of the poor.

In his later work Townsend repeated his view that some families live "very differently from what their net disposable incomes would appear to denote". This was because:

... their command over other types of resource, whether assets, or employers' welfare, social service or private benefits in kind, is exceptional. For considerable sections of the population resources other than cash incomes form a significant part of living standards.¹⁵⁴

John Hills, another British poverty analyst, concedes that among the defects of the UK *Households Below Average Income* series is its reliance on 'cash income', excluding capital gains and benefits in kind. Hills asserts that in addition to cash income:

... other things contribute to people's standard of living. Owner-occupiers benefit from living in their home without having to pay rent. Others live rent-free or pay below-market rents.¹⁵⁵

In all these cases, he continues, adding an estimate of housing income would give a "better measure of living standards".¹⁵⁶ It is particularly significant for those on low incomes:

Adding in housing income has a greater proportionate effect on the incomes of the poor than of the rich, and so gives a more equal income distribution than of cash incomes: 17.1 per cent of individuals had cash incomes below half the average in 1989 according to this analysis, falling to 15.7 per cent when housing income was added.¹⁵⁷

According to the 1996 census, 38.5 percent of households in New Zealand with an annual income up to \$15,000 live in an owner-occupied house and do not make regular mortgage payments. Only 31 percent of all households are in a similar position. The relatively high level of people on low incomes who live in owner-occupied houses without mortgages reflects a concentration of superannuitants among those on low incomes.¹⁵⁸

For the poorest tenth of Britain's population, benefits from education and the national health service alone equate to 70 percent of disposable (cash) income and 5 percent for the richest tenth: "Adding these in would give a much more equal distribution".¹⁵⁹

Some estimates of the value of government services have been made for New Zealand. In 1990 the New Zealand Planning Council published the findings of its Income Distribution Group convened by Suzanne Snively.¹⁶⁰ The Income Distribution Group, which included Robins and Stephens, estimated the impact on income distribution of government goods and services. Its method was to start with 'market income' (wages, salaries, profits and investment income) and then add cash transfers from government (benefits and pensions) to arrive at 'total income'. Direct taxes were deducted to give 'disposable income'. To this figure the Income Distribution Group added the value of services – health, education, housing – provided by government at less than full cost and other government services; then they deducted indirect taxes, company taxes and other government revenues. The outcome was described as 'final income'.¹⁶¹

The Income Distribution Group examined education, health and housing in detail. It also assigned a figure for 'other' government services, but found such services understandably more difficult to apportion to households than government spending on education, housing and health.

Health expenditure was disproportionately assigned to lower market-income deciles because these groups include a large number of the elderly. Education expenditure was more evenly spread but distributed more towards higher income households. Housing rental assistance went mostly to the lower income groups while mortgage assistance was

allocated disproportionately to households with upper and middle incomes.¹⁶²

Table 3 captures the apparent redistributive effect of taking account of taxes, cash transfers and subsidised or free goods and services.¹⁶³ It shows the proportion of different classes of income for the whole population that accrues to the bottom 20 percent of households by market income and the top 20 percent of such households in 1987/88.

Table 3: Proportion of income received by selected household income quintiles 1987/88

Class of income	Proportion of aggregate income	
	Bottom 20 percent	Top 20 percent
	of households by market income	of households by market income
Market income before tax (%)	-0.4	48.0
Disposable income (%)	7.8	37.9
Final income (%)	9.5	35.1

Note: Some households in the bottom 20 percent report losses, for example, from self employment.

Source: Income Distribution Group, *Who Gets What? The Distribution of Income and Wealth in New Zealand*, Wellington, New Zealand Planning Council, 1990, p 142.

The table shows that the 20 percent of households with the lowest market incomes in 1987/88 received minus 0.4 percent of aggregate market income while households in the top quintile earned 48 percent of such income. Households in the bottom market income quintile received 7.8 percent of 'disposable income', a measure including benefits net of direct taxes, whereas the top 20 percent of households received 37.9 percent of aggregate disposable income. Households in the bottom quintile received 9.5 percent of aggregate 'final income', which takes account of government services, whereas households in the top income quintile received 35.1 percent.¹⁶⁴

The Department of Statistics (now known as Statistics New Zealand) also published an estimate of the impact on the income distribution of taxes and government expenditure for 1987/88.¹⁶⁵ It presented two kinds of analyses; one based on 'life-cycle stages' and the other on income deciles. Important assumptions about the ultimate incidence of

government outlays and taxes affect the findings of the study and those of the Income Distribution Group.

Using the 'life-cycle stages' categorisation, the Department of Statistics found that three household types benefited most from fiscal measures: single persons aged 60 years or more; couples without children when the female was aged 60 years or more; and sole parent households.¹⁶⁶ These findings largely reflect the impact on total income of National Superannuation (now known as New Zealand Superannuation) and the Domestic Purposes Benefit (DPB).

The decile analysis used equivalised household income based on the Jensen scale.¹⁶⁷ The method of calculating income was similar to that of the Income Distribution Group.¹⁶⁸ It started with market income, added cash benefits, deducted direct taxes, added government services in kind, and deducted indirect taxes and company tax (which was treated as falling entirely on households).¹⁶⁹

The study valued health care at \$2,920 a household in the bottom income decile, \$3,200 for the second decile and \$2,890 for the third. Education was valued at \$1,520 a household for the bottom decile, \$880 for the second and \$1,950 for the third. Housing subsidies were valued at \$610 a household for the first decile, \$400 for the second and \$360 for the third.

The overall impact of government outlays, net of direct and indirect tax, was found to be substantial. Table 4 shows the average level of net government outlays allocated to each equivalent market-income decile.¹⁷⁰

Table 4: Net government outlay per household by equivalent market income decile 1987/88

<i>Equivalent market income decile</i>	<i>Net government outlay per household (\$)</i>
1	16,780
2	15,650
3	15,410
4	8,100
5	2,660
6	-1,810
7	-5,150
8	-10,100
9	-15,060
10	-26,400

The poorest groups (deciles 1 to 3) benefited the most from net government expenditure. Indeed, that has been the intention of public policy. Households with high incomes paid substantially more in tax than they received in government services.

The Treasury is undertaking work on income distribution that includes an updating of the analyses presented by the Department of Statistics in *The Fiscal Impact on Income Distribution 1987/88*. Preliminary findings from a comparison of 1997/98 and 1987/88 are present by Ron Crawford.¹⁷¹ He concludes that:

... if government social services are evaluated at the cost of providing them, then, together with cash transfers and taxes, and market income, they have, on average, left households in all income deciles at least as well off in 1998 as in 1988 in real dollar terms. In real dollar terms nett transfers to households in the bottom nine deciles either increased or became less negative. Probably the main explanation for this result is the greater proportion of government expenditures going to social policy in 1998 compared to 1988.¹⁷²

Crawford notes that a more unequal distribution of market income appears to have been driven by a reduction in the share of total income attributable to households in middle-income deciles and a gain in the share held predominantly by those in the tenth decile. When adjustments are made for social policy expenditure and taxes, the shift to the highest decile still predominates, but to a lesser extent.¹⁷³

A recent study by Statistics New Zealand, *New Zealand Now: Incomes*, provides the most up-to-date official information on the distribution of incomes.¹⁷⁴ It focuses on the distribution of real income (that is, adjusted for inflation) in the years ended March 1982, 1986, 1991 and 1996. Several categories of personal income (such as wages and salaries, market income and disposable income) and household income (adjusted for size and composition using the Jensen equivalence scale) are examined. Unlike the Department of Statistics report, *The Fiscal Impact on Income Distribution 1987/88*, *New Zealand Now: Incomes* does not attempt to allocate the value of government-provided goods and services to households.

The distribution of income is found to have become "substantially" more unequal between 1982 and 1996.¹⁷⁵ The results are broadly similar for all categories of income because of the influence on the findings of the change in the distribution of wages and salaries.¹⁷⁶ As expected, the study shows that equivalent household disposable income is considerably more equally distributed than income gross of tax and benefits.¹⁷⁷

The findings differ, however, among three sub-periods. The distribution of income was broadly stable between 1982 and 1986, and again between 1991 and 1996.¹⁷⁸ The change to a more unequal distribution of income mainly occurred between 1986 and 1991. The period from 1982 to 1986 covers the start of the reforms. There was a fall in employment, particularly of young males, and a sharp rise in unemployment between 1986 and 1991.¹⁷⁹ The number of welfare beneficiaries of working age increased from about 101,000 to almost 319,000 between 1982 and 1996. More than 80 percent of the increase occurred between 1986 and 1991.¹⁸⁰

The change in the distribution of equivalent household disposable income between 1986 and 1991 reflects a large growth in the share of income earned by households in the top two income deciles and a reduction in the relative income of middle-income households. The share of disposable income attributable to the bottom fifth of households, which are almost entirely dependent on government transfers, declined slightly between 1986 and 1991.¹⁸¹ However, their spending was much higher than their disposable income.¹⁸² The relative position of such households was largely protected by welfare arrangements.

Statistics New Zealand did not explain why the reported share of disposable income attributable to households in the top decile increased by a quarter between 1986 and 1991.¹⁸³ Subsequent research has sought to fill this gap. Dean Hyslop and Dave Maré present a semiparametric analysis of changes in the distribution of gross household income (unadjusted for household size and structure) and income inequality over the period 1983–1998. They find that changes in the following factors contribute to the observed increase in inequality:

- household structure, particularly the declining proportion of two-parent families and the rise of sole-parent families;
- household attributes such as the number, age, sex, and ethnic and education structure of adults in the household, together with the numbers of children in various age groups; and
- employment outcomes.

On the other hand, changes in returns (for instance, to education and skills) are estimated to have reduced the level of inequality. Overall, these factors account for about 50 percent of the observed increase in inequality, depending on the measure of inequality used. The results confirm other

research that changes in the distribution of income were concentrated during the late 1980s.¹⁸⁴

We can speculate about some other possible reasons for the results reported by Statistics New Zealand. The reduction in high marginal rates of income tax in October 1986 and October 1988 increased significantly the disposable income of middle- to high-income earners. However, it does not directly account for the rise in the gross income of high-income earners. The reduction in tax rates and other tax changes could, however, be expected to encourage people to earn more gross income and to reduce tax avoidance and evasion such as the retention of income in private companies.

Following the introduction of fringe benefits tax in April 1985 many firms 'cashed out' such benefits. Fringe benefits were not included in the study. Thus the switch from fringe benefits to salaries will have boosted the reported gross income of affected people even though their effective income may not have changed. As far as I am aware no one has yet attempted to adjust for this or other relevant changes in tax policies since 1984.

Those tax changes affected people on higher incomes the most for the simple reason that they face the highest marginal tax rates and pay the most tax. Households in the top decile by market income paid an average of \$39,200 in personal income taxes in 1996. Households in the bottom four deciles received substantially more income by way of government transfers than they paid in taxes in that year.¹⁸⁵

Between 1982 and 1996 there was no increase in the proportion of individuals or households with an equivalent disposable income of less than 50 percent or 60 percent of the median disposable income. These measures suggest that between 6 percent and 12 percent of households were in poverty in 1996.¹⁸⁶ The measures of poverty used by Statistics New Zealand are similar to those of Stephens, Waldegrave and Frater.¹⁸⁷ Using a benchmark of 60 percent of equivalent disposable income, the latter found that the percentage of households in poverty fell from 13.7 to 10.8 percent between 1983/84 and 1992/93. Stephens, Waldegrave and Frater reported poverty to be stable at 4.3 percent of households when a benchmark of 50 percent of the median disposable income was applied.¹⁸⁸ The period examined by Stephens *et al* did not reflect fully the economic recovery that started during 1991. Nevertheless, Stephens, Waldegrave and Frater suggest that fewer households were in poverty than were

reported by Statistics New Zealand. Neither study suggests a rise in poverty since the economic reforms of the 1980s began.¹⁸⁹

Statistics New Zealand's study contradicts three frequent claims. First, the claim that the rich are getting richer while the poor are getting poorer is doubtful. The average real household equivalent disposable income of households in the top decile increased substantially between 1982 and 1996 and the income of households in the second decile increased by 3 percent, but for households in deciles 1 to 8 it fell by between 2 percent and 11 percent. The income of households in deciles 1 and 2 declined by 4 percent and 5 percent respectively, that is by less than the average for middle-income households (deciles 3 to 8).¹⁹⁰ Thus, while households in the bottom quintile suffered a decline in income, middle-income households were affected to a greater extent. Moreover, if the reform programme had continued there is good reason to believe that incomes would have been higher and fewer people would be dependent on welfare benefits.

Although we do not have a long-term statistical series, it is probable that incomes have become more evenly distributed over the long run. Easton's analysis of individual tax data, for instance, suggests that income inequality reduced between 1953 and 1976.¹⁹¹

Secondly, people on low incomes did not bear a significant fall in their real disposable income between 1991 and 1996 as had been predicted when benefits were reduced in April 1991. The average household equivalent disposable income of the bottom decile fell by 1.75 percent in real terms, that for the second decile was unchanged while that of the third decile increased by 1.1 percent.¹⁹²

Thirdly, the claim that low-income households suffered unduly from the introduction of the goods and services tax (GST) in October 1986 is not borne out by the study. This is no surprise.¹⁹³ Benefits were increased and family support and guaranteed minimum family income were introduced to compensate low-income households fully for the effect on prices of GST.

