TARGETING IN SOCIAL SECURITY:
THE NEW ZEALAND EXPERIENCE

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INTRODUCTION

Targeting has been a consistent theme in New Zealand's social security system since its first origins a hundred years ago. Over the course of its history, a range of means have been used to target provision to the most needy groups in society, within the enduring framework of a categorical, income-tested system of non-contributory benefits and pensions funded from general taxation. Some programmes have been exempted from income-testing, including some very important and symbolic programmes, and in some cases these have remained in place for long periods. Despite these counter-examples, however, it is no exaggeration to claim that targeted provision has long been the dominant and preferred model in New Zealand.

This paper provides an account of the central place of targeting in New Zealand's social security arrangements. It opens with an account of the early origins of social security in New Zealand, showing how a targeted system emerged naturally as a consequence of the stage of social and economic development of the country. The paper provides a brief account of the main developments in the evolution of the social security system up to the Second World War. It then focuses attention on recent developments in targeting arrangements in the decade or so since the mid-1980s.

The paper describes the main trends in recent changes to targeting arrangements; provides an account of the various methods which have been used to target support to those most in need; examines the impacts of recent changes in targeting; and considers some theoretical and philosophical implications of these developments.

BACKGROUND

The early development of the welfare state in New Zealand

It is worth taking a little time to examine the early origins of New Zealand’s social security system, because the decisions that were taken at that time laid down much of the basis for the subsequent development of the system. The lineaments of the first provisions tended to be repeated in later provisions and thus to persist down the years, like a continuity of forms in the fossil record.

If New Zealand’s pre-eminent place in the history of social security is well-deserved, it is also clear that the radicalism of its provisions (if such a term may be used at all) was alloyed with a considerable measure of both pragmatism (in the nature of the responses that were made) and conservatism (in the way in which solutions once established were adhered to).

It is clear enough that the legislature of the time did not consider itself to be establishing a social laboratory in the South Sea, but rather with finding solutions to increasingly urgent problems of indigence in the young country. Following earlier decades of buoyancy, fuelled by gold in the 1860s and borrowing for investment in infrastructural development in the 1870s, the economy began to stagnate in the 1880s, as limits were beginning to be reached in the wool industry. Thereafter, the
economy entered into an extended downturn known as the long depression, characterised by low wages, unemployment, and poverty (Gardner, 1981).

By the late 1880s,

“[it] was becoming obvious to even those legislators steeped in the tradition of the poor law and devoted to perpetuation of a landed class system that poverty could not be dealt with from the resources of voluntary charitable organisations, that destitution was, in most cases, beyond the control of the individual sufferer, and that public funds must be used to alleviate distress. The problem was too big and hardship too severe for anything but State action.”

Report of the Royal Commission on Social Security (RCSS), 1972

There was evidence of indigence even before this and there had been some casting around to find other institutions to meet the need, as Oram (1969) has noted:

“Government made near relatives responsible for the needy in 1846. This was extended to more distant relatives in 1877. Local communities became more specifically involved in 1885 when hospitals were made responsible for relief and charitable aid.”

However, these solutions were always likely to be insufficient in the immature society. The fundamental problem was, as Easton (1996) has noted, that there was no older social structure to fall back upon.

“New Zealand could not use the parish-based provision of Britain, because it had no suitable parishes, while the commitment to a secular state - a state without an established church - meant that parishes could not be artificially created. Nineteenth century European New Zealand even lacked sufficient of that fundamental unit of Victorian virtue, the family. Most of the old and indigent at the end of the century had no children or, if they did, their children did not live near them. Thus New Zealand had to create means of community support in a system outside the family or the locality.”

And so it fell to the state to act. This was not at all out of keeping with government’s proceeding in other aspects of national life. Hawke (1985) has described the way early New Zealand governments put the state to work in a range of areas, including land distribution and ownership, financing and foreign borrowing, insurance and banking, railway building, workers’ housing, and advances to settlers for agriculture.

Welfare was another such area, where the state acted because there was a need for action:

“the colonial instinct was to use its power and institutions wherever they were likely to be useful, irrespective of European ideas of propriety. European observers thought that New Zealanders practised socialism without doctrines, but they thought in European terms. New Zealanders simply found new roles for government in a pioneering society.”

