New Zealand Council of Trade Unions
Te Kauae Kaimahi

Submission to the

Welfare Working Group

Long Term Benefit Dependency: The Issues

September 2010
1. Introduction

1.1. The New Zealand Council of Trade Unions – Te Kauae Kaimahi (CTU) is the internationally recognised trade union body in New Zealand. The CTU represents 39 affiliated trade unions with a membership of over 350,000 workers.

1.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Runanga o Nga Kaimahi Māori o Aotearoa (Te Runanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

1.3. The CTU welcomes the opportunity to contribute to this debate and discussion about the purpose and role and the future for the welfare system. There is a critical interface between employment and social security. The importance of that interface was demonstrated very visibly when New Zealand’s unemployment rates rose sharply as a result of the global financial crisis (GFC). Most recently, the earthquake in Canterbury demonstrates the need for a strong and responsive welfare system.

1.3. The CTU is a strong advocate for the importance of work in providing income security for workers and their families but also in enabling a good quality of life and achieving human potential and aspirations. But work must be decent, fairly and justly rewarded and meet the standards of good work as set out in international agreements and International Labour Organisations (ILO) Conventions.

2.0 Fundamental Human Rights: Social Security and Decent Work

2.1 Social security is a fundamental right to which every human being is entitled and is recognised as a human right in the Universal Declaration of Human Rights, all major international human rights instruments and in international labour law and conventions.

2.2 The right to work and decent conditions of work are enshrined in the Universal Declaration of Human Rights. Article 23 (1) of the Declaration states “Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment”.

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3.0 The CTU Principles in Relation to Welfare

3.1 The CTU promotes and protects the economic, social, industrial, educational and civil rights of New Zealand workers including the right to meaningful and secure employment. The CTU has a commitment to policies and initiatives that build a high value, high wage, high skill economy and a socially just society.

3.2 The CTU urges that the base of welfare reform be a principled approach that is people-centred and investment-based, supportive of learning, skills acquisition and maximising individual ability and capability. The principles that we advocate should form the base of any welfare changes are:

- An investment approach rather than a punitive approach
- Supportive and facilitative rather than coercive and sanctions-based.

4.0 The WWG paper - Long Term Benefit Dependency: The Issues

4.1 The introduction to the issues paper (the paper) recognises that the welfare system cannot be viewed in isolation and that any strategies must have a focus on raising living standards and improving economic growth and productivity. The paper also recognises the need to have policies that encourage workforce participation. Both these approaches are endorsed by the CTU.

4.2 But while we can support the 5 principles outlined in the paper we note they do not include the essential role of the social security system in providing adequate financial support to enable participation in the community by all members of society (as outlined in the 1972 Royal Commission Inquiry into Social Security in New Zealand).

4.3 The paper makes some assumptions which are very challengeable. For instance:

- People on the sickness benefit, invalids and domestic purposes benefits do not want to work, that the role of the benefit system presumes that individuals cannot work and that that obligations to work are not strong enough
- That there is very little difference between people on the different types of benefits
• That the current benefit numbers are unsustainable and that welfare spending is out of control.

5.0 Other Significant Issues

5.1 The paper states that the benefit system is based on outdated assumptions about the participation of people in paid work. But there is no analysis in the paper about the impacts of the major changes in the labour market in the last four decades.

5.2 Women’s participation in the labour market has grown dramatically over the last three decades for both social and economic reasons. But the growth of participation of women in the workforce has not been matched with conditions of employment to ensure employment support in respect of supportive child care arrangements, flexible work arrangements and maternal and parental protections. Current changes in early childhood education will reduce accessibility to early childhood education even further.

5.3 There is also very little analysis in the paper about the determinants of disadvantage and the relationships of the benefit system to affordable housing, secure employment, accessible education and quality health care and the interactions between these factors.

6.0 The Issues Paper – CTU Responses to the Questions

Q1: What do you think the goals or objectives of the benefit system should be?