Statistics New Zealand mainly uses the Gini coefficient to evaluate changes in the distribution of income. The Gini coefficient measures the extent to which the actual distribution of income differs from a proportionate distribution of income where, for example, 40 percent of the population earns 40 percent of total income and 80 percent of the population earns 80 percent of total income. It is commonly used to

measure changes in income distributions. The Gini coefficient is, however, a deficient measure. For instance, a reduction in the income of the highest earners that provides no additional income to any other group would be reported as a desirable change in the distribution of incomes. The Gini coefficient only makes sense as a measure of inequality if envy about high incomes is equally worthy of concern as compassion for people facing hardship and, thus, an equal distribution of income is viewed as the optimal distribution of income.¹⁹⁴

A report prepared by Des O'Dea for the Treasury reviewed analyses of income distribution in New Zealand.¹⁹⁵ Consistent with Statistics New Zealand, O'Dea reported that income inequality rose in the 1980s and 1990s "regardless of how income is measured".¹⁹⁶ The growth of income inequality was found to be faster in the 1980s than the 1990s, and New Zealand's income inequality measured by the Gini coefficient was reported to have risen substantially faster than in certain other Organisation for Economic Cooperation and Development (OECD) countries.¹⁹⁷

O'Dea, drawing on Hyslop and Maré, reported that the proportion of middle-income households had fallen while the proportion in low and top income bands had increased. He also found that changes in the composition of households (such as the growth in sole-parent households), an increase in the proportion of workers in their prime working years, and higher education qualifications had contributed up to 50 or 60 percent of the overall increase in income inequality. The balance was described as still unexplained.¹⁹⁸

Job losses during the 1980s had little effect on most overall measures of income inequality among households because employment losses were experienced across the whole of the income distribution. They compressed the bottom half of the distribution and, by reducing the median income, increased inequality in the top half of the distribution. These effects largely offset each other.¹⁹⁹

As with Statistics New Zealand, O'Dea reported that the real income of households in the bottom decile had fallen by about 5 percent in real terms between 1982 and 1986. He noted that this "decline seemed to be less than for those groups further up the distribution".²⁰⁰

It is commonly noted that Maori are disproportionately represented among households on low incomes and it is often assumed or asserted that ethnicity largely explains this outcome. Simon Chapple has questioned this view.²⁰¹ He argues that the classification of people by

ethnicity results in a fluid categorisation of people for statistical purposes. Chapple reports that "formal statistical analysis using a variety of official data sets suggests that in all cases very small amounts of individual variance of incomes and employment chances is explained directly or indirectly by being Maori".²⁰² According to Chapple, age, education [skill levels] and literacy explain the significant income gap between Maori and non-Maori.²⁰³ This finding points to the central importance of better educational outcomes for Maori in raising their welfare.

CONCLUSIONS

To reach valid conclusions about poverty such as 'the poor are getting poorer' or 'there are more people below the poverty line' is no simple matter. The choice of poverty measure may well determine the result obtained.

Much recent academic work has been dominated by egalitarians who have produced incomplete accounts of the changing standard of living of New Zealanders. Occasional attempts to calculate a broad measure of the material standard of living have been made by Statistics New Zealand. Egalitarians in New Zealand, however, continue to use cash income as the measure of living standards. This approach exaggerates the extent of poverty.

The essence of the argument is that an accurate measure of the standard of living should take account of all the relevant facts. If it omits some important information it will not be reliable. The cash-income method does miss out relevant information. Measures of poverty based on a percentage of median income, with or without focus groups, should be given no credibility because they neglect known facts. It is now widely acknowledged among recognised researchers that cash expenditure reflects the standard of living more fully than cash income, and it is equally widely accepted that the consumption measure (which includes goods and services provided in kind) reflects more fully still the standard of living.

Future measures of poverty in New Zealand should be based on the consumption measure. The agency best placed to carry out such a study would be Statistics New Zealand. The approach developed by Suzanne Snively and her colleagues in *Who Gets What? The Distribution of Income and Wealth in New Zealand* and the Department of Statistics in *The Fiscal Impact on Income Distribution 1987/88* could provide a basis for further work, although the allocation of some government spending and taxes

to households can be little more than speculative. The approach adopted by the Office for National Statistics in the United Kingdom provides another model that could be deployed.

A key objection to the prevailing preference for poverty studies based on income and even to more soundly based studies, however, is that they divert attention from the more serious underlying problem – that of welfare dependency and the attitudes it reflects, not least the diminution of personal responsibility. Welfare dependency is the subject of the next chapter.

POVERTY, WORK AND PUBLIC POLICY

Despite the continued prevalence in academic circles of supporters of egalitarianism and universalism, there is wide agreement among policy advisors in most Western countries that benefit dependency is a serious problem and general acceptance that participation in paid work, where feasible, is the answer. Moreover, it is increasingly being acknowledged that welfare systems in many Western countries became too one-sided in the 1960s and 1970s.

The prevailing orthodoxy during that period had embraced a paradoxical combination of ideas which might be called 'egocentric collectivism'. Four elements can be distinguished. First, it rested on an interpretation of the human condition that emphasised individual powerlessness. The implication of this view at the time was that the pressing political task was to transfer funds to the helpless section of the population – those people in poverty or the working class. Second, and closely related to the first point, many but not all collectivists were egalitarians who sought to use the power of the state to equalise incomes. Third, egocentric collectivists emphasised individual claims on other members of the society – there were universal 'welfare rights' with no corresponding obligations. Fourth, there was an element of cultural nihilism – we should be released from all restraints, whether moral, cultural or legal.

As Norman Dennis has shown, the ultimate intellectual origins of 1960s collectivism lay in Marxist hostility towards capitalism and its desire to tear it down by making impossible demands. However, the version of this doctrine that predominated in the United States, advocated most prominently by Michael Harrington, was hostile to 'the system' but did not deploy any obviously Marxist language. In keeping with the American political tradition it also managed to combine hostility to the established American order with a hyper-individualist animosity to all restrictions on individuals that has been so effectively criticised by Myron Magnet.²⁰⁴

By the mid-1980s it was increasingly being recognised that political movements of the 1960s and 1970s, that wedded political collectivism and social nihilism, offered an unstable and unworkable mix, but a great

many people of goodwill found themselves supporting some or all of these ideas because they simply wanted to help the poor. As argued in Chapter 1, it was not until the 1980s that a counter movement developed showing that it was possible to sympathise with the least well off without being deterministic, an egocentric collectivist, an egalitarian or a cultural nihilist.

The counter attack began with American writers such as Lawrence Mead, Charles Murray and Michael Novak. They rejected determinism and showed that to hold people responsible for their behaviour was not to blame them, nor to make excuses for inaction. In *Beyond Entitlement* Lawrence Mead, for instance, strongly criticised the "sociological determinism" of public policy makers.²⁰⁵ Individual attitudes can make a difference, he argued, and to overcome 'behavioural poverty' it was important to enlist the sense of responsibility of benefit recipients. Mead, Murray and Novak saw one-sided welfare rights as part of the problem and advocated instead the imposition of reciprocal obligations. To do so was not harsh but rather to embrace individuals as part of a community that respected its members by protecting each from hardship while also expecting a positive contribution in return. People who claimed that a requirement for beneficiaries to engage in work was too severe confused harshness with high expectations.

Egalitarianism also came under attack because it was not compatible with a tradition of liberty built on individual responsibility and limited government. Among others, Hayek was prominent in arguing that the law should serve *all* interests and not be an instrument of the class war.²⁰⁶

Similarly, cultural nihilism was criticised. It was not 'authoritarian' for a society to uphold an ideal way of life for its members to emulate. Indeed, a society *is* just such a set of ideals, though inevitably the ideals upheld will be subject to gradual change with the passage of time.

These counter attacks on egocentric collectivism have found support among policy advisors and we can now distinguish three main approaches that are being advocated:

- The restoration of functions to civil society.
Advocates of this view argue that the introduction of the welfare state crowded out charitable and mutual alternatives which, with the benefit of subsequent experience, we can now see had many strengths compared with collectivised systems.²⁰⁷

- Incentives to work.

This view assumes the continuance of a dominant role for the state, combined with the introduction of reforms to increase financial incentives to work. The chief argument for this approach is that individuals should be better off in work than out of it and that additional hours of work should produce additional disposable income. Under some welfare systems individuals can be better off out of work or at least only marginally better off as a result of working. The OECD is a strong advocate of this approach and public policy in New Zealand reflects these concerns.²⁰⁸

- Reciprocal obligation.

The third approach calls for state welfare systems to be reformed by introducing reciprocal obligations. This can be accomplished by attaching conditions to benefits. Many such schemes provide personalised help to unemployed individuals. In particular, workfare schemes typically require work as a condition of benefit. This might be called a human-capital approach because it tries to improve personal qualities, whether in the form of workplace or social skills. In the United States, such policies are being openly called 'paternalistic'.²⁰⁹

These categories are not mutually exclusive. Supporters of increased incentives for work usually accept that those who can work should do so but stop short of requiring paid employment. Advocates of the renewal of civil society and the imposition of reciprocal obligation may share a common preference for increasing the role of private, voluntary or mutual organisations. Some advocates of reciprocal obligation want the state to maintain the dominant role but there are others who want informal, voluntary and commercial organisations to predominate. The issue for the latter is: to what extent can the state maintain a safety net without crowding out private effort?

In *From Welfare State to Civil Society*²¹⁰ I outlined an approach that entails a major re-definition of the responsibilities of government and a substantial shift of welfare to civil society – a term that embraces informal, commercial, philanthropic and mutual alternatives to the state. That book dealt with the ultimate ideal and in this current publication I will focus on some more immediate steps that can be taken to reduce benefit dependency. They are defensible in their own right, but hopefully might be useful preliminaries to more far-reaching reform.

THE PROBLEM IN NEW ZEALAND

The former Department of Social Welfare recognised that benefit dependency had become a problem in New Zealand. David Preston, at the time the general manager of the Department's Social Policy Agency, showed how, when unemployment was falling in 1995, many additional jobs went to non-beneficiaries including second earners and new labour force entrants such as immigrants and older people. In 1995 the total number of employed persons increased by 65,000 but the labour force survey showed a fall in unemployment of only 17,900 and the number of people receiving the Unemployment Benefit fell by only 3,900. The decline in recipients of the Unemployment Benefit was offset by increases in the number of people on other benefits, especially Invalid's, Sickness and Domestic Purposes Benefits. The total number of recipients of income-tested benefits rose by 8,300 in 1995. Preston also found a high degree of 'migration' by the unemployed to Invalid's and Sickness Benefits that, in 1995, were set at a higher level than the Unemployment Benefit. Some 30 percent of all new grants of the Sickness Benefit in 1995 were to people previously on the Unemployment Benefit.^{211, 212}

The Department of Social Welfare briefing to the incoming government in 1996 also emphasised the extent of welfare dependency. Between 1991 and 1996 when the economy expanded strongly the number of people receiving the Sickness Benefit, Invalid's Benefit and the DPB rose by 68 percent, 44 percent and 11 percent respectively. During the same period the number of people on the Unemployment Benefit fell by 12 percent. In 1996, 450,000 people of working age were 'state dependent', some 21 percent of the workforce. In 1975 there had been only 5 percent reliant on benefits and in 1985 only 8 percent.²¹³

The Ministry of Social Policy (which absorbed the Social Policy Agency following the restructuring of the Department of Social Welfare) also recognises the problem of benefit dependency. It informed the incoming government in 1999 that the proportion of children under 18 years of age with a parent on a benefit had increased from 13 percent in 1986 to 27 percent in 1999.²¹⁴ The Ministry of Social Policy reported that over 20,000 families had been receiving a benefit for the last 10 years.²¹⁵ New Zealand has had one of the lowest rates of sole parent employment in the OECD. The level of employment by sole parents at the 1996 census (36 percent) was substantially lower than that of partnered mothers (65 percent). Unlike many other countries, ranging from those of Scandinavia to the United States, there has been, until recently, no explicit

obligation on sole parents in New Zealand to seek employment, even when their children are older.²¹⁶

The Ministry of Social Policy observed that:

Overall growth in benefit numbers and income support expenditure on working age beneficiaries has slowed in recent years, but the number of working age beneficiaries and the proportion in long-term receipt is still high. Long-term beneficiaries are of particular concern, as low income is associated with poor outcomes for both adults (such as poor health, low self-esteem and unemployment) and children (such as school failure, poor health and later in life, early child bearing). A key challenge facing the government is getting people off benefit and into work and keeping them in work. In doing so, several issues require addressing: determining the appropriate level of work expectations; achieving the right mix of work-first and active assistance; and creating the right financial incentives.²¹⁷

New Zealand governments from the mid-1980s until the end of 1999 have been concerned about the perverse incentives of the welfare system and a variety of measures have been taken. The initial focus was on creating better incentives to undertake work, but the 1998 policy changes focused on reciprocal obligations and the development of 'customised services'.²¹⁸

The government announced changes to all benefits for people of working age in the 1998 Budget.²¹⁹ The changes addressed the following key problems:

- The harmful impact on children of the long-term benefit dependence of their parents.
- The adverse effect on people of limited or no attachment to, or long-term displacement from, the labour market.
- The continued upward trend in numbers of people in receipt of Sickness, Invalid's and Domestic Purposes Benefits.
- The increasing cost of benefits to the Crown.