Hawke, 1985
What should also be noticed is that the immaturity of New Zealand society gave rise not only to the need to act but also to the form of the response that was made. First, because the labour market was largely agrarian-based, with an undeveloped infrastructure, and lacking such institutions as unions, or their predecessors the craft guilds from which social insurance arrangements were to emerge in European countries, there was little scope for any funding arrangements other than general taxation. It was noted by a chairman of a select committee appointed to examine and report on the question of providing for old age that

“only the smallest number of the working class had sufficiently regular employment to enable them to contribute regularly to a ‘pension fund’; and there were as well upwards of 1,500 children under 15 years of age who became fatherless each year. How, he implied, were those among the children and their mothers who had inadequate means of support going to benefit from a contributory pension fund?”

RCSS, 1972

Secondly, because the economy was small, immature and highly vulnerable to price changes in markets for its primary produce, the allocation of funds for social security purposes was likely to be severely constrained, which in turn was likely to mean highly targeted. Indeed, it is worth noting that, despite the fact that the economic downswing lasted from 1879 through to around 1895, action was not taken until 1898 when the economy had begun to recover, largely through new developments in refrigeration technology and their successful application to the export of meat and dairy produce. Thus a response was not made to the need until the strengthening of the economy gave more confidence in the ability to pay for it. These factors gave shape to the fundamental character of early social security arrangements which were to define a course for the subsequent development of the system.

**An expanding system of categorical, means-tested social security**

*Old-age provisions*

Early concern centred on the elderly. It is interesting to observe the nature of the early proposals since these indicate that a range of alternative future paths for development of the social security system was indeed canvassed. As early as 1882, the Colonial Treasurer sponsored “a plan for compulsory national mutual insurance” (RCSS, 1972) to cover not only old age, but also sickness, accident, widowhood and orphanhood. It failed to come to fruition. In 1894, a Select Committee of the House of Representatives was appointed to examine the question of making provision for old age. The Committee made a number of recommendations and, although it did not devise a specific plan, it seemed to have in mind “a contributory scheme, actuarially funded, tested by residence and paying flat-rate benefits” (RCSS, 1972).

The select committee’s report also lapsed, but between 1896 and 1898 three successive Old Age Pensions bills, each successively less generous in its provisions, were introduced into the House. The proposals were now for means-tested pensions to be funded from general taxation. The means test was strongly opposed by many members and this opposition was an important factor in the defeat of the first two bills. There was also opposition, however, to the measure on the grounds that it would give rise to increases in taxation and would have a demoralising effect on society by encouraging idleness and thrift and undermining
the self-reliance of the people (RCSS, 1972). As the Royal Commission noted, such arguments have a familiar ring to modern ears. The third bill was passed and came into effect in November 1898.

The scheme was parsimonious even by the standards of the day, with very tight restrictions on eligibility. It was payable at age 65, subject to a 25-year residence test (a very stringent test in a young colony founded only recently on the basis of immigration), with additional resource tests for income and property. Asians were specifically excluded and Maori were subject to special assessment. Clearly, although the Government had decided to act, it was not about to cede too loose a hold on its purse-strings. Equally clearly, it was not an initiative that was likely to solve the problem of indigence in old age. If it was a bold move, it was cautiously executed.

The Act thus established an early precedent for targeted provision and, in particular, targeting by status or category. One had to be not only old, but also a long-standing resident, poor, of unimpeachable moral character and white. This was targeting not only in its economic aspect, but also with a moral and racist overlay that, to modern eyes, tends to cast a shadow over the achievement. Nevertheless, it was a historic milestone. As Overbye (1996) has noted, it meant that New Zealand was the third country in the world to set up a separate welfare scheme for the elderly, following Germany in 1889 and Denmark in 1891.

Provision for the “worthy” poor: widows, miners and the blind

In the years following 1898, the boundaries of social security were gradually extended to other groups, which were brought in category by category, according to a political calculus that seemed to depend largely on moral worth (as Beaglehole, 1993, has noted). The first new groups to come under coverage were those who might be considered the “worthy” poor, whose circumstances were regarded as no fault of their own. Widows were a clearly deserving group, at least those with children, and were provided for under the Widows Pensions Act 1911 which, again, was means-tested.

The first provisions for invalidity were made for specific groups who were incapacitated by particular disabling conditions. Miners who were totally incapacitated by pneumoconiosis were covered under the Miners Phthisis Act 1915. There was a residential and mining qualification, but no means test. The absence of a means test has been attributed (by Beaglehole, 1993) to the fact that “miners carried a significant level of industrial clout, especially in time of war”.