The role of the benefit system through the provision of universal benefits is to provide income protection that is adequate and universal and to prevent and alleviate poverty for people during unexpected life contingencies or events such as unemployment, old age, sickness, injury or for other significant social and economic reasons. Through income protection and support, the benefit system enables social support, inclusion and participation in society for all people despite their circumstances.

The value of a strong social security system was very clear when it absorbed the effects of the economic crisis and provided protection to vulnerable New Zealand workers who were adversely affected by the global economic crisis. A strong social security system acted as an automatic stabiliser that helped the country adjust to, and also recover from the economic crisis.
An essential part of the benefit system is to provide long-term support and financial income for those who are unable to work because of incapacity and/or a physical or mental inability to work.

**Q2: Are there aspects of the benefit system that are outdated and have not kept place with the changing nature of work and families?**

The review of the welfare system has to give attention to the interface of the benefit system with the labour market and promote the importance of quality work, adequate remuneration, good working conditions and good access to quality child care. Because those conditions do not exist now, in this respect, we agree that the benefit system has not kept pace with the changing needs and nature of work and families.

Families now are more likely to have two parents in paid work and work is more likely to be part time. These changes require a flexible benefit system that recognises that people will have variable levels of participation in paid work, can have disruptive experiences, need to balance competing pressures and have time out of the workforce for learning needs.

The establishment of the DPB to provide income security for sole parents was an enlightened response by the 1972 Royal Commission on Social Policy that recognised the changing nature of families, relationships and society. The DPB was very important in enabling women some financial independence and support and the ability to leave intolerable, and sometimes abusive, relationships. But there are also other reasons why women are on the DPB. For a single woman who becomes pregnant the DPB can be an economic life line. The establishment of the DPB recognised that the time of the male bread winner was over and there were structures needed to provide women with greater equality in society. We are very concerned that initiatives being suggested by the WWG, and the recently passed Social Security (New Work Tests, Incentives and Obligations) Amendment Act will make it more difficult for solo parents, who are predominantly women, to manage the multiple and stressful demands on them. Work testing may just increase the number of solo parents in low paid, part time, poor quality, precarious work which will put children at greater risk because of inadequate support and result in reduced time for children with their primary caregiver/parent.
Q3: What aspects of the current benefit system are working well and should be retained?

New Zealand has a very strong social security system and our social security expenditure is slightly less than the OECD average. New Zealand’s taxation-based social security system provides a guaranteed level of income protection that is universal and transparent.

New Zealand is emerging now from the biggest financial crisis for over 70 years. From just under 17,500 on the unemployment benefit in May 2008, there are 63,000 on the unemployment benefit as of now. If the numbers on unemployment can reduce from 162,000 to 17,500 from 1999 to 2008, there can be no policy issue that is outstanding.

There are some very positive examples of Work and Income and MSD initiatives over the last four years that have produced good outcomes for workers who have been made redundant – many with union involvement. Labour market matching processes by MSD and Work and Income have reduced unemployment and placed many people back in work without requiring time out of the workforce.

While New Zealand’s unemployment rates are high now, the steady and strong decline of the unemployment rate from 2002 to 2007 was the result of strong economic conditions and an active labour market policy approach. Active labour market policies (ALMP) must be a key strategy for the WGG to consider in its options paper and recommendations.

The impact of the recession will continue to be felt for some time for workers displaced from the labour market during the recession. There are, we believe, some opportunities to apply an active labour market approach (e.g. investing in individually tailored programmes that address labour market disadvantage) to those on sickness and invalid benefits. But we do not want this to be interpreted as a generally applicable formula – more as a possible approach for some.
**Q4: What aspects of the benefit system contribute to long-term benefit receipt?**

This question fails to recognise that people are in receipt of a benefit for a reason. A person is on the DPB because of their single parent status. A person is on the sickness or the invalid’s benefit because of a physical or mental incapacity. And a person is on the unemployment benefit because of the absence of jobs.

We believe that the massive reduction in those on unemployment benefits from 1999 to 2007 shows that so-called “benefit dependence” is highly exaggerated. People want to work when there are jobs available that are feasible for them to do. This was also demonstrated in the reduction of single parents going into work in 2005-2007 when work was available.