The government sought an improvement in the labour market participation of beneficiaries, a reduction in long-term benefit receipt, a reduction in the number of children of sole parents (and other beneficiaries) brought up in long-term benefit-dependent families, and a reduction in the cost of welfare benefits over time.

The reforms were based on the following principles:

- Participation in paid work ultimately underpins economic independence and improvements in life outcomes for individuals and their families.

- Employment is the ultimate objective of all income support for individuals of working age.
- Most individuals are capable of undertaking some paid work.
- Income support should (for the majority) be seen as providing transitional assistance whilst a person is without work.
- Work expectations and obligations (where obligations would be reinforced by sanctions) should be linked to an individual's capacity to work.

The following main policies were adopted for the DPB and Widow's Benefit:

- Work tests were extended from February 1999. Sole parents whose youngest child is aged 14 years or older (or without dependent children) are now required to seek full-time work. The work test applies four weeks after the youngest child reaches the specified age. Previously, such beneficiaries were expected to engage in part-time work. Sole parents whose youngest child is aged 6–13 years are required to engage in part-time work. Beneficiaries with a youngest child aged 7–13 years had previously only been required to attend an interview once a year.
- The introduction of an annual mandatory interview for sole parents whose youngest child is less than 6 years of age. Such beneficiaries were not previously subject to an interview.
- The alignment of the income test to the work test so that beneficiaries on the DPB and the Widow's Benefit with a full-time work expectation face the same income test as unemployment beneficiaries.
- The introduction of an Out-of-School Care subsidy to provide assistance to low-income families. While not limited to recipients of the DPB and Widow's Benefit, they are expected to be the largest users of the subsidy.
- The Training Incentive Allowance was modified from January 1999 to focus on employment outcomes and to address anomalies between institutions; additional funding was provided for employment services; and a post-placement support programme was introduced on a pilot basis in July 1999 to support those moving from benefits to employment.

The main changes made to Sickness and Invalid's Benefit are as follows:

- The level of the Sickness Benefit was aligned with that of the Unemployment Benefit in July 1999.
- The Community Wage replaced Sickness and Unemployment Benefits in October 1998.
- A work test for spouses of sickness and invalid beneficiaries was introduced in October 1998 and February 1999 respectively. A person who cares for a disabled spouse can be exempted from the work test.
- Steps were taken to tighten eligibility rules and improve assessment processes. The definitions of severe and permanent disability were changed, a statement of purpose was included in the legislation, and revised forms and guidelines were introduced in September 1998.
- The first phase of a multi-stage pilot to develop a work capacity assessment tool for those beneficiaries applying for a benefit on the grounds of sickness, injury or disability was implemented in February 1999. The aim was to develop a system that looks at what a person can do, rather than focusing on what they cannot do.

A study looking at the best way to assist young sole parents into paid work was initiated. An investigation is also being undertaken on how to assist low-income families with the cost of childcare, on issues to do with the type of care (formal or informal), and on how to balance the role of childcare in meeting the developmental needs of children and in supporting work attachment, especially for low-income families. The Ministry of Social Policy reported that its preliminary view is that:

... a substantial increase in the government's investment in child care is necessary and will be cost effective, if we are to make any significant changes in the level of benefit dependency among low income families.²²⁰

According to the Ministry of Social Policy, the 1998 benefit changes appear to have had some impact in reducing benefit numbers. It believes that further policy development to improve social outcomes for the working-age population should include additional rationalisation of the benefit system, a review of in-work benefits, improvements in childcare provision and a review of income dynamics, including an examination of the best mix of income support, employment and social service interventions for people at most risk.²²¹

The present government is unwinding many of the policies that were implemented following the 1998 budget announcement. The Social Security Amendment Act 2001 makes the following changes:

- It repeals the provisions in the Social Security Act 1964 that provided for the assessment of the capacity for work of applicants and existing beneficiaries with an illness, injury or disability. Work tests for Sickness and Invalid's Benefits were 'postponed' from December 1999 in anticipation of the Act being passed.
- The Act replaces the three-tier work-test sanction regime with exemption from a work test as noted above and a single sanction regime targeted at serious non-compliance. For the first and second failure to meet work-test obligations, the beneficiary's benefit is suspended until the test is complied with. After a third failure, the beneficiary's benefit is cancelled and a 13-week period of non-entitlement is put in place, but a provisional benefit may be paid to a beneficiary who undertakes an approved activity. If the beneficiary completes six weeks of such activity, they may reapply for a benefit. Satisfactory completion of a job seeker development activity, recognised community activity, or a period of employment lasting six weeks or more, will result in any remaining portion of the 13-week non-payment period lapsing. The current four-week minimum period before a provisional benefit could be paid, or employment recognised, was removed.
- Work-tested beneficiaries are no longer required to undertake community work but will be able to choose to participate in an approved community activity or to undertake suitable voluntary work. Such participation will be voluntary and sanctions will not apply. Allowances will continue to be paid to those who participate. Paid employment or a job seeker development activity will take preference over participation in a recognised community activity.
- An individually tailored job seeker agreement between the Department of Work and Income and the beneficiary is to be created. The agreement will set out the specific actions required of the beneficiary to obtain paid employment and to improve their employment prospects. The agreement will also set out the assistance that the Department of Work and Income will provide to help the beneficiary.
- Organised activities have been replaced by job seeker development activities. These are activities (such as employment-related training,

job search skills programmes and work experience) designed to improve a beneficiary's prospects of gaining paid employment. A work-tested beneficiary may voluntarily include such activities in their job seeker agreement or the Department of Work and Income may require a beneficiary to include a job seeker development activity in the agreement. However, if such a requirement is imposed, the beneficiary will be provided with a range of job seeker development activities from which to choose the most appropriate option. Beneficiaries will have rights of review and appeal in relation to decisions of the Department of Work and Income on their job seeker agreement.

- Unemployment and Sickness Benefits are to be re-established from July 2001 and will replace the Community Wage. Job seekers who engage in employment-related training will receive the Unemployment Benefit in place of the present Training Benefit.

These moves involve a substantial lessening in the obligations placed on beneficiaries. They will again make benefit receipt easier and encourage dependency, particularly for Sickness and Invalid's Benefits.

The employment-related obligations that apply currently to recipients of the DPB and Widow's Benefit and to spouses of beneficiaries are under review. According to the Ministry of Social Policy, "An important component of this review will be to develop appropriate opportunities for these beneficiaries to build their human capacity and to ensure that they are encouraged to participate actively in the economy and society".²²² Similar sentiments were expressed in relation to the easing of work tests for other beneficiaries. Thus, a relaxation in the work sanction regime for the DPB and Widow's Benefit and for spouses of beneficiaries can be expected to emerge from the review.

The unemployment trap

Discussions of incentives usually distinguish between the unemployment trap and the poverty trap. The unemployment trap describes the situation of a person who is not working at all and who would not be financially better off, or would not be very much better off, in work. The usual measure of the strength of the unemployment trap is the replacement ratio. Income on benefit is expressed as a percentage of a person's previous wage or likely future wage. Strictly, each person has their own replacement ratio. However, income from the main benefits, such as Unemployment Benefit, is often compared with average wages. This

approach tends to under-estimate the true replacement ratio for two main reasons. First, many beneficiaries have less experience and fewer skills than employed persons on average. Thus the wage on offer to them is likely to be significantly lower than the average wage. Secondly, income from the main benefits is often topped up by supplementary support such as the Accommodation Supplement. The omission of supplementary assistance also understates the true replacement ratio and the unemployment trap.

Replacement ratios showing the position in 1995 before the 1996 changes to tax and family assistance have been calculated by the Social Policy Agency.²²³ James Cox has also produced some useful estimates which have the additional merit of comparing replacement ratios in New Zealand and Australia. He calculated, on an after-tax basis, benefits plus Family Support as a percentage of average ordinary time weekly earnings in 1996/97. Recipients of the DPB with one child would receive a total of 64 percent of the average ordinary time weekly wage from the benefit, Family Support and the Accommodation Supplement. Those with two children would receive assistance equal to 78 percent of such earnings. In Australia the comparable figures were 54 percent (one child) and 63 percent (two children) of earnings. With two children a recipient of the Invalid's Benefit, Family Support and the Accommodation Supplement would receive 92 percent of earnings in New Zealand compared with 82 percent in Australia.²²⁴

Liebschutz reported on the replacement ratio in 1999 for sole parents aged 18 years and older with one or two children who are eligible for the DPB. The analysis also assumed that the parent must pay for childcare. It showed a replacement ratio of between 95 percent and 116 percent depending on the number of children and the hours worked each week (15, 20 and 40 hours) when the alternative to the benefit was the then minimum wage (\$7 an hour). The ratio was between 84 percent and 90 percent when based on the average full-time wage (\$17 an hour).²²⁵

The usual assumption is that the lower the replacement ratio, the greater the incentive to work. The 1991 benefit changes were based on this assumption.²²⁶ Their intention was to increase the incentive to work by reducing the level of some benefits, notably the Unemployment Benefit, especially for people under 25 years of age, and (to a lesser extent) the Sickness Benefit.²²⁷ Since 1991 benefits have been adjusted annually by the change in consumer prices although some benefits have increased slightly in real terms as a consequence of Family Support, which

was last adjusted in July 1997. The DPB for a parent and two children was \$298.98 in April 1992 but by April 1997 it was \$302.34 after allowing for inflation.²²⁸ More significantly, the level of the Accommodation Supplement has increased since 1992.²²⁹ However, the 1998 changes included steps to reduce the unemployment trap by better aligning certain benefits available to the working-age population with the Unemployment Benefit.

The poverty trap

The poverty trap refers to people already in work but receiving in-work benefits and paying taxes. The combination of taxes and benefit withdrawal can mean that an individual (or household) does not benefit financially, or does so only modestly, from increased work effort such as an increase in hours of work. The usual technical term for the loss per dollar of additional gross income caused by taxes and benefit withdrawal is the effective marginal tax rate (EMTR). In some cases the EMTR can exceed 100 percent.

A person faced with a high EMTR is usually less willing to add to their hours of work. Thus, a part-time worker will be less likely to move to full-time work. A person may decline to work overtime, or refrain from taking a second job or casual work, or (if the income test applies to family income) other family members may refrain from work.

Efforts have been made to integrate taxes and benefits more closely. All basic income-tested benefits that were not already taxed, such as Sickness and Invalid's Benefits, became taxable in 1986. In the same year, Family Support, Guaranteed Minimum Family Income (GMFI) and GST were introduced and income tax rates were reduced. Although changes have been made to personal taxation, benefits and family assistance since 1986, the key features of the structure put in place in 1986 have largely been retained.²³⁰ Present arrangements are summarised below.

Statutory rates of income tax in 2000/01 are shown in Table 5.

Table 5: Statutory rates of income tax 2000/01

<i>Taxable income</i> (£)	<i>Statutory rate</i> <i>of income tax (%)</i>
Up to 38,000	19.5
38,001 to 60,000	33.0
Over 60,000	39.0

The third step was added to the tax scale with effect from 1 April, 2000. A two-step statutory tax scale applied previously with all taxable income over \$38,000 a year taxed at the 33 percent rate. The upper income limit of the first step had been increased from \$30,875 to \$38,000 in two stages that were implemented in July 1996 and July 1998.

The tax rates shown in the table above are subject to a system of rebates for people on low incomes. People with an income (other than from investments) up to \$9,500 a year usually qualify for a rebate of 4.5c in the dollar. This rebate is clawed back on income between \$9,501 and \$38,000 at the rate of 1.5c in the dollar. The resulting effective rates of income tax for 2000/01 after the low income rebate are shown in Table 6.

Table 6: Effective rates of income tax 2000/01

<i>Taxable income</i> (<i>\$</i>)	<i>Effective rate</i> <i>of income tax (%)</i>
Up to 9,500	15.0
9,501 to 38,000	21.0
38,001 to 60,000	33.0
Over 60,000	39.0

Note: The effective rates of income tax noted in the table exclude the ACC levy, benefit abatement and indirect taxes.

All employees and beneficiaries must pay an earner premium under the Accident Compensation Corporation (ACC) scheme to cover personal-injury accidents other than those arising from motor vehicle and workplace accidents. The earner premium is 1.3 percent in 2000/01 (compared with 1.4 percent in 1999/00) on liable earnings (essentially income from labour) up to \$84,636. Liable earnings over that threshold are not subject to the earner premium. The earner premium is deducted from gross salaries and wages along with income tax and is additional to the effective tax rates set out above.²³¹

Family Assistance is provided to low-income families with dependent children by way of Family Support and Family Plus. The Inland Revenue Department and the Department of Work and Income (which has assumed responsibility for the payment of benefits and the Employment Service of the Department of Labour) pay Family Support to the principal care giver of working and beneficiary families respectively. Payments are usually made fortnightly.

The level of Family Support depends on the number and ages of the children. The maximum annual payment is shown in Table 7. The equivalent weekly rates to the rates shown have applied since 1 July, 1997. Family Support is exempt from tax.