In 1924, pensions were instituted for the blind. At first coverage was restricted to those who became blind in New Zealand, but this coverage was soon extended to those who lost their sight out of New Zealand, subject to means and residence tests. Meanwhile a parallel system of pensions had been established for veterans of military action (in particular in the wars with Maori).

Thus, by the mid-1920s, New Zealand had the early outlines of a categorical means-tested benefit system in place, providing coverage of the old, of widowed females (with children) and some specific sub-groups of the sick and disabled (incapacitated miners being the only group exempted from income testing).
This period can be characterised as a time when the predominant mode of targeting was by category, because access to assistance depended primarily on whether or not a person belonged to a category for which provision was available. While almost all of the provisions were means-tested, this was clearly a second-level targeting mechanism. Many people remained outside the boundaries of the categorical system.

To a latter-day view, the most prominent among the missing groups were the unemployed (who were yet to become a significant group in New Zealand) and women with children who had been deserted by their husbands (who were perhaps the group of people most likely to be experiencing real hardship). These groups were to figure prominently on the books in the future, as they were in other countries.

The other significant development during these years was the establishment of family allowances in 1927, again under tight restrictions. Two shillings a week was payable for children up to the age of 15, excluding the first two children. The payment again was income-tested and there was also a one-year residence test.

**Incrementalism: evolution without fundamental change**

The years up to the Second World War saw a succession of changes to these various provisions, including rate changes, adjustments to the income and property exemptions, addition of allowances, adjustment of relativities between married and single rates, adjustment to ages of entitlement and so on. Reviewing the historical record over these years, the impression one gets is of piecemeal change, as parts of the system were perceived as needing attention, and as administrators and policy makers gained confidence to extend the system without losing control of its financing. The system thus grew, bit by bit, as the initial very strict conditions were gradually loosened, but without losing its character as a targeted system.

This record exemplifies another enduring characteristic of much of the history of New Zealand social security - incrementalism. By and large, the development of the system has not been achieved by revolutionary or radical initiatives, but by adjustment and augmentation within the existing framework. The conservative, incremental nature of subsequent development thus meant that early decisions about the basic shape of the system had a more enduring importance, as the lineaments of the emerging system gradually accreted around these fundamental characteristics. Thus, as the years passed, and the system became more complex, no significant challenge was made to the basic design of a tax-funded, categorical, means-tested system.

**The Social Security Act 1938**

The incremental development continued through to the 1930s, when the onset of the depression began to demand a different response. This was provided by the first Labour Government in the form of the Social Security Act 1938, which effected a systematisation of the whole existing piecemeal system and extended coverage to new groups. The Act introduced a range of new benefits, including provisions for sickness, unemployment, orphans and emergency coverage. A new superannuation benefit, without an income test, was also introduced to co-exist alongside the age benefit (and intended eventually to supplant it). A number of other significant
changes were also made, including the removal of restrictions on Asians and other aliens.

The 1938 Act thus placed social security on a more systematic footing and established a framework that would survive unchallenged up to the present day. But the Act was not revolutionary in any sense, since it did this without changing the essential character of what already existed - a categorical, income-tested benefit system funded from general taxes on a pay-as-you-go basis. Indeed, it endorsed the approach of earlier legislators by essentially building a larger and more comprehensive version of the same system. Its significance rather resides in the way that it provided much more comprehensive coverage of people who might be in need. Thus while it retained a categorical design, the targeting emphasis had now shifted to means-testing as the principal means by which resources were targeted to the most needy.

It is clear from the speeches of Ministers during the debate that targeting of assistance to those in need was a fundamental axiom. Introducing the Bill, the Minister of Finance said:

“This Bill transfers, in the form of monetary benefits, to those who need it the right to demand a certain amount of existing production from those who would otherwise control it.”

Royal Commission on Social Policy (RCSP), 1988

The Minister of Health reiterated this point in even more explicit terms:

“We have embarked on a comprehensive social security scheme embracing the needs of all those in the community whose need was great - a scheme that would provide adequate benefits for those who needed them most.”