But just getting a job does not solve the problem of poverty for individuals and families. Many thousands of New Zealand workers are in low paid work with unsustainable rates of pay. And it is not true that any job is better than no job. A study undertaken in Australia examining how satisfied people are with their jobs concluded that “bad jobs look more like welfare than good jobs”. If the only option for employment is low paid, precarious and insecure work, the end result for many beneficiaries will be significant churning between the labour market and the benefit system.

In the last twenty years New Zealand has experienced peaks in unemployment. Long term unemployment creates even longer periods of joblessness, social exclusion, entrenched disadvantage and alienation. Full employment must be the policy goal with economic development policies that support people into work and create employment.

**Q5: What impacts do you see from long-term benefit receipt on individuals, families and whānau, communities and the economy?**

The very positive effects from the benefit system that protects and supports people must be recognised. For people who are unable to work, because of stress and illness, the benefit system provides income support to assist beneficiaries to meet basic living standards.

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Helping people transition from benefits back into work is an intensive process. A coercive approach will create backlash and alienation. Beneficiaries will feel that they are being blamed and victimised rather than being supported.

The question suggests that people choose to become and stay unemployed. This is not so. Unemployment itself creates long term benefit receipt.

**Q6: What do you see as the main barriers to employment for people on a benefit?**

The problem is not that people do not want to work; the problem is that there is a lack of jobs. When there are enough jobs, then benefit numbers will fall - as they did from 1999 to 2007. For instance in 1999 there were over 161,000 people receiving unemployment benefit. By 2008, this had fallen below 18,000. This did not come about because of major changes in the attitudes of unemployed people towards work in that period.

For people on the DPB there are many barriers that require attention. Single parents who have to combine sole parenthood with employment have many stressors including the hours of work, suitable child care, leave for school holidays and leave to care for sick children. The needs of single parents, if they are in employment, must be better recognised including their work life balance needs. Prejudice towards single parents in the workplace is also a real issue.

The paper states that for the vast majority of working New Zealanders paid work provides the best means to provide financial security for themselves and their families. While an intensive focus on work and employment may be an overall desirable goal, there will be people for whom paid work is not possible or even appropriate. Paid work may be just plain unsuitable or either too stressful and demanding for some beneficiaries. For others voluntary work in itself is a valuable contribution to the community and society.

**Q7: What are the barriers to employers hiring long-term beneficiaries and also investing in workplace health programmes?**

Unemployment for low-income people has a disastrous effect. It plunges people who may have been on the margins of poverty and coping into an even more precarious situation. Returning to work is very difficult for workers who have become unemployed. The length of time people are out of work has a strong influence on the probability of rehabilitation
and re-employment. People who unsuccessfully seek employment for months on end are at greater risk of illness. These difficulties are compounded for people with low educational levels.

There needs to be more investment by employers in taking on people who have had time out of the labour market or employment difficulties. This requires training, supportive programmes and investment and support. Programmes must be well resourced and have a focus on early intervention and good health and wellbeing in the workplace.

**Q8: Should there be more of a focus on paid work for sole parents?**

We have major concerns with the approach and requirement of work testing for solo parents following the youngest child of a solo parent reaching six years old. The myth that solo parents do not want to work must be challenged. The number of single parents who went back into the workforce during the labour market shortages of 2004-2007 invalidates that myth. In 2008, as unemployment rose, so too did the number of single parents moving from paid work back onto a benefit. The clear lesson from this is that the prevailing labour market has a greater impact on sole parent’s employment than do financial incentives. There are significant policy risks from exerting solo parents (usually mothers) to take on (more) paid work. Forcing people and women and women in particular into low-paid casual precarious work will not improve work outcomes. Poor quality work is not a solution to the complex issues faced by solo parents as they struggle to meet the multiple demands of providing care for their children, finding and keeping employment and maintaining security of income. For some single parents it is neither reasonable nor safe for the benefit system to require them to leave their children in care and go to work.

**Q9: Where appropriate, should there be more of a focus on paid work for people managing with a sickness or disability?**

In New Zealand, like in other OECD countries, the number of people on sickness benefits and invalids benefits has grown over recent years. The changing nature of work, increased work pressure and work intensification may have a role in the growth of people on the sickness and invalids’ benefits. There are some opportunities through a progressive and active labour market approach, which invests in counselling and other forms of support, which could be explored.
The paper recognises that New Zealand’s rate of employment for disabled people is one of the highest in the OECD with approximately two in three disabled people, with low or medium levels of support needs, in employment. Though there may be room for improvement, nevertheless, we are doing reasonably well in this area.

The concept of “decent work” and “good work” provides a framework to define the conditions in the workplace that enable people to have healthy and good working lives. It is our view that the increases in conditions such as anxiety and musculoskeletal conditions have some of their genesis in workplaces that are not good places to work.

**Q10: Does the benefit system do enough to encourage personal responsibility?**

Many, but not all people, who become beneficiaries, are among the most disadvantaged people in our society. The language about “personal responsibility” has undertones of blaming and suggests that people on benefits do not have a sense of personal responsibility.

It is incorrect and unjust to assume that those on benefits do not have a sense of personal responsibility. Many have a deep sense of responsibility to those in their community. Furthermore, the primary purpose of the benefit system is to provide for people who require support – the purpose is not to build personal responsibility.

**Q11: Should the scope and nature of the current benefit categories be retained?**

People on benefits are not an homogenous group and the different categories of benefits recognise the different group’s needs and situations. There is no evidence to suggest that a single core benefit system would work better or do anything to improve outcomes for people on benefits. We do not support the move to a single benefit. The changes to the Social Security Act in 2007 were regarded as establishing the base for a core single benefit on the assumption that the complexity of the current system would be reduced by replacing all the main benefits with a single benefit containing one set of criteria. Most of the complexity in the system comes from the applications that beneficiaries must make for supplementary assistance which were introduced after the benefit cuts in 1991.
Potentially a single benefit may just increase complexity because of the need to have add-on allowances e.g. child care sickness and disability allowances. A major concern is that the proposal for single benefit is a disguised way of reducing all benefits rates to the levels of the unemployment benefit.

**Q12: Does the complexity and structure of supplementary payments create disincentives to paid work?**

A disincentive in relation to paid work that needs to be considered is the relatively high effective marginal tax rates (EMTRs) that create disincentives for beneficiaries to get back into work. However there are no easy solutions. Adding the in work tax credit to family tax credits could help. Abating at a slower rate could also. Phasing parts of the Working for Families package into more universal payments (so that part of it is a family benefit) while increasing the top tax rate would reduce the impact of EMTRs. At one end of the spectrum, one can remove a high EMTR by not abating at all. At another end, it can be removed by having no benefit. Neither of these options is realistic.

**Q13: How can Work and Income and other delivery agencies better support people into paid work?**

The CTU and its affiliates, especially unions who represent members in the public sector, are alarmed about the reduction of jobs in the public service workforce and how this will impact on high rates of unemployment especially among young people and Māori and Pacific Islanders. The directions heralded in the WWG and the recent amendments to the Social Security Act, with a renewed focus on getting people off benefits and pressuring people into work, coupled with fewer staff will place more pressure on workers at the front line and not enable staff to work positively and constructively with beneficiaries to deliver good outcomes.

An investment approach that uses the logic of programmes such as skills investment subsidies, straight to work support and industry partnerships could be extended. Community Max and other community employment programmes should be expanded.
Q14: Are there lessons from an insurance approach for the benefit system?

New Zealand’s system of flat rate benefits, financed by taxation, is envied by many other countries. The lesson from other countries is that we should be very cautious about employment insurance schemes.

A review of the Canadian system of unemployment Insurance provides some very important insights in regard to the insurance approach that the WWG are to examine.

What was learnt from the Canadian insurance experience is that unemployment insurance overall works in favour of middle class workers. Many low income workers were excluded because of they did not meet the qualifications. Many unemployed persons were not covered for benefits (e.g. the self-employed); and others had exhausted their benefits or did not work long enough to qualify. The principle of entitlement to social security was not achieved after the GFC in Canada and the unemployment insurance fund was tipped into deficit. The benefit replacement rates dropped markedly from the initial rate of 85% of previous earnings to between 45- 60% of previous earnings.

Furthermore in Canada there has been almost an outright exclusion by employment insurance companies in supporting active labour market polices. This is the very opposite of the approach that is needed.

Our biggest concern about an insurance model is that it provides the pathway to open up the privatisation of the benefit system. Given the moves now to open up the ACC privatisation we can only conclude that the same would apply to the benefit system. The fundamental flaw with private provision of insurance is that private insurance companies’ need for profit creates a perverse incentive for insurers and policy holders to try to deny claims. Unemployment insurance removes the obligation of the Government for one of its most important obligations. The CTU opposes any moves to introduce employment insurance.

2 ““ Beware the Insurance Model - Cautionary Tales from Canadian Employment Insurance Plans by Jim Stanford Economist for the Canadian Auto workers Union
Q15: Do you agree that the current benefit system is socially and economically unsustainable?

The question is biased and we totally disagree that the current benefit system is socially and economically unsustainable.

Also we are concerned about the figures used in the paper to demonstrate the view that the current system is unsustainable. The $50 billion figure appears to be a calculation based on the lifetime cost in 2009 dollar terms of all beneficiaries. But the annual cost is of course a much smaller figure. $50 billion is a meaningless figure as it is used in the paper. We see it as using a large figure to create a sense of crisis when there is no crisis.

Q16: Are there important issues that are in the Terms of Reference for the Welfare Working Group that you think we have not covered in this paper?

See Sections 7 & 8.

7.0 Social Security and Employment Changes – Affecting the Most Disadvantaged

7.1 The CTU is very concerned about the effect of changes to the social security systems in the context of the current employment changes. The combination of coercing beneficiaries to work with no protection from unfair dismissal will have a direct impact on benefit entitlement and stand down. Beneficiaries will be in no place to negotiate a trial period out of the employment agreement. And there is in fact no choice under the trial period law if the only option a beneficiary has is to take up a job with a 90 day trial period or otherwise lose their benefit.

7.2 Trial periods will create stress and economic hardship for beneficiaries and vulnerable workers. The justification given for trial periods is that they provide employers with greater flexibility but for workers already disadvantaged in the labour market, trial periods will only increase labour market disadvantage and vulnerability.

7.3 The current changes to employment law reform will increase hardship for both beneficiaries and workers. Beneficiary advocates fear an increase in workers facing the 13 week stand-down, given that over 20 percent of trial period employees in the Department of Labour survey were dismissed during the trial period.
8. **Recommendations**

8.1 The CTU is not of the opinion that the current welfare system is in need of radical change. But neither do we think it is perfect. Options and recommendations that we think need to be pursued by the WWG are:

- An emphasis on active labour market policies and exploration of how the ALMP investment approach can be applied in relation to to people on invalid and sickness benefits
- A greater focus on effective labour market matching and looking at successful union participatory projects that placed people who had become redundant back into work - e.g. programmes targeted to older people for whom reintegration back into the workforce may be difficult
- An examination of what constitutes decent work and focus on labour market factors including the role of the minimum wage and minimum standards of employment specifically in areas where standards are poor – e.g. cleaning, retail work, the service industry
- A stronger focus on young people in employment and specifically Māori and Pacific Island young people with collaborative programmes and pilots to place people in suitable training or employment on young people
- Exploration of the specific needs for single parents going into the labour markets in respect of decently paid work, quality part time work, flexible work arrangements and access to good child care
- Advocating for programmes that focus on early-intervention for health conditions which can result in unnecessary exit from the workforce and training for employers and clear obligations about accommodating disability
- A strong supportive case management approach that invests in case workers and ensure that case managers have adequate resources, support and expertise to successful work with unemployed people and assist people return to work
- A discussion on incentives and models regarding EMTRs and a review of the tax-benefit interface current abatements levels and;
- Reviewing the adequacy of benefit levels and how the tax benefit system can reduce child poverty levels including incorporating the In Work Tax Credit with the Family Tax Credit.