Table 7: Maximum rates of Family Support

<i>Status and age of child (Years)</i>	<i>Maximum tax credit or payment (\$/year)</i>
<i>Eldest child</i>	
Up to 15 years	2,444
16 to 18 years	3,120
<i>Each additional child</i>	
Up to 12 years	1,664
13 to 15 years	2,080
16 to 18 years	3,120

Family Plus has three separate components. The Family Tax Credit (formerly GMFI) is available to families where one or both parents are in full-time work (30 or more hours a week for two-parent families and 20 or more hours a week for a sole-parent family). It is not available to the self-employed and certain shareholder-employees. Family Tax Credit provides an annual income of at least \$18,368 before tax (\$286 a week after tax) below which a family's income is not permitted to fall.²³² It is paid equally to both parents of a two-parent family.

The second element of Family Plus is a Child Tax Credit (formerly the Independent Family Tax Credit) of up to \$780 a year (\$15 a week) for each dependent child aged 18 years or younger. The last component of Family Plus is the Parental Tax Credit. It was introduced in October 1999 and provides families who also qualify for the Child Tax Credit with a payment of \$150 a week for up to eight weeks (\$1,200 a child) after the birth of each child. Unlike Family Support, Family, Child and Parental Tax Credits are not available to families who are in receipt of an income-tested benefit, New Zealand Superannuation, a Veteran's Pension or a tertiary student allowance, or who have received weekly payments under the ACC scheme for more than three months.

Family Assistance is targeted at low- to middle-income families, although assistance is paid to large families on incomes well above the

average household income. The combined entitlements are abated on family income in excess of \$20,000. Income is somewhat more broadly defined than taxable income – for instance, it includes net child support payments. Family Support is abated first then the Child Tax Credit and finally the Parental Tax Credit. The abatement rates are: 18c per dollar of annual income over \$20,000 and up to \$27,000 and 30c per dollar for income over \$27,000. The Family Tax Credit is reduced by a dollar for each dollar that income exceeds the minimum income. The level of gross family income at which each component of Family Plus is fully abated for a family including four children is about \$46,500 (Family Support), \$57,000 (Child Tax Credit) and \$84,000 (Parental Tax Credit).

According to David Liebschutz, the Treasury estimated that 176,000 beneficiary families and 80,000 other families would receive Family Support in 1999/00 at a cost of \$950 million. Some 120,000 families were forecast to benefit from the Child Tax Credit, 26,000 families were entitled to the Parental Tax Credit (in a full year) and 3,000 families were expected to receive the Family Tax Credit. These tax credits are estimated by the Treasury to cost \$230 million in a full year.²³³

The Accommodation Supplement was introduced in 1993 to assist families on low incomes and beneficiaries to meet their housing costs. It replaced subsidised rents and mortgages formerly provided by the Housing Corporation of New Zealand and the Accommodation Benefit. The Accommodation Supplement is exempt from tax.

The Accommodation Supplement is initially set at 70 percent of weekly rent or board that is in excess of 25 percent of the base benefit. For home owners the Accommodation Supplement is 70 percent of weekly mortgage payments that are in excess of 30 percent of the base benefit. The higher threshold for mortgage payments recognises that those outlays usually include the repayment of principal.

For a non-beneficiary, the base benefit is the weekly rate of the Invalid's Benefit, before abatement or deduction, that would apply if the conditions for that benefit were met plus the maximum weekly rate of Family Support payable in respect of an eldest dependent child who is under 16 years of age. The base benefit for a single beneficiary under 25 years of age is defined as the weekly adult single Unemployment Benefit. For most other beneficiaries, the base benefit is the maximum weekly rate of benefit that the person is entitled to receive (before abatement or deduction) plus the maximum weekly rate of Family

Support that is payable in respect of an eldest dependent child who is under 16 years of age.

A maximum amount for the Accommodation Supplement payable to each beneficiary and non-beneficiary family is also set. It depends on the area in which the recipient resides and on family circumstances, and ranges from \$45 to \$150 a week. The Accommodation Supplement reduces by 25 percent of each dollar of combined weekly income of a beneficiary and spouse that is in excess of the maximum benefit that the applicant is entitled to receive. The Accommodation Supplement is not abated for excess income over \$80 a week. The Accommodation Supplement and income-tested benefits are generally abated over independent income ranges as benefits are abated on income that is more than \$80 a week above the benefit. The Accommodation Supplement payable to non-beneficiaries is abated at the rate of 25 percent of each dollar of combined weekly income in excess of the total of the relevant gross Invalid's Benefit and \$17.92. A stringent cash-assets test applies to both beneficiaries and non-beneficiaries.

The present government announced in the 2000 budget that low-income state tenants would pay no more than 25 percent of their net income in rent from 1 December, 2000. The re-introduction of income-related rents replaces the Accommodation Supplement for state tenants. It will, however, remain available to people on low incomes who live in privately owned accommodation. The new policy will cost over \$500 million up to 2002/03. This amount includes a reduction in the operating surplus of Housing New Zealand, the Crown entity that now owns state rental units. Existing state tenants have been assured that their rent will not increase in response to the change in policy. The government argued that:

... the housing policies of the previous government were poorly targeted. They resulted in empty state houses alongside overcrowding.²³⁴

Since July 1996 beneficiaries have generally been allowed to keep up to \$80 a week in part-time earnings without loss of benefit. Most recipients of Widow's and Invalid's Benefits have 30c in the dollar deducted from their benefit for income (other than their benefit) over \$80 a week and up to \$180 per week. The abatement rate is 70c in the dollar for income over \$180 a week. The 70c in the dollar abatement rate also applies to all income over \$80 a week earned by most recipients of the Community Wage (which replaced the Unemployment, Sickness, Training and 55 Plus

Benefits, the Young Job Seekers Allowance and some emergency benefits).²³⁵

The reasoning advanced for increasing permitted part-time earnings without abatement is that it keeps recipients in touch with the world of work. In reality it may serve to increase the attractiveness of life on benefits. Almost 13 percent of beneficiaries declared earning other income before the benefit abatement changes implemented in July 1996. The percentage has increased steadily since then to reach 20.4 percent at 30 June, 1999.²³⁶ This may reflect a reduction in under-reported earnings, an increase in participation in part-time work or both.²³⁷

The combination of taxes and in-work benefits means that some people in New Zealand face high EMTRs at certain points in the income range. Preston showed in 1995 that a person could be on earnings that attracted tax of 28 percent and benefit abatement of 70 percent, a combined effective marginal tax rate of 98 percent.²³⁸ The comparable effective marginal tax rate in 2000/01 is 91.5 percent or 92.8 percent with the ACC earner premium. Effective marginal tax rates at such a high level are, however, relatively rare. Nevertheless, an analysis based on the 1998 Household Economic Survey suggested that about 60,000 households faced an effective marginal tax rate of 65 percent to 80 percent while a further 32,000 households were subjected to an effective marginal tax rate of over 80 percent.²³⁹

In 1996 the OECD found that for those in work the EMTR was up to 58 percent over a wide range of income from about 90 percent of average earnings to an upper limit that depended on the number of children. With two children, the upper limit was 115 percent of average earnings.²⁴⁰ It was possible for families with two or more children receiving Family Support to be on the then top rate of tax and have an EMTR of 63 percent (33 percent tax and 30 percent abatement).²⁴¹ However, the effective marginal tax rate was much higher in several other countries including Australia, Germany, France and the United Kingdom.²⁴²

The OECD found that sole parents felt the biggest impact of high effective tax rates. Some 75 percent of sole parents had incomes below the level at which marginal tax rates rose sharply and, according to the OECD, this may be why they chose to earn incomes below that level.²⁴³

Since the 1996 OECD survey the Child and Parental Tax Credits have been introduced to increase in-work incentives for those people with children who are not claiming benefits. They do not significantly alter the poverty trap but they widen somewhat the gap between in-work income and benefits.

Table 8: Common effective marginal rates of tax 2000/01

<i>Effective marginal tax rate (%)</i>	<i>Composition of effective marginal tax rate</i>	<i>Population (excluding dependents) (%)</i>
16.3	15 percent effective income tax and 1.3 percent ACC levy	12
22.3	21 percent effective income tax and 1.3 percent ACC levy	44
34.3	33 percent income tax and 1.3 percent ACC levy	13
39.0	39 percent top income tax rate on income in excess of liable earnings for ACC	3
40.3	39 percent top income tax rate and 1.3 percent ACC levy	5
46.3	15 percent effective income tax, 1.3 percent ACC levy and 30 percent abatement of Family Support and Child Tax Credits	1
47.3	21 percent effective income tax, 1.3 percent ACC levy and 25 percent abatement of the Accommodation Supplement	2
52.3	21 percent effective income tax, 1.3 percent ACC levy and 30 percent abatement of Family Support and Child Tax Credits	2
Other	Tax rates, ACC levy and benefit abatement	17

Note: The EMTRs shown in the table include statutory rates of tax, the low income rebate, family assistance, the ACC levy and benefit abatement. Indirect taxes have not been taken into account. Each EMTR included under 'Other' applies to no more than 1 percent of the population of 2.8 million taxpayers.

Source: The Treasury, personal correspondence, 13 November, 2000.

The Treasury estimates that in 2000/01 44 percent of the population (excluding dependents) face an effective marginal tax rate of 22.3 percent that arises from the bottom statutory rate of income tax (19.5 percent), the abatement of the low income rebate (1.5 percent) and the ACC earner premium (1.3 percent). Another 13 percent of the population face an EMTR of 34.3 percent comprising income tax of 33 percent and the ACC levy. A further 12 percent face an EMTR of 16.3 percent comprising the bottom statutory rate of income tax, the low income rebate (−10 percent) and the ACC levy. The balance of the population (28 percent) is subject to a wide range of EMTRs (see Table 8). The EMTRs shown in the table do not take account of indirect taxation, such as GST, which also discourages work effort and accentuates the poverty trap.

Reciprocal obligations

Hand-in-hand with efforts to create better incentives to work, a variety of other measures that are in the tradition of reciprocal obligation have been introduced in New Zealand. During the course of 1996/97 all recipients of income-tested benefits were assigned a customer services officer with the intention of helping them to move from dependence to independence.²⁴⁴ In addition, 46 shop-front offices were opened in 1996/97, 28 co-located with the Department of Labour's Employment Service, to provide better coordination between the provision of income support and the placement of beneficiaries in work. Subsequently, the Department of Social Welfare's Income Support business unit was merged with the Department of Labour's Employment Service and the Community Employment Group to create the Department of Work and Income New Zealand. One reason for the establishment of the Department of Work and Income was to reduce welfare dependency by moving people off benefits and into work.

Stand-down periods before benefit starts have also been modified. In an effort to make the sanctions more credible, from April 1997 the stand-down period for leaving employment without a 'good and sufficient reason' was reduced from 26 to 13 weeks. The 26-week suspension had rarely been applied. The stand-down for failing to comply with the work test was also cut from 26 weeks and replaced with a graduated system.

However, not all the reforms of the stand-down periods have been consistent in their effects. Before April 1997 all applicants for benefit faced a two-week stand-down, reducible to one week in emergencies, and those previously on high incomes faced a period of 1–10 weeks. These stand-downs were collapsed into one that could vary from 1–10 weeks depending on family circumstances and income earned before qualifying for a benefit. According to the Department of Social Welfare, "In most cases a lesser stand-down is imposed than would have applied under the previous rules".²⁴⁵

The previous government recognised that family breakdown was among the most worrying social problems. A sole parent, the majority on the DPB, heads nearly 75 percent of families with children who are dependent on benefits.²⁴⁶ To encourage an earlier return to work, the recipients of the DPB and the spouses of recipients of the Unemployment Benefit are required to participate in a mandatory interview to discuss their future work plans when their youngest child is aged up to 6 years. In April 1997, sole parents (and spouses of recipients of the

Unemployment Benefit) whose youngest child is aged 14 years or over (or who have no dependent children) were required to register with the Employment Service and actively seek part-time work or undertake training. In June 1998 about a third of spouses of the unemployed and almost half of sole-parent beneficiaries had been granted an exemption from registering with the Employment Service.²⁴⁷ The most common ground for such an exemption was participation in training. Since February 1999 new sole parents whose youngest child is aged 7 to 13 years and 14 years or over (or who have no dependent children) are required to be available for part-time work and full-time work respectively. This provision now applies to existing beneficiaries.

These measures fall well short of requiring work as a condition of benefit and their impact on the total number of DPB recipients has been small. The 1991 benefit cuts produced a temporary fall in the number of recipients and the 'benefit amnesty' of 1993 led to a further temporary fall. Aside from those events, there was a steady rise in the number of recipients to 113,029 in June 1998, up from only 17,231 in 1975.²⁴⁸ However, the number of DPB beneficiaries has declined in the last two years to a level of 109,694 in June 2000.²⁴⁹

Policies to reduce reliance on the Community Wage (Sickness Benefit) have been ineffective. There was a slight fall in the number of recipients of the Sickness Benefit after the 1991 benefit changes but the trend then continued upwards until 1998. It may have been slowed by the administrative reforms of September 1995. In June 1998 the number of recipients was at its highest ever level at the end of a fiscal year; at 35,172 it was almost 270 percent of the number 10 years earlier (13,132 in 1988).²⁵⁰ A fall of 8 percent in the number of recipients of the Community Wage (Sickness Benefit) was recorded in the two years to June 2000.²⁵¹

The number of recipients of the Invalid's Benefit accelerated after the 1991 reforms, reflecting transfers from the Sickness Benefit.²⁵² The September 1995 procedural reforms were intended to control the growth by ensuring that claims were genuine but in the words of the Department of Social Welfare, "The procedural changes do not appear to have impacted on the numbers receiving Invalid's benefit".²⁵³ There were 55,428 recipients of the Invalid's Benefit in June 2000, more than double the figure 10 years earlier (26,260).²⁵⁴ Furthermore, the number of people receiving the Invalid's Benefit increased by about 6,000 or 12 percent in the two years to June 2000 and more than offset the fall in the number of recipients of the Community Wage (Sickness Benefit).²⁵⁵

While the present government is concerned that beneficiaries may be caught in an unemployment trap, it seems to regard the problem as being caused by low wages for people in work and has hinted at subsidies for workers on low incomes. The government has relaxed the work tests that had been applied to most beneficiaries. The possibility of introducing a universal basic benefit, with no beneficiaries suffering a reduction in income, has also been floated. It would appear to imply a substantial increase in benefit levels for many classes of beneficiaries. Although detailed initiatives in some of these areas have not been announced, any new policies along the lines suggested would encourage rather than reduce welfare dependency.

WELFARE REFORM IN THE UNITED STATES

Because it is very difficult to make a significant impact on welfare dependency by adjusting incentives at the margin, reformers in many countries, including the United States, have turned to more direct measures, particularly by making work an obligation. As we have seen, in New Zealand so far only rudimentary moves have been made towards a system based on reciprocal obligation and they have subsequently been relaxed.

Mead is among the strongest critics of reforms that rely solely or largely on creating material incentives to work, not least because such approaches rely too heavily on deterministic theories of human conduct.²⁵⁶ The real problem in Mead's view is the lack of competence of the individuals concerned and he argues that public policy should seek to create the competence necessary to restore self-reliance. This means focusing on the personal qualities or skills of the unemployed needed to enable them to fulfil their responsibilities and requiring them to work.

The United States reformed its welfare arrangements with these principles in mind. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of August 1996 ended the 61-year-old entitlement programme Aid to Families with Dependent Children (AFDC) programme, one of the United States' principal safety nets for poor families. The Job Opportunities and Basic Skills Training (JOBS) programme that required states to provide education, training and support services for welfare recipients was also abolished. The AFDC and JOBS were replaced with a block grant programme, Temporary Assistance for Needy Families (TANF), that provided financial incentives for states to run mandatory, work-focused welfare-to-work programmes.²⁵⁷

While such programmes were not new, PRWORA increased their importance. Federal funds could no longer be used to support most families on welfare for longer than 60 months during their lifetime. States may, however, impose shorter limits or extend the time limits by using state funds. A number of states and localities have adopted shorter welfare time limits. States may also exempt 20 percent of the caseload from the limits for hardship reasons. Once a family reaches the time limit, federally funded cash benefits are terminated, but the family normally remains eligible for Food Stamps, Medicaid, low-income childcare assistance, and (where available) state-supported cash assistance.

States and localities are given the flexibility to determine eligibility and benefit levels, and the services to be provided to families in need. However, they face financial penalties if they fail to meet TANF-defined participation standards, which require welfare recipients to engage in work or work-related activities, and states must have a plan for how they will require recipients to work after two years of assistance.

In the fiscal year 2001 (which started on 1 October 2000) states are required to have 45 percent of all families engaged in a work activity for a minimum of 30 hours per week, and 90 percent of two-parent families engaged in work activity for at least 35 hours per week. In the fiscal year 1999, all states met the overall participation rate for all families required in that year and 28 of the 38 states that were subject to the two-parent rate met the goal. To count toward state work requirements, recipients are required to participate in unsubsidised or subsidised employment, on-the-job training, work experience, community service, up to 12 months of vocational training, or to provide childcare services to individuals participating in community service. Up to six weeks of job search (no more than four consecutive weeks) can count toward the work requirement. States can count no more than 30 percent of work participants toward meeting the work requirement based on their participation in vocational training or high school for teenage parents.²⁵⁸

Single parents with a child under 6 years of age who cannot find childcare cannot be penalised for failure to meet the work requirements. States can exempt from the work requirement single parents with children under 1 year of age and disregard those individuals in the calculation of participation rates for up to 12 months. Most states reinforce work requirements by disregarding a larger fraction of recipients' earnings in welfare calculations as a way of making work pay, and by dedicating increased resources to childcare and transportation assistance to help offset the cost of working.²⁵⁹

The most striking outcome of the US welfare reforms has been the fall in the number of welfare recipients. The welfare rolls, which began to shrink in the mid-1990s, have declined sharply since the passage of PRWORA. Between January 1996 and June 2000 the welfare caseload fell by 55 percent from 12.9 million to 5.8 million recipients.²⁶⁰ This is the largest caseload decline in US history. The caseload is now at its lowest level since 1965.²⁶¹ The decline was fastest in the first two years after the reforms started, possibly because fraudulent claimants and those with better job prospects were among the first to leave the rolls.²⁶²

The decline in rolls is partly due to a buoyant economy. The Urban Institute reports that estimates from a variety of studies suggest that about one-third to one-half of the caseload decline preceding federal welfare reform (1993–1996) was due to the decline in the unemployment rate. Another 15 to 20 percent of the decline was due to welfare reform measures undertaken by states in advance of the federal reform. The Institute also reports that the president's Council of Economic Advisers concluded that about one-third of the caseload decline between 1996 and 1998 was due to the implementation of welfare reform, 10 percent was due to minimum wage increases, while only 8 to 10 percent was due to improvements in the labour market.²⁶³ According to the Council, welfare reforms were the single most important factor contributing to the decline in the caseload.^{264, 265}

A report prepared for the Heritage Foundation concluded that states with the most stringent sanctions and immediate work requirements achieved the fastest declines in the caseload.²⁶⁶ However, a study prepared for the Cato Institute by Michael New suggests that the level of state welfare benefits has more influence on the size of the caseload than sanctions.²⁶⁷ Douglas Besharov and Peter Germanis suggest that the strong economy and increased aid to the working poor have almost certainly had a bigger impact on the caseload than welfare reform *per se*.²⁶⁸ They observe that no rigorously evaluated programme of welfare reform has ever had an impact even remotely comparable with what has happen with the national welfare caseload.²⁶⁹

Lisa Oliphant, who argues that the reform has only made modest improvements to welfare arrangements, concludes that most "former recipients have left the welfare rolls under the new law because they found work; because of administrative hassles; because they no longer want or need assistance; or, in a small number of cases, because of marriage".²⁷⁰ Time limits are only just beginning to apply in most states.

For this reason, their direct contribution to the fall in the nationwide welfare roll appears to be limited at this stage.

The employment and job characteristics of former welfare recipients are generally similar to those of the much larger group of low-income families with children who have not recently received welfare.²⁷¹ Most people who leave welfare for work experience are better off. The combined income from full-time work at a minimum wage job, supplemental supports and housing assistance allows many families to enjoy a higher standard of living than they had on welfare.

Between 60 percent and 80 percent of former welfare recipients surveyed in six of the more reliable leaver studies reported that 'life is the same or better' off welfare. Between 20 percent and 40 percent said life was better on welfare. In three of the studies former recipients were asked whether they were better off (financially). About 55 percent of recipients stated that they were better off, about 25 percent were doing the same and about 20 percent reported that they were worse off.²⁷² The worst fears voiced by critics of the welfare reform, that it would lead to an outbreak of poverty, hunger, homelessness and domestic violence, have not been realised.²⁷³

The reform has so far, however, been less successful in moving long-term unemployed and difficult-to-place individuals off cash assistance. Individuals who remain on the rolls four years into the reform have less education, fewer basic skills, less previous job experience, and a longer history of welfare receipt than people who left the rolls in the first year or two.²⁷⁴ Only about 50 percent to 60 percent of mothers who have left welfare and subsequently stayed off it appear to be working regularly.²⁷⁵

While some potential new recipients have been deterred from taking up welfare, the new law appears to have had limited effect in decreasing out-of-wedlock childbearing by young women. One-third of welfare recipients end up on the rolls because they have children out of wedlock, which is the source of most long-term dependence. The Personal Responsibility and Work Opportunity Act 1996 sought to curb out-of-wedlock births. Unmarried minor parents are required to stay in school and live at home, or in an adult-supervised setting, to qualify for federal assistance. States were required to outline how they intended to establish goals and act to prevent and reduce the number of non-marital pregnancies, particularly those of teenagers. To further discourage teenage pregnancy, states may institute a family cap that denies additional benefits to families to whom more children are born while receiving

assistance. Financial bonuses are provided to the five states that rank highest in decreasing out-of-wedlock births while also reducing abortions.

Despite such provisions the proportion of all births that occur out of wedlock increased steadily up to 1994 and has since been broadly constant.²⁷⁶ However, the persistent increase in the birth rate for mothers aged 15 to 19 years ended in 1991. The rate has declined in each year since then and, at 49.6 per 1,000 in 1999, is now 20 percent lower than in 1991.²⁷⁷ Factors other than the welfare reform may have contributed to the fall in births to teenage mothers.²⁷⁸

Florida's Family Transition Program (FTP) was the first welfare reform initiative in which some families reached a time limit on their welfare eligibility and had their benefits cancelled. Most families were limited to 24 months of cash assistance in any 60-month period with a more lenient limit for the least job-ready recipients. The Manpower Demonstration Research Corporation's evaluation of the FTP found that the time limit reduced long-term welfare receipt (more than 36 months) to 6 percent compared with 17 percent for the AFDC group. Welfare applicants and recipients were randomly allocated to each group. Relative to families in the AFDC group, FTP families initially gained more in earnings than they lost in welfare. The FTP group received an average of 15 percent less in welfare and 8 percent less in Food Stamps than the AFDC group over the four years.²⁷⁹ However, their earnings from work were about 17 percent higher on average, more than offsetting their losses in public assistance. In other words, despite the time limit, the FTP group had slightly higher income than the AFDC group.²⁸⁰

Only 17 percent of families in the FTP group reached their time limit during the four-year study period. Somewhat less than half of these families worked steadily in the subsequent 18 months, and many relied heavily on family, friends, Food Stamps and housing assistance for support. Most of these families struggled financially but did not appear to be worse off than many other families who left welfare for other reasons.

Predictions that time limits would seriously harm children seem to have been overstated on the limited evidence available to date. The FTP had few impacts on the well-being of elementary school children. Among adolescent children, however, the FTP group performed worse than its AFDC counterparts on a couple of measures of school performance. Importantly, however, FTP did not appear to generate negative results for children in the most disadvantaged families, who were most likely to reach the time limit.²⁸¹

The US welfare reform has imposed a high cost on taxpayers. Almost all states have increased spending per welfare family since welfare reform was enacted in 1998, and nearly half were spending more than required by the new law. Over the last four years, nearly US\$9 billion has been spent on work-support programmes for current and former recipients, and the federal government is giving nearly US\$1 billion more each year to such programmes than was spent by the federal and state governments together before the new law. A further US\$80 billion annually is spent on cash income supplements through Earned Income Tax Credits and other benefits like childcare for low-income workers.²⁸²

The cost to taxpayers is higher than may have been necessary because the level of federal funding has not taken account of the fall in the caseload. Many states have not spent all of their allocations. High in-work subsidies are also problematic, other than perhaps on a genuinely temporary basis, because subsidised workers are likely to displace other workers and become dependent on such assistance.

While the benefits of the reform to date far exceed the most optimistic predictions, it would be wrong to conclude that the United States has largely solved its welfare problem. People with the most intractable social difficulties remain on welfare and, according to Charles Murray, the underclass is probably continuing to increase.²⁸³

THE WISCONSIN MODEL

Each state or locality has, to a large extent, implemented the reform as it sees fit. As a consequence, the welfare arrangements that apply in each state are different. Wisconsin's experience is of particular interest. It began its reform with a series of incremental changes starting in 1987 that were designed to strengthen work requirements as a condition of receiving public assistance. Under the diversion principle an applicant for welfare is required to complete a thorough job search while their application for aid is under review. Wisconsin's 1996 pay for performance initiative established financial incentives for counties (which oversaw welfare provision) to boost job placements among welfare recipients. Wisconsin was the first state to link welfare benefits with school attendance, to try time-limited welfare and to use pay for performance. The experience of Wisconsin was drawn upon in drafting PRWORA.²⁸⁴

Wisconsin is the best modern example of a welfare system based on independence and responsibility. It accepts that many individuals have got themselves into difficult circumstances and that they can only escape

with substantial help which may need to be practical and moral as well as financial. It may be called 'positive paternalism' because its intention is to restore independence. And it can be contrasted with 'negative paternalism', the attitude of those who are content to pay benefits, whether out of sympathy or a pragmatic desire to keep those people in poverty quiet.

The Wisconsin style of workfare has been criticised because of its paternalism, as if there were an option that could involve no paternalism at all. However, paternalism begins with the giving of public money and the only consistent stance for the person who wishes to avoid *all* paternalism is to call for no money to be given whatsoever. If cash assistance is to be made available, then the real issue is how to give it without doing more harm than good.