RCSP, 1988

The post-war years, for the most part, continued the process of incremental adjustment and development of the system established by the 1938 Act, which remained fundamentally unchanged up to the mid-1980s. I do not intend to discuss these intervening years in any detail, but will instead pick up the story at the point when the recent round of changes began in earnest, with a change of Government in 1984. Although there were some developments in these intervening years which were highly significant in their own right and which also signalled significant longer-term shifts, it makes sense also to discuss these in the context of the more recent period of reform, which generally expanded and elaborated on these developments.

RECENT TRENDS IN TARGETING

The election of the fourth Labour Government in 1984 was a watershed event. It unleashed an intense round of activity in which all aspects of New Zealand’s economic performance were subject to scrutiny and in which all sectors of the economy were subject to radical overhaul.

It is useful here to provide a brief overview of New Zealand’s recent economic history to provide a context for the subsequent discussion of the social security reforms. The key facts relate to New Zealand’s deteriorating economic position, as a
result of changes in global markets for primary produce, significant changes in prices both for exports and imports and failure of a particular type of domestic policies.

Background to the economic reforms

New Zealand’s economy had been built from the very early years around the export of agricultural commodities. In the early years of the new colony, it was based on a single commodity, wool, which was almost entirely sold within a single overseas market, Britain, which, as Gardner (1981) has noted, placed it in double jeopardy. While other products were found, particularly following technological advances which allowed the export of refrigerated meat and dairy products, New Zealand never really escaped this over-dependence on selling agricultural produce to a single market until it was forced to do so. As late as 1961, wool, meat, butter and cheese still accounted for more than 80% of exports by value, while over 40% of exports were sold to Britain.

All in all, the economy was not well configured to cope with either the increasing involvement of Britain in European markets (with consequent reduction of access for outsiders like New Zealand) or the first oil shock, both of which were just around the corner. Indeed they both hit in a double whammy in 1973, when the British government formally entered the European Economic Community and the Organisation of Petroleum Exporting Countries announced reductions in volumes of production that led to massive increases in oil prices on world markets.

Following these two events, the main macro-economic indicators began to go haywire, as if the ship of state had entered a zone of intense electro-magnetic disturbance which distorted readings on the instrument panel. Indeed, it was worse than this, for it was not just a case of the instruments playing up. New Zealand was beginning to enter hitherto uncharted waters. For the next decade, the government needed to face up to a new combination of problems, including deteriorating terms of trade, declining balance of payments, increasing inflation, rising unemployment and lack-lustre growth rates that were actually negative in some years.

The National government responded with a range of policies, not always consistent with each other. These included, initially, retrenchment in government expenditure, some deregulation (in the form of removal of interest rate controls), and devaluation of the dollar, followed subsequently by expansion of government expenditure (for the purposes of investment in large construction projects in the energy sector to reduce reliance on imported oil), and finally further heavy re-regulation not only of interest rates, but also of wages, prices and exchange rates. Some of these measures had a temporary positive effect on particular macro-economic indicators, but produced no lasting solution to the deepening crisis. Clearly a new approach was needed.

A summary of the economic reforms

That response was provided by the incoming Labour Government, which had won a snap election in 1984 amid mounting evidence of economic crisis. It came into power under propitious conditions to bring about a set of far-reaching changes. There was clear evidence of the need for change in the macro-economic statistics; there was a clear mandate for change in the size of the electoral victory for the incoming government; there was a clear plan for action in the form of the briefing papers prepared for the new government by the Treasury; there was a will to act on
the part of the incoming government; and there was little in the country’s constitutional arrangements to place any barriers in the way of an executive determined on action.

And determined to act the incoming government was. It set about a whole programme of inter-related reforms, which ran from one end of the economy to the other. These included the following changes, catalogued by Dalziel and Lattimore, (1996), roughly in chronological order:

- devaluation of the New Zealand dollar by 20%;
- dismantling of the system of import licences and reduction of import tariffs;
- phasing-out of most government subsidies to New Zealand producers;
- de-regulation of the financial sector;
- a move from a fixed to a floating exchange rate regime;
- a programme of state asset sales to reduce the role of government in non-core activities and to reduce government debt;
- introduction of an expenditure-based tax and reduction of income tax; and
- renovation of the statutory framework for government finances and activities.

The pace of reform was continued under the National Government which replaced Labour in 1990 and proceeded to reform the statutory framework for industrial relations, restructure the health sector by separating funding from provision of health care services, and introduce direct part-charges for public health care, with targeted assistance for people on low-incomes.

Taken together, all of these changes represented a comprehensive and coherent programme of economic reform, which was primarily aimed at placing the economy on a footing where it could compete effectively in modern global markets. The reforms have been successful, if judged in the longer run, in bringing about positive changes in the main macro-economic indicators, with higher rates of growth, improvements in the terms of trade and balance of payments, and reductions in government indebtedness, inflation and unemployment.

Nevertheless, the reform programme had its critics, who were primarily concerned that insufficient attention was paid to providing for people who were dislocated by the changes. Critics have focused in particular on the high rates of unemployment that resulted from the removal of protection for local industry and restructuring of inefficient government enterprises, and on the subsequent cuts to benefit rates at a time of high unemployment when people reliant on income support had little opportunity to better themselves by finding work. It should also be recognised, though, that the social security system was important in allowing such radical changes to happen quickly, by providing a safety net for people who were affected by them.

**Social security reforms**

In the context of such a comprehensive overhaul of all aspects of the New Zealand economy, it was inevitable that the social security system would also come in for attention. Moreover, given that the wider reforms had largely focused on questions of efficiency, it was also inevitable that the changes would be largely concerned with the efficient targeting of social security expenditure.
In the following discussion, I will focus on seven particular areas which have involved changes to targeting arrangements: changes to the targeting of public pensions; the restructuring of the universal family benefit into targeted family assistance provisions; the emergence of a range of second-tier supplementary assistance programmes; changes to abatement regimes for earned income; the 1991 benefit cuts and the way they altered the balance between basic benefits and second-tier assistance; the adoption of a range of welfare-to-work approaches; and the application of targeting approaches to a wider range of social policy areas.

Changes to the targeting of public pensions

Pensions policy is one area in which the primacy of means-testing has been contested. It is also an area in which the changes have been less consistent than in other areas. Successive governments from the early 1970s have taken different directions in pensions policy, resulting in a high degree of politicisation of the area and considerable confusion in the signals conveyed to the public about the need to save for retirement.

The 1938 Social Security Act itself signalled that pensions were to be regarded differently from other social security provisions by instituting a new universal superannuation benefit (payable at age 70 without a means test) alongside the existing means-tested age benefit, payable at age 65, which it was expected eventually to supplant after several decades of phasing in. The two provisions existed side by side for some decades until a subsequent Labour Government struck out in a new direction by introducing a new contributory earnings-related pension in 1975. This scheme did not survive the defeat of the government later that year when all existing provisions were replaced by a generous new tax-funded pension, with no means test and payable at age 60. The generosity of the scheme was necessary to rally political support for it, in a hotly contested election campaign, as Overbye (1996) has noted:

“the National government made sure all age cohorts retiring before 2020 were provided with a substantial windfall gain, thus ensuring that the contributions-based scheme could be stopped without popular protest.”

The generosity of the scheme contained the seeds of its own undoing. As economic difficulties began to accumulate towards the end of the 1970s, and as the implications of an ageing population began to be understood, the proportion of resources devoted to funding superannuation (and its future growth path) began to attract increased attention from analysts and politicians alike. Changes became increasingly inevitable.

Two types of targeting changes were made, both aimed at containing the costs of the scheme: the imposition of a tax surcharge on additional income earned (in the late 1980s); and phased-in increases in age of entitlement from 60 to 65 (in the early 1990s). Both changes were (eventually) subject to multi-partisan agreement, although each modification was subject to much political debate. Both changes were first introduced by a Labour Government, and then intensified by the National Government which replaced it. In the case of the increase of entitlement age, the initial change involved a very gradual phase-in. The National Government replaced
this with a more accelerated phase-in under which entitlement will rise to age 65 by the year 2001.

In the case of the tax surcharge, the change instituted by the Labour Government was initially opposed by the National Party, which promised to remove it in a 1990 election pledge. In office, however, it announced an increase to the surcharge, which immediately cost it some political support. Before the increase was implemented, it relented somewhat and introduced a softer variant of the proposed new surcharge regime. Superannuation by now had become a hot political item on the agenda.

The introduction of a surcharge meant that the years of non-means-tested superannuation (stretching back the Social Security Act of 1938) had now ended. It seemed that New Zealand had again reverted to type with a means test applying across all main provisions. The story had not yet ended, however. Following an election in 1996 under new electoral rules (with Parliament now being elected under a form of proportional representation), the National Party (which had formed the previous government) moved into coalition with the New Zealand First Party, which alone had stood out from the multi-partisan agreement on superannuation. As a result, from 1 April 1998, the superannuation surcharge will be abolished. Superannuation, once again, will be the single component of the whole social security system which is payable without a means test.

The coalition agreement also produced another effect, which was a revival of the issue of mandatory private superannuation. A national referendum was held in 1997 on whether such a scheme, a key policy of New Zealand First, should be introduced.

The referendum proposal would have required people to pay a percentage of their earnings (commencing at 3%, but planned to rise to 8% by 2003) into a privately managed fund of their choice. At age 65 the funds would be converted into a lifetime annuity yielding 33 percent of the average wage. A savings target would be set for all contributors, based on the estimated price of a lifetime annuity at the designated rate. Those unable to make the savings target would have the difference topped up by the government, women receiving a higher amount to reflect the higher price for females in the annuities market due to longer life expectancy. The scheme was intended eventually to replace the existing New Zealand Superannuation scheme, with a phase-in period between 2003 and 2038.

In the event, however, it was voted down by the electorate, by the resounding margin of 92% to 8%. Thus New Zealand will retain the public tax-funded New Zealand Superannuation as the primary plank in its pensions policy, and will revert in 1998 to a universal payment without means-testing. In fact, however, it is likely that the issue of targeting of the pension has not vanished from the agenda. Indeed, the recent report of the 1997 Periodic Report Group, established to conduct a six-yearly review of retirement incomes policy, explicitly noted that:

“[t]here is a strong case for reintroducing an element of income testing on equity grounds, and in the interests of integrating public and voluntary private provision.”

From universal to targeted family assistance
Family assistance is the other major area in which there has been a deviation from the pattern of means-tested provision. Family assistance payments were originally established in 1927 on a means-tested basis for a limited number of children per family. In 1945 the income test was removed and the family benefit became payable at $1 per week in respect of all children in the population. Thus it now had the character of a true universal or demogrant-type benefit.

The removal of the income test perhaps owed more to the peculiar socio-demographic conditions of the time than to any newly emerging preference for universal forms of provision in social security arrangements. Instituted as it was immediately on the close of the war years, it was primarily intended as a signal for a return to the normality of family life after the disruption of the war, to promote a resurgence in the birth rate and to ease the return of women back into the home after taking up the call to work to support the war effort. The ability to capitalise it, after 1958, also provided an important source of housing funds for prospective first home buyers.

In the long run, though, its value eroded over the years. It was never indexed and was subject only to very intermittent review (with increases to $1.50 in 1958, $3 in 1972 and $6 in 1979). Its value as a proportion of the single rate of unemployment benefit thus atrophied away from 25% in 1945 to 6% in 1985. Instead, policy interest began to shift to alternative methods of delivering assistance to families with children. In the early 1980s a system of tax rebates for families was established as an alternative to increasing the family benefit. In addition, a parallel system of means-tested family assistance was set up in the mid-1980s which thereafter overshadowed the family benefit programme and led to its discontinuance in 1991.

The first significant step in this direction was made in 1984, when a new targeted form of family assistance, known as family care, was introduced which was to stand alongside the universal family benefit, and was payable at a higher rate ($10 per week, as opposed to $6 for family benefit). It was payable to families of wage and salary earners or self-employed persons whose income was below certain limits. The programme covered 40% of the children covered by family benefit.

The family care programme signalled the beginning of the end for the universal cover of the family benefit programme. It was itself a transitional measure, however, and was replaced in 1986 by the family support programme. This was a refundable tax credit, administered by the Inland Revenue Department and payable to both wage earners and beneficiary families. Family support replaced not only the transitional family care programme, but also the child supplement which had been payable on top of the basic benefit to cover the costs of children and the family tax rebate.

The maximum rate at which family support was paid ($36 per week for the first child and $16 for subsequent children) now totally dwarfed the family benefit (still payable at $6 per week per child). The writing was now clearly on the wall for the universal payment, although it was not until 1991 that it was abolished (at which time levels of family support were increased accordingly).

Alongside family support, an additional tax credit was introduced for full-time working families with children. This was the guaranteed minimum family income (GMFI), the aim of which was to guarantee a minimum standard of living to low-income earner
families and additionally to provide a margin between benefit levels and the minimum disposