

Australia can learn from the limitations of New Zealand's welfare reforms

Written by Simon Chapple, Senior Research Fellow (Economist), University of Otago

The Australian government is embarking on welfare reform to try and wean people off long term benefit reliance. Social Services Minister Christian Porter has indicated that New Zealand's investment approach is one to follow, after the government flagged it would [be cracking down on people cheating the welfare system](#) during the election campaign.

This isn't the first time this idea has been floated in Australia, as the final report of The McClure review of welfare in 2015 [also promoted the approach](#) .

But in using New Zealand's [investment model as a guide](#) , it may be doomed to make the same mistakes.

New Zealand's welfare system is focused on getting people off benefits. But it fails to measure the true economic costs and benefits of doing so.

Following the election of National Party-led coalition in 2008, the New Zealand government set up a Welfare Working Group in 2010 to examine ways to reduce long-term welfare dependency via getting people into work. The group reported back in 2011, recommending adopting an investment approach to the welfare system as a solution.

The government adopted the investment recommendation, amongst other changes. The approach is now strategically central to New Zealand welfare policy.

The New Zealand investment approach seeks to measure the long-term benefit payments associated with everyone who is in the welfare system, or has recently been in it, over their working life-times. It suggests that investment should be triggered in the welfare system if the upfront costs to get people off-benefit are less than their long-term benefit liability. The overall liability measure is also used to set performance targets for the welfare agency.

The over-arching concept behind the approach is sensible. In making dollar decisions about

allocating employment programmes – job search assistance, training or subsidised work – to beneficiaries to get off welfare and into jobs today, the future consequences should be considered.

However getting into the nitty gritty detail of how this is actually achieved in New Zealand is when serious problems emerge. Despite the stated aims of the New Zealand policy reforms, the investment approach is not about finding people stable employment.

Rather it is about getting people off benefit over time. That is what it measures. That is what is valued. That is how government agencies' performance is rewarded.

Leaving benefit and getting a job are positively - but far from perfectly - related. People may go off benefit into education, building up a debt they are unable to service.

They may move into the black or grey economy. They may re-partner. They may move onto the streets. Or they may get a job.

The investment approach is indifferent to all these vastly different potential destinations. And even if people go into jobs, the investment approach treats all jobs as equal.

The approach is indifferent as to whether beneficiaries go to a well-paid job or not, whether the job suits family life or not, or whether the resulting commute is long or short.

So the claim, made by the New Zealand government, that the investment approach is working, even if true, only judges the approach by its own narrow yardstick. That yardstick is an inappropriate one in assessing economic and social efficiency of allocation of government resources to help people get work.

Fiscal outcomes matter. But more than fiscal outcomes – in this case various dimensions of employment outcomes – matter as well.

The second issue with the investment approach is that it confuses income redistribution with economic efficiency. Welfare benefits are what economists call transfers.

That is to say they transfer purchasing power from one group in the community – tax payers – to another – beneficiaries. The long term benefit liability of the investment approach measures this income redistribution over time.

This redistribution, of course, may have downstream efficiency costs, such as discouraging people from getting work by providing them with a state-funded source of income, and encouraging people who are paying the taxes to work less. But the investment approach doesn't seek to measure such true economic costs.

It treats the long term liability as a true cost. That is a basic error and it's now the conceptual basis for New Zealand's public policy in the welfare area.

There are further issues. A successful welfare system is one that ensures only those who are entitled to welfare are paid it, and all those who are eligible for welfare and need it, get it.

However non-take-up of welfare benefits is a significant issue. The [evidence suggests](#) many people do not access their entitlements because of stigma in applying and because they are not aware of their entitlements.

The investment approach does create performance incentives to winkle out welfare cheats. But it does not address the other side of the same coin – connecting the truly entitled but stigmatised and uninformed with income support. Indeed, it creates incentives to increase stigma and muddy entitlement information. Again, this is policy failure.

Lastly, active employment policies – job search assistance, training and subsidised work – are entitlements of all citizens in New Zealand.

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However, the upshot of the investment approach is to neglect providing these services to any unemployed person without a benefit entitlement (perhaps because their spouse is earning just enough to put family income above the entitlement threshold), or a person who has not taken up a benefit because of stigma or lack of information. These people are typically half or more of those unemployed at any point in time. The investment approach effectively strips away any incentive to meet these citizens' needs.

It is not until the New Zealand investment approach overcomes all of these significant problems that it will be able to be truly considered a policy triumph. Australia, too, is likely to have to grapple with exactly the same issues.

Simon Chapple does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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