But more important still, social security systems that require work or offer a personalised employment service do so in order to restore people to independence. If they are paternalistic, then they are only open to that complaint in the short term. The sole justification for their temporary resort to paternalism is the restoration of independence. Mead's *New Paternalism* defends this approach and the Wisconsin model of workfare exemplifies it at its best.

At New Zealand's Beyond Dependency conference in 1997, Jean Rogers, the chief administrator in Wisconsin, summarised the objectives pursued in Wisconsin since 1987.²⁸⁵ The main thrust of the Wisconsin approach has been to insist on work. Education and training have not been considered adequate substitutes. To ensure that an early return to work was a realistic possibility, Wisconsin found it necessary to create short-term subsidised jobs in the private and public sectors and to make available unpaid community work.

In September 1997 Wisconsin Works or W-2 began. It is guided by the application of the following principles:

- For those who work, only work should pay.
- W-2 assumes everybody is able to work or, if not, is at least capable of making a contribution to society through work activity within their abilities.
- Families are society's way of nurturing and protecting children, and all policies must be judged according to how well they strengthen the responsibility of both parents to care for their children.

- The benchmark for determining the new system's fairness is by comparison with low-income families who work for a living, not by comparison with those receiving various government benefit packages.
- There is no entitlement. The W-2 reward system is designed to reinforce behaviour that leads to independence and self-sufficiency.
- Individuals are part of various communities of people and places. W-2 operates using methods that enhance the way communities support individual efforts to achieve self-sufficiency.
- The W-2 system provides only as much service as an eligible individual asks for or needs. Many individuals will do much better with just a light touch.
- W-2's objectives are best achieved by working with the most effective providers and by relying on market and performance mechanisms.²⁸⁶

From September 1997, individuals seeking assistance under W-2 were offered four work options. The options were not equal. The first is the primary objective and subsequent options are offered in order of priority only as temporary expedients on the way to unsubsidised work. The current options are listed below in declining order of priority:

- Unsubsidised Employment. Individuals applying for W-2 are first guided to the best available job opportunity. The W-2 agency supports the participant's efforts to secure employment through job search assistance. Once employed, participants may receive additional W-2 services to help them adjust to their new work environment and build skills that promote career advancement opportunities.
- Trial Jobs (Subsidised Employment). Individuals who have the basic skills but lack sufficient work experience to meet employer requirements may be placed in a Trial Job. Through a Trial Job contract, the employer agrees to provide the participant with on-the-job work experience and training in exchange for a wage subsidy. Trial Jobs are expected to result in permanent employment. The employer must pay the participant a wage comparable with that payable to regular employees in similarly classified positions.
- Community Service Jobs (CSJs). CSJs are developed for individuals who lack the basic skills and work habits needed in a regular job environment. The CSJ positions offer real work training opportunities, but with the added supervision and support needed to help the participant succeed. Community Service Job participants receive a

monthly grant of US\$673 for up to 30 hours per week in work training activities and up to 10 hours a week in education or training. Individuals who are employed part time but have personal barriers that prevent them from increasing their work hours may be placed in a part-time CSJ position with prorated benefits. Under certain circumstances, CSJ participants may be eligible to meet their participation requirements through a combination of 25 hours of work-training activities and up to 15 hours of class time in a technical college programme.

- W-2 Transition (W-2 T). W-2 T is reserved for those individuals who, because of severe barriers to employment, are unable to perform independent, self-sustaining work. The W-2 T participants receive a monthly grant of US\$628 for up to 28 hours per week of participation in work training or other employment-related activities, and up to 12 hours per week in education and training. Under certain circumstances, W-2 T participants may be eligible to meet their participation requirements through a combination of 25 hours of work-training activities and up to 15 hours of class time in a technical college programme.

Participants in all programmes may be eligible for the state and federal Earned Income Tax Credit, Food Stamps, Medicaid, childcare assistance, Job Access Loans and the Employment Skills Advancement Program.²⁸⁷

The W-2 participants are limited to 24 months in a single employment position category (Trial Jobs, CSJs, or W-2 T). The maximum lifetime limit is 60 months. Extensions may be available on a limited basis when particular barriers exist that prevent employment.²⁸⁸

A major part of W-2 consists of the related support services designed to facilitate access to employment and to sustain it. These services are listed below:

- Job Centers combine job search, job opportunities, education, training and W-2 services in one location. This promotes integrated access to many related services.
- Local Children's Services Networks and Community Steering Committees organise community leaders to coordinate resources leading to self-sufficiency.
- Child Support is paid directly to most custodial parents and does not cause a reduction of the W-2 payment.

- Wisconsin Shares Child Care is available to most low-income working families. Families pay a co-payment based on their income.
- Job Access Loans (JALs) are available to help families meet immediate financial needs that may prevent them from working, such as car repairs and personal emergencies.
- Transportation Assistance ensures that parents can get their children to day care and themselves to work.
- Health Care is available through Medicaid/BadgerCare.
- The Employment Skills Advancement Program provides grants of up to US\$500 to low-income working parents for tuition, books, transportation or other direct costs of a vocational training programme. The individual must contribute, or obtain from another source, an amount at least equal to the amount of the grant.²⁸⁹

No less important than encouraging self-sufficiency through work is the fostering of intact families. Here the government has to be content with indirect methods, because merely by passing laws it cannot bring about a restoration of the husband-wife family as the normal method of raising children. It can, however, avoid policies that make matters worse.

In Wisconsin, teenage parents are required to finish school and live at home or in supervised hostels. There are no cash entitlements for unmarried teenage mothers and no cash benefits for any parent without the work obligation, unless the child is under 12 weeks of age.²⁹⁰ Custodial parents are required to cooperate in identifying the non-custodial parent as a condition of participation in W-2. In return, full child support payments made by the absent parent go to custodial parents and not to the welfare agency.²⁹¹

In Wisconsin the obligation of fathers to support their children is rigorously enforced. All non-custodial parents are required by law to become more employable so that they can support their children. Failure to participate in work experience or training can lead to jail. They are also allowed to meet their obligation by taking part in unpaid work or training for 16 weeks. Many try to avoid payment, arguing that they are not able to do so, but when confronted with the options, 75 percent choose to pay. This is called the smoke-out effect.²⁹² As Jean Rogers puts it, non-custodial parents have three choices: pay child support, spend 16 weeks in unpaid community work experience, or go to jail.²⁹³

Service providers had to earn the right to administer W-2 by meeting criteria based on past performance or winning a competitive bid. Most

of the state's county human services agencies that administered the AFDC programme earned the right to be the W-2 agency. The 80 W-2 agencies are administered by 10 private non-profit agencies, four for-profit agencies, and 66 counties/tribes. All agencies operated under a 28-month contract, which ended in December 1999. New contracts were issued in January 2000. No major changes in service providers occurred. An important element of the new contracts was the addition of performance benchmarks. New performance criteria specify standards in several areas, including employment placement, wage level, employment retention, participation in basic education or other appropriate activities, and access to health insurance benefits.²⁹⁴

W-2 has been subject to extensive study. The main findings are summarised below:

- The cash assistance caseload in Wisconsin has declined by over 80 percent in the past decade. The caseload decline is among the highest of all states. Over 85 percent of the remaining cases are in Milwaukee but the reduction in the caseload in Milwaukee has been bigger than the average for other large cities in the United States.
- As in other states, early evidence from several studies shows that most of those leaving the welfare rolls in Wisconsin are working. At least 75 percent of former recipients work at some time in each year after they leave the rolls. Earnings for those who work are US\$7 to US\$8 per hour, even three years after leaving the rolls. Wage rates of former welfare recipients are higher in Wisconsin than in most other states. The national average is US\$6.50 to US\$7. However, less than half of former recipients are continuously employed.
- There is some evidence that the poverty rate among former cash recipients in Wisconsin who work is declining over time. While the trend is promising, the poverty rate could be reduced further because more than half of all former welfare recipients remain in poverty.
- There is currently little empirical analysis on the effect of W-2 on the self-sufficiency of families and children, ongoing hardships or the extent of unmet needs for services and assistance.

Critics of the reform complain that W-2 has merely turned the welfare poor into the working poor. Amy Sherman responded to that criticism in the following terms:

But surely it is unrealistic to think W-2 – or any other reform program – could move participants miraculously from the poorest to the middle class. The

journey almost certainly includes a stopover in the ranks of the working poor. More to the point, the working poor are better off than the welfare poor, both materially and in terms of possible advancement ... Critics should also note that Americans are more likely to consider the working poor as deserving assistance from private charities and taxpayer-funded programs.

W-2's positive impact on participants goes well beyond economics. Almost all the W-2 participants I spoke with said that work had boosted their sense of self-worth and their hope for the future. W-2 has also sparked the development within some low-income families of a more structured life style through the rigors of the workaday world.²⁹⁵

THE IMPLEMENTATION OF WISCONSIN-STYLE WORKFARE IN NEW ZEALAND

How could a Wisconsin-style programme be implemented in New Zealand? The benefits that provide most cause for concern are the Unemployment Benefit, the DPB and the Invalid's Benefit. Any solution must deal with all classes of benefit. When pressure was applied to recipients of the Unemployment Benefit there was a tendency for beneficiaries to 'migrate' to the Sickness Benefit and the Invalid's Benefit, despite, for instance, a requirement that a beneficiary must be at least 75 percent incapacitated to qualify for the Invalid's Benefit.

Cox showed that in comparison with Australia, New Zealand's benefit levels are generally higher, conditions of eligibility are usually less demanding and a larger proportion of New Zealand's population is dependent on benefits.²⁹⁶ The level of benefits should be reviewed but, more importantly, conditions of eligibility for it and access to supplementary assistance should be tightened.

A useful starting point would be to rename the DPB and all benefits for the able-bodied unemployed. They should be called 'temporary assistance' to emphasise that benefits are not absolute entitlements. The government should provide 'temporary assistance' to everyone facing severe hardship who cannot be helped in other ways but only on the condition that a genuine effort is made to find work.

As in Wisconsin, a graded series of alternatives should be provided with unsubsidised work the first choice. Other options should be only temporary until unsubsidised paid work is available and such assistance should be kept to a low level. Training should not be ranked as an equal alternative to work. The first priority should be to obtain a job and to progress from there. All work involves learning of some kind, formal or informal. It is sometimes said that people will be pushed into 'dead-end

jobs', but there is no such thing as a dead-end job, only the first rung on the ladder. Furthermore, an analysis of data for the United States led Mead to conclude that very few people who work on a full-time and full-year basis, even on minimum wages, are poor.²⁹⁷ Paid work is the key to regaining independence.

Any financial assistance for training should be given in the form of repayable loans or partial grants. Trainees should always pay a substantial part of the cost to ensure that they are fully committed to training as part of their career plan and not as a tactic to delay a return to self-sufficiency. Training schemes should be closely monitored for their effectiveness in enabling people to acquire skills and to obtain and retain an unsubsidised job.

In Wisconsin it was found necessary to ensure the availability of work by creating subsidised private or public sector jobs and by setting up community work schemes. The purpose of these schemes is to make the work obligation a reality at all stages of the economic cycle. Similar schemes have already been tried in New Zealand. A Community Work scheme, which replaced earlier schemes, began in October 1998. Several programmes such as Enterprise Allowance, Job Connection, Job Plus and Task Force Green provide subsidised employment for the unemployed. Large-scale job creation schemes are to be avoided, but some small-scale initiatives can be defended if they are necessary to enforce a strict work obligation for beneficiaries who are hard to place.

A flexible, well-functioning labour market is critical to the maintenance of high employment and the provision of job opportunities for people with few skills. Labour market policies that help to create jobs, like the abolition of minimum wages (with the benefit system being the safety net), restoration of the freedom of contracting in employment and a reduction in non-wage costs such as ACC, should also be implemented. The private sector should be contracted to help find jobs for difficult to place beneficiaries, as in Australia and Wisconsin. Increased competition would encourage the Department of Work and Income to improve the performance of its employment services. Policies that raise educational standards, especially for those with few skills, are also critical.

Family breakdown

Recipients of the Community Wage (Unemployment and Sickness Benefits) typically include able-bodied persons who need to be steered towards suitable work. Recipients of the DPB, however, usually face the problem that one or both parents have a lifestyle that is incompatible

with self-sufficiency. Quite apart from the adverse emotional and educational impact on the children of being raised in a sole-parent family, it is not possible for any parent simultaneously to work and care for young children.²⁹⁸ A well-paid sole parent may be able to afford to pay for childcare out of their wages, but many will not be able to do so.

Most recipients of the DPB are sole mothers who were married or cohabiting and are divorced or separated from their partners, rather than unmarried teenage mothers. As in Wisconsin, the first priority should be to ensure that non-custodial parents meet the cost of raising their children.

The Inland Revenue Department administers the present child support scheme in New Zealand. Non-custodial parents are assessed for child support payments based upon their taxable income less a living allowance that reflects their current status (whether they are single or married, and whether they have dependents). The repayment rates are 18 percent of liable earnings for one dependent child, rising to 30 percent for four or more. The present rates of payment are too low and collections are inadequate, with the consequence that taxpayers are paying for the maintenance of many sole parents and their children. In some cases the amount that non-custodial parents can pay will allow custodial parents to avoid paid work altogether and, in all cases, it should enable them to be self-supporting with the addition of income from part-time work and without resort to benefit.

With the non-custodial parent having been required to pay the maximum support possible, the custodial parent should then be required to work to the extent necessary to avoid welfare dependency. Recipients of the DPB are generally required to work on a part-time basis after their youngest dependent child reaches 6 years of age and to undertake full-time work when such a child reaches 14 years of age. In both cases applicants are required to take reasonable steps to obtain work.

As in Wisconsin, there should be no special treatment of sole mothers as compared with married mothers. In Wisconsin sole parents are required to work when their youngest child is aged 12 weeks. The attitude is that a married woman who took time off work to have a baby would be expected to return to work after 12 weeks and that sole mothers should be treated in the same way. In some other countries the limit is higher. In France it is three years; in Germany part-time work is required when the youngest child reaches school age and full-time work when that child is aged 14 years; in the United Kingdom there is no work requirement until the youngest child is aged 16 years.

A married mother has the option of relying on her partner for support but because a sole mother has no partner she does not have that choice unless the non-custodial father pays for her support. Experience has shown that if the government substitutes for the father the results for the child are often harmful, the mother experiences a lower income than if married, and the number of parents who opt for non-marriage increases. Consequently, an obligation to work is in the long-term interests of both mother and child because it is likely to reduce the incidence of sole parenthood.

To impose a work obligation on sole parents raises the problem of childcare costs and Wisconsin found it necessary to subsidise childcare.²⁹⁹ New Zealand already has a system of childcare subsidies that could be adapted.

There may also be other costs that discourage work, such as special work clothing. In Wisconsin loans are available to ease the path into work. They can be repaid by voluntary work, but at least 25 percent of the debt must be repaid in cash.

As Charles Murray has consistently argued, benefits should not be increased for additional children born out of wedlock. In Wisconsin births within 10 months of the first benefit payment are not affected but to encourage a responsible attitude to pregnancy, subsequent births generate no extra cash assistance.³⁰⁰

Researchers like Murray and a few states in the United States, like Wisconsin, have been clear-headed in their efforts to deal with family breakdown. However, in most countries, including New Zealand, it is regarded as a highly controversial issue. Some say it is 'authoritarian' for public policies to be based on a clear moral view – an attitude that reflects the cultural nihilism of the 1970s. The publication of *Towards a Code of Social and Family Responsibility* suggests that the 1996–99 government was acutely aware of these issues.³⁰¹ But how far should the government go in promoting a moral view?

First, in a free society individuals should be at liberty to choose their lifestyle and to defy convention where appropriate. However, people who wish to defy established patterns of conduct cannot with any logical consistency demand that their lifestyle be compulsorily paid for by the people whose values they reject. In such cases those who are required to pay are not being treated as equally entitled to live their own lifestyle; rather they are expected to pay for their own way of life and that of people who disagree with them and who may well hold them in contempt.

Individuals who wish to experiment with other lifestyles should do so at their expense and at their risk and, to that end, should not be shielded completely from the natural consequences of their actions. Among the advantages of experimentation with lifestyles is the discovery of those that are viable, economically or otherwise. If a lifestyle proves not to be self-sustaining that lesson is worth learning. Public subsidies, however, conceal the discovery of non-viable lifestyles and diminish our capacity to learn from experience. Recent experimentation with sole parenthood exemplifies this problem.

The growth of sole parenthood has only been possible because of public subsidy. Without it there would have been far fewer experimenters. In general, freedom of lifestyle is self-contradictory unless the practitioners are self-sufficient because, if everyone in the society demanded the right to live a lifestyle that required a subsidy from others then there would be no economically viable families to pay the subsidies.

So far I have discussed some guiding principles and their application to existing benefit claimants. In addition, new applicants should be subject to strict requirements before any benefit is paid. All new benefit applicants are required to meet a personal advisor to determine their capacity for self-sufficiency. Anyone wanting cash assistance should be required to take part in two weeks of job search before a benefit is paid. Any emergency cash assistance required during that time should be treated as a repayable loan. Where one parent is absent the payment of child support should be investigated immediately with a view to recovering the full cost of benefits from the non-custodial parent. As in Wisconsin, the penalties for non-payers should be onerous.

Support of the sick and invalids

The main thrust should be the reform of the Community Wage and benefits for those capable of work but not currently working. However, as the former Department of Social Welfare realised, there has been a migration into the Community Wage (Sickness Benefit), the Invalid's Benefit and ACC so that a number of people currently classified as incapable of work are, in reality, capable of partial or complete self-support.

At the end of June 2000, there were 32,294 recipients of the Community Wage (Sickness Benefit) and 55,428 people receiving the Invalid's Benefit.³⁰² According to the March 1996 Census 62,883 people had received regular ACC payments during the previous 12 months.³⁰³ In 1995/96 the ACC spent \$820 million in weekly compensation payments

to people unable to work because of a personal accident injury.³⁰⁴ Such payments declined to \$748 million in 1998/99 largely as a result of reductions in new and long-term claims. The introduction of competition for insurance against injury from workplace accidents from July 1999 led to the lower cost of ACC. Despite large savings in premiums and greater emphasis on accident reduction and rehabilitation, the new government prohibited competition in the provision of workplace accident insurance from July 2000.

Until recently, the work test for the Community Wage required an assessment to be made of the number of hours during a week that a person can work. Medical examinations intended to establish the kind of work that can be done would be preferable. The expectation is that beneficiaries should work to their capacity.

In *From Welfare State to Civil Society* I argued that provision for income replacement during illness or disability should be returned to civil society so that commercial insurers and friendly societies can compete to provide the cover required. This is a key step in re-establishing individual responsibility and independence on the one hand and reducing welfare dependency on the other. Most people are able to insure against the loss of income through illness or disability. These are normal contingencies that people can be expected to make provision for. As in other areas, the government's role should be limited to the provision of a safety net for people who would otherwise face hardship. Such government assistance should, where feasible, be recovered from the future income of those people who are assisted. As expenditure on benefits falls, taxes should be cut thereby assisting people to buy private insurance.

LOW WAGES

What should be done about people in work who are genuinely able to earn very little? The problem has been that measures so far taken to subsidise low incomes from work have led to reductions in work effort, either by couples or sole parents. Many schemes to overcome this problem in America have bi-partisan support. David Ellwood, professor of public policy at Harvard, and an advisor to President Clinton early in his administration, is typical. Ellwood has described how, in the mid 1980s, he was called upon to defend welfare. But, Ellwood says:

... the message didn't sell very well. People hated welfare no matter what the evidence. It wasn't just conservatives; liberals also expressed deep mistrust of the system, and the recipients themselves despised it.³⁰⁵

Frankly, Ellwood said, "I had to admit that even I, who had been asked to come to the system's defence, found much to dislike". He concluded that welfare caused conflict because it treated symptoms not causes.³⁰⁶

The American ideal, Ellwood said, was, "not of a guaranteed income, but of a guarantee that people who strive and meet reasonable social responsibilities will be able to achieve at least a modest level of dignity and security".³⁰⁷ For two-parent families, it was reasonable to expect that the earnings of one person working for a full year, full time (or the equivalent if the partner works) ought to be sufficient to prevent the family from falling below the poverty line. Ellwood defines full-time work as 35 hours a week for 50 weeks a year, a total of 1,750 hours a year.³⁰⁸

New Zealand's increasingly complex system of in-work subsidies, however, is based on very different assumptions. The guiding principles of reform should be that individuals are responsible for improving their income. If a person has made a 'reasonable effort' to earn as much as possible and is still on an unacceptably low income, in-work benefits may be defensible. As Ellwood recommends, one such test of 'reasonable effort' could be based on the number of hours worked. The figure could be about 40 hours a week for one or two parents with children under school age, or 50 hours once the children are at school (thus releasing the second parent to work part time). If in-work benefits were abolished and replaced by such a system, benefits would reward hard work. Such a system would also be simpler to administer but, above all, it would provide a morally more defensible basis for assistance: namely that an individual or family working full time for a full year would not be allowed to be poor.

CONCLUSION

In recent years the trend has been to understand poverty as a misfortune that just happens through 'no fault of our own'. But when we say a person is poor, what do we mean? As shown in Chapter 1, Rowntree, who dominated poverty analysis during the first half of the last century, explained poverty as the result of changes in relative income and expenditure over the life cycle. During a typical person's adult life, the person would be likely to encounter two stages when their expenditure would be high compared with their income. The first results from increased expenditure due to the cost of raising children and the second from a fall in income due to retirement from paid work.

However, in neither case is the individual completely powerless to influence events. A couple can control their expenses during child raising by limiting the size of their family and reducing outgoings such as those on housing and discretionary expenditures. Moreover, they can save in preparation for the expense of raising children both while they are single and when married but before children come along. Similarly, an imbalance between income and expenditure in old age can be avoided by saving in earlier years, continuing to work, reducing expenses and insuring against the loss of income from sickness or injury.

Our decisions make a big difference to the extent of the imbalance between expenditure and income. However, it does not follow from this observation that every person who struggles to make ends meet is to 'blame', nor even that their predicament is entirely their own fault. But they may be responsible to some extent and, if so, we should say so because any lasting remedy will involve behavioural change on their part.

Those who treat poverty as always and everywhere the result of sheer misfortune eliminate from consideration measures that, in practice, are most likely to help. It goes without saying that the truly powerless victim of outside events should always be helped. Indeed, the person who has brought problems on themselves should also always be helped. The choice is not between help and neglect, but between methods of help that entrench the problem and those that bring a lasting solution.

Today the largest group facing an imbalance between income and expenses is sole parents and their children. The reason is that one parent cannot simultaneously work and care for a child. For this reason, all human societies have expected both biological parents to take responsibility for their children on the assumption that one parent will be the primary care giver and the other the primary breadwinner. The two-parent family is not just a more economically viable method of raising children than sole parenthood, it is also the socially more viable method because it is overwhelmingly to the advantage of the children.³⁰⁹

If measures based on the Wisconsin model were adopted in New Zealand they would lead to a renewal of the spirit of self-sufficiency and personal responsibility that is the only basis for a free society.

APPENDIX

EQUIVALENCE SCALES

Equivalence scales are used in poverty studies to apportion incomes and expenditures to each individual in a household. The initial information about income and expenditure is collected by surveys (such as New Zealand's Household Economic Survey) on a household basis. Poverty researchers typically seek to individualise the data. An equivalence scale reflects the fact that when people live together, sharing facilities and consumption, they can reduce their average cost. It also makes allowance for the assumed lower costs of children compared with adults.

The scales commonly used in New Zealand (Jensen 1988) and Britain (McClements) take a childless couple as their reference point. They are given a value of one. Under the Jensen 1988 scale the values are attached to other household members and compositions are presented in Table 9.

Table 9: The Jensen 1988 equivalence scale for selected household compositions

<i>Household composition</i>	<i>Equivalence scale</i>
First adult (head)	0.65
Second adult (spouse)	0.35
Adult plus one child	0.91
Adult plus two children	1.14
Adult plus three children	1.34
Two adults plus one child	1.21
Two adults plus two children	1.41
Two adults plus three children	1.58
Two adults plus four children	1.75

Note: The children are assumed to be aged 8–10 years.

Source: Perry, B, 'Between a rock and a hard place: equivalence scales and inter-household welfare comparisons', *Social Policy Journal of New Zealand*, Issue 5, December 1995, p 145.

If, for example, a family of two adults and three children (aged 8 to 10 years) earned an income of \$30,000 a year, their average income per head would be \$6,000. If an equivalence scale is used to apportion income to each individual in the family a very different result is obtained. The

equivalent income per head using the Jensen 1988 scale would be \$18,987, that is, \$30,000 divided by 1.58.

If the income of a family of two adults and two children (aged 8–10 years) were \$20,000, the equivalent income would be \$14,184 (that is, \$20,000 divided by 1.41). A single person earning the same income would have an equivalised income of \$20,000 divided by 0.65, or \$30,769.

It is widely recognised that equivalence scales distort results. As Bryan Perry of the Social Policy Agency wrote:

The use of equivalence scales is unavoidable in social policy research and analysis but the theoretical, conceptual and practical difficulties involved in their derivation in any 'scientific' way are at present overwhelming – and may always be so.³¹⁰

The most telling objection to the use of equivalence scales in poverty analysis is that they conceal the effects on income and expenditure of choices relating to family size and structure. If we want to understand how best to avoid poverty we should not use a method that removes essential facts from our view.

ENDNOTES

- ¹ Haveman and Wolfe observe that "The single-parent effect ... is regularly found, in studies from several disciplinary perspectives, to have a deleterious effect on children". See Haveman, Robert and Wolfe, Barbara, 'Children's prospects and children's policy', *Journal of Economic Perspectives*, Vol 7, No 4, 1993, p 169 and Haveman, Robert and Wolfe, Barbara, 'The determinants of children's attainments; A review of methods and findings', *Journal of Economic Literature*, Vol XXXIII, December 1995, p 1871.
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- ³ Rowntree, BS, *Poverty: A Study of Town Life*, (2nd edn), London: Nelson, 1901.
- ⁴ Himmelfarb, G, *The Idea of Poverty*, London: Faber, 1984.
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- ⁶ Tocqueville, A de, *Memoir on Pauperism*, London: IEA, 1997.
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- ⁸ Himmelfarb, 1984, p 161; Poor Law Report, 1834, p 127.
- ⁹ Himmelfarb, 1984, p 162; Poor Law Report, 1834, pp 28–29.
- ¹⁰ Poor Law Report, 1834, p 44.
- ¹¹ *Ibid*, p 49.
- ¹² *Ibid*, p 147.
- ¹³ *Ibid*, p 123.
- ¹⁴ Himmelfarb, 1984, p 165; Poor Law Report, 1834, p 148.
- ¹⁵ Quoted in Gosden, PHJH, *Self Help*, London: Batsford, 1973, p 64.
- ¹⁶ Green, DG, *Reinventing Civil Society*, London: IEA, 1993.
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- ¹⁹ *Ibid*, p 3.
- ²⁰ Bosanquet, H, *The Strength of the People*, London: Macmillan, 1903, (2nd edn), p 110.
- ²¹ *Ibid*, p 110.

- ²² Lewis, J, 'Social facts, social theory and social change: the ideas of Booth in relation to those of Beatrice Webb, Octavia Hill and Helen Bosanquet', in Englander, D and O'Day, R (eds), *Retrieved Riches: Social Investigation in Britain 1840–1914*, Aldershot: Scolar Press, 1995, p 61.
- ²³ Bosanquet, 1909, p 62.
- ²⁴ *Ibid*, p 4.
- ²⁵ *Ibid*, p 5.
- ²⁶ *Ibid*, p 5.
- ²⁷ *Ibid*, p 6.
- ²⁸ *Ibid*, pp 7–8.
- ²⁹ *Ibid*, pp 8–9.
- ³⁰ *Ibid*, p 109.
- ³¹ *Ibid*, p 109.
- ³² *Ibid*, p 39.
- ³³ *Ibid*, p 39.
- ³⁴ Bosanquet, 1903, p 109.
- ³⁵ Collini, S, *Public Moralists*, Oxford: Clarendon, 1993, chapter 3.
- ³⁶ *Ibid*, p 113.
- ³⁷ *Ibid*, pp 106–107.
- ³⁸ Smiles, S, *Self-Help*, London: IEA, 1996.
- ³⁹ Collini, 1993, p 114.
- ⁴⁰ *Ibid*, p 113.
- ⁴¹ *Ibid*, p 116.
- ⁴² Bosanquet, 1903, p 108.
- ⁴³ Booth, 1902, Vol 2, p 21.
- ⁴⁴ Booth, 1902, Vol 1, p 131.
- ⁴⁵ *Ibid*, p 167.
- ⁴⁶ *Ibid*, p 168.
- ⁴⁷ *Ibid*, p 169.
- ⁴⁸ *Ibid*, p 131.
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- ⁵¹ *Ibid*, p 171.
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- ⁵⁵ *Ibid*, para 15.
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- ⁵⁸ *Ibid*, pp 173–174.
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- ⁷⁶ Royal Commission on Social Security in New Zealand, 1972, p 65.
- ⁷⁷ *Ibid*, p 65.
- ⁷⁸ The Royal Commission on Social Security recommended that a requirement that beneficiaries be of "good moral character and sober habits" be deleted from the social security legislation. See Royal Commission on Social Security in New Zealand, 1972, pp 348–354.
- ⁷⁹ The Royal Commission on Social Security in New Zealand reported that its proposals would increase the cost of social security by 41.5 percent from \$318 million to \$450 million a year. See Royal Commission on Social Security in New Zealand, 1972, p 32.
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- ¹⁰² *Ibid*, p 100.
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- ¹⁰⁸ Waldegrave *et al*, 1996, p 202.
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- ¹⁴⁹ Pryke, 1995.
- ¹⁵⁰ The omission of additional goods and services such as health services provided free or on a subsidised basis understates the level of consumption. The provision of some such services may also indicate a greater need and may not imply a higher standard of overall welfare. However, this is unlikely to be the case with housing, education and some other goods and services that are provided free or on a subsidised basis.
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- ¹⁸⁰ *Ibid*, Figure 3.1, p 40.
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- ¹⁸⁵ *Ibid*, p 63.
- ¹⁸⁶ *Ibid*, Figures 6.9 and 6.10, pp 88–89.
- ¹⁸⁷ Stephens *et al*, 1995, p 99.
- ¹⁸⁸ *Ibid*, p 107.
- ¹⁸⁹ Some other studies report or imply contrasting results. The differences relate (among other factors) to the time period studied, whether adjustments are made for the size and composition of households and the definition of poverty. See Easton, Brian, 'Income distribution' in Silverstone, Brian, Bollard, Alan and Lattimore, Ralph (eds), *A Study of Economic Reform: The Case of New Zealand*, Amsterdam: Elsevier Science B V, 1996; Podder, Nripesh and Chatterjee, Srikanta, 'Sharing the national cake in post reform New Zealand: income inequality trends in terms of income sources', paper presented at the annual conference of the New Zealand Association of Economists, Wellington, September 1998; and Stephens, Robert, 'Income distribution in New Zealand', *Victoria Economic Commentaries*, March 1998.
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- ¹⁹¹ See Easton, 1996, pp 112–113.
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- ²⁰⁰ *Ibid*, p 10.
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- ²⁰² *Ibid*, pp 3 and 11.
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- ²⁰⁴ Magnet, M, *The Dream and the Nightmare*, New York: William Morrow, 1993. For a discussion of the issues, see my book, Green, 1996.
- ²⁰⁵ Mead, L, *Beyond Entitlement: The Social Obligations of Citizenship*, New York: The Free Press, 1986, p 57.
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- ²⁰⁹ Mead, LM (ed), *The New Paternalism: Supervisory Approaches to Poverty*, Washington: Brookings, 1997.
- ²¹⁰ Green, 1996.
- ²¹¹ Preston, D, 'Reducing benefit dependence', *Social Policy Journal of New Zealand*, Issue 6, July 1996, p 87.
- ²¹² The migration from the Unemployment Benefit to other benefits may, in part, reflect a more accurate matching of beneficiaries and class of benefit. When benefit levels were similar less attention than otherwise may have been paid by applicants and the Department of Social Welfare to the class of benefit that should be provided.
- ²¹³ Department of Social Welfare, *Post-election Briefing Paper 1996: Income Support*, Wellington: Department of Social Welfare, 1996, p 4.
- ²¹⁴ Ministry of Social Policy, *Post-election Briefing Paper 1999*, Wellington: Ministry of Social Policy, 1999, p 32.
- ²¹⁵ *Ibid*, p 40.
- ²¹⁶ *Ibid*, pp 128–129.
- ²¹⁷ *Ibid*, p 26.
- ²¹⁸ Changes to benefit arrangements up to 1997 are summarised by Cox, 1998.
- ²¹⁹ The following summary of policies implemented in 1998 and 1999 is largely taken from Ministry of Social Policy, 1999, pp 122–143.
- ²²⁰ Ministry of Social Policy, 1999, p 139.
- ²²¹ *Ibid*, p 143.

- ²²² Ministry of Social Policy, personal communication, 1 March, 2001.
- ²²³ Preston, 1996, p 83.
- ²²⁴ Cox, 1998, p 38.
- ²²⁵ Liebschutz, David S, *Taxes and Poverty in New Zealand: The Impact of the Tax and Benefit Systems on Low-income New Zealanders*, Wellington: The Ian Axford Fellowship in Public Policy, 1999, p 20.
- ²²⁶ Easton suggested that the 1991 benefit cuts were based on work undertaken by Brashares and Ansley, 1990 (see Easton, Brian, 'Calculating the benefit level', *The Dominion*, 25 May, 1991). The Treasury has advised, however, that the report was not used as the basis for policy advice (personal communication, 10 November, 2000).
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- ²²⁸ Cox, 1998, p 19.
- ²²⁹ *Ibid*, pp 20–23.
- ²³⁰ A programme of tax reductions and increased assistance to families was implemented in 1996 and 1998. See Birch, William, *Tax Reduction and Social Policy Programme: Details*, Wellington: Office of the Minister of Finance, 1996.
- ²³¹ The ACC earner premium has been set at 1.1 percent for 2001/02 on liable earnings up to \$85,795. The rates of income tax shown in Tables 5 and 6 will continue to apply until they are changed.
- ²³² Inland Revenue Department, *Family Assistance Registration Pack*, Wellington: Inland Revenue Department, 2000, p 7.
- ²³³ Liebschutz, 1999, p 15.
- ²³⁴ Cullen, Michael, *Budget Speech and Fiscal Strategy Report*, Wellington: Office of the Treasurer and Minister of Finance, 2000, p 8.
- ²³⁵ To avoid ambiguity as to the grounds for awarding the Community Wage and to provide for comparisons with past data, the Community Wage granted on grounds of sickness is referred to as the Community Wage (Sickness Benefit) where necessary. A similar description is used where the Community Wage is awarded on other grounds. The title Unemployment Benefit is used rather than Job Seeker.
- ²³⁶ Ministry of Social Policy, *Statistics Report for the Year Ending 1999*, Wellington: Ministry of Social Policy, 2000, p 24.
- ²³⁷ Wilson, Moira, 'The policy response to the Employment Task Force and changing patterns of domestic purposes benefit receipt: a cohort analysis', *Social Policy Journal of New Zealand*, Issue 14, July 2000, p 96–97.

- ²³⁸ Preston, 1996, p 84.
- ²³⁹ Liebschutz, 1999, p 18.
- ²⁴⁰ Organisation for Economic Cooperation and Development, *OECD Economic Surveys: New Zealand 1996*, Paris: OECD, 1996, Note 140.
- ²⁴¹ *Ibid*, p 69.
- ²⁴² *Ibid*.
- ²⁴³ *Ibid*.
- ²⁴⁴ Department of Social Welfare, *Annual Report 1997*, Wellington: Department of Social Welfare, 1997, p 10.
- ²⁴⁵ Department of Social Welfare, *Statistics Report 1997*, Wellington: Department of Social Welfare, 1997, p 4.
- ²⁴⁶ Ministry of Social Policy, 2000, p 22.
- ²⁴⁷ Department of Social Welfare, *Statistics Report for the Year Ending 1998*, Wellington: Department of Social Welfare, 1998, p 23, p 39.
- ²⁴⁸ *Ibid*, p 9.
- ²⁴⁹ Ministry of Social Policy, 2000, p 19 and Department of Work and Income New Zealand, 'Quarterly report', 27 January 2001. www.winz.govt.nz/publications_and_reports/statistics/quarterly_report.htm1.
- ²⁵⁰ Ministry of Social Policy, 2000, p 19.
- ²⁵¹ Department of Income and Work New Zealand, 2001.
- ²⁵² Department of Social Welfare, *Statistics Report 1997*, 1997, p 30.
- ²⁵³ *Ibid*, p 30.
- ²⁵⁴ Ministry of Social Policy, 2000, p 19 and Department of Work and Income New Zealand, 2001.
- ²⁵⁵ Department of Work and Income New Zealand, 2001.
- ²⁵⁶ Mead, 1986.
- ²⁵⁷ There is extensive literature on the US reforms. The following discussion mainly draws on information and reports published by the United States Department of Health and Human Services (www.hhs.gov), the Manpower Demonstration Research Corporation (www.mdrc.org), the Cato Institute (www.cato.org) and the Urban Institute (www.urban.org).
- ²⁵⁸ United States Department of Health and Human Services, *Welfare Reform: Implementing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996*, HHS Fact Sheet, Washington: United States Department of Health and Human Services, 2001, p 1.

- ²⁵⁹ *Ibid*, p1.
- ²⁶⁰ *Ibid*, p1.
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- ²⁶² Oliphant, Lisa E, 'Four years of welfare reform: a progress report', *Policy Analysis* 378, Washington: Cato Institute, 2000, p 8.
- ²⁶³ Gallagher, L Jerome, Zedlewski, Sheila and Loprest, Pam, *Welfare Reform: Ten Basic Questions Answered*, Washington: Urban Institute, 1999, p 2.
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- ²⁶⁷ See Oliphant, 2000, p 8.
- ²⁶⁸ Besharov and Germanis, 2000, p 17.
- ²⁶⁹ *Ibid*, p 27.
- ²⁷⁰ Oliphant, 2000, p 10.
- ²⁷¹ Gallagher *et al*, 1999, p 2.
- ²⁷² Besharov and Germanis, 2000, p 34.
- ²⁷³ *Ibid*, p 2.
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- ²⁷⁵ Besharov and Germanis, 2000, p 28.
- ²⁷⁶ *Ibid*, pp 30–34.
- ²⁷⁷ United States Department of Health and Human Services, *Preventing Teenage Pregnancy*, HHS Fact Sheet, Washington: United States Department of Health and Human Services, 2000, p 1.
- ²⁷⁸ Oliphant, 2000, pp 31–33.

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- ²⁸⁷ Wisconsin Department of Workforce Development, 'Wisconsin Works (W-2): Overview', W-2 Fact Sheets, Milwaukee: Wisconsin Department of Workforce Development, 2001, p 1.
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