BUSINESS SCHOOL

Economic Policy Centre

Pensions and Intergenerational Equity

The Great Welfare Reset

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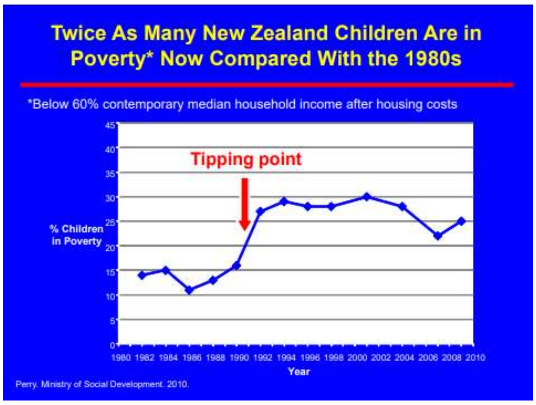
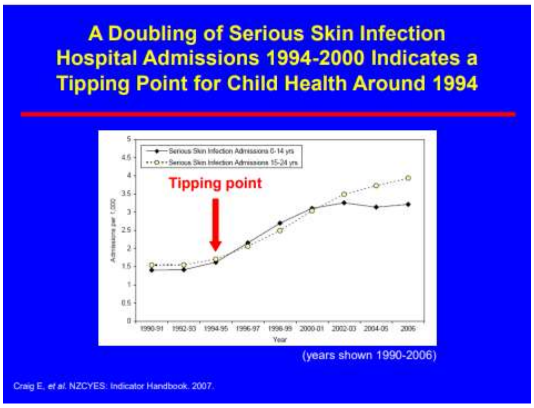
PIE Commentary 2024-1[1]

Susan St John was invited by TV One[2] to contribute an opinion piece on the direction of welfare reform in 2024. PIE is pleased to republish this commentary that argues it is tragic to see the return of a dated philosophy that makes paid work the only work that matters.

The label "Welfare that Works" on the Government's reset package is scarily reminiscent of the 1991 Budget report "Welfare that Works" by Jenny Shipley.

One thing we did learn from the harsh reset of the benefit system in 1991 was that it was quickly followed by an explosion in measured poverty and associated indicators like child admissions for third world diseases.[3]





In the 1990s, poverty became entrenched, along with foodbanks. Benefits were set too low, so that a whole industry was created for supplementary assistance given in a reluctant and stigmatising way by the state. Private charity was expected to fill the remaining gaps.

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[1] PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.

[2] St John, S (2024) **Opinion: The Government's great welfare reset is a broken record** TVNZ One news 21st Feb 2024

[3] See Asher, Improving the Poor Health Outcomes for Children in New Zealand - What Can Be Done? The Porritt Lecture, Whanganui, 3 November 2010.

An unfortunate division was made between the deserving (in paid work) and undeserving poor (on a benefit or part benefit). For example, in 1996, Bill Birch denied the children of the undeserving (parents on benefits) the child tax credit, now called the In-Work Tax Credit, and the poverty of the poorest deepened.

Similarly, the 2008-2017 National government took a strong "work is the (only) way out of poverty" approach, increasing the use of benefit sanctions for minor infringements including for parents with children.

Under a "work first" approach, the In-Work Tax Credit was increased while support for the worst-off children languished.

By 2017, child poverty was hitting new heights. Of course, it was not just children. Beneficiaries were stigmatised and prosecuted, even incarcerated for alleged misdemeanours. In that election year, National, shamed by the clear hardship it had created, had to promise a family package of relief if re-elected.

Another round of 'Welfare that Works'

In 2024, it is tragic to see a rerun of the dated philosophy that makes paid work the only work that matters.

In the Christopher Luxon version of "Welfare that Works", a simplistic dichotomy is used to convey the impression that benefits are morally bad, while being completely off benefit in paid work is morally good.

This is when working part-time on a part-benefit is often the best that can be managed alongside caregiving duties, or when only casualised labour is on offer.

The squeezed middle has been forgotten. The exhortation to get off a benefit into full time work rings hollow when there are severe poverty traps for the working poor.

Anything over a household income of $42,700 is not worth earning when draconian clawbacks (repayments of Working for Families, student loans, the Accommodation Supplement) apply alongside high tax rates.

Undoubtedly the economy is in a "fragile" state, but we see no acknowledgement of the extreme adversity of the last few years, including a major pandemic and severe natural disasters, to say nothing of uncertainty in the global economy.

As well, we can point to lack of progress on welfare and Working for Family reforms promised under Labour.

Benefit levels have been below even a very basic standard of living, and consequently debt to the Ministry of Social Development (MSD), Inland Revenue, and private lenders has skyrocketed.

The wealth and income divide has accelerated, along with homelessness and food insecurity. The foodbank industry is now entrenched, and private charities are overwhelmed by the sheer need in the community.

In this environment, **Luxon talks about "tough love"** and ending "free rides" to create negativity towards the victims.

So far, announcements have been comparatively "softly, softly". Benefits are not actually cut as in 1991, but will no longer be indexed to general living standards so they will fall further behind over time.

The existing sanction scheme has been ratcheted up for those on Jobseeker benefits, with likely extensions over time.

There is no appreciation that cutting benefits makes desperate people even poorer. They will be less likely to eat well, sicker, more indebted, less likely to have access to secure housing, including washing facilities. In other words, they become even less work ready.

We hear that family and friends are supposed to pick up the pieces. In reality, the problems will be forced back on the very communities that already need the most help and are least able to cope - a recipe for social disaster.

Make no mistake, these "tough love" policies will be expensive.

Many more skilled front-line staff and case managers will be needed. But this is in a time of austerity when departments are supposed to be making savings. What accountability is there for the money spent? Where is the appeal process for those sanctioned?

"Tough love" should be directed at the source of the problem.

One of the key drivers of the fragile economy is the rampant speculative boom in housing. The "free ride" given to wealthy people with tax-free capital gains has sent very damaging and distorting messages. Why work for a living?

And, in the precarious job markets and general uncertainty, surely we need a strengthened, more secure, more helpful and encouraging welfare state, not a meaner, more punitive and more policed one.

Comments welcome to s.stjohn@auckland.ac.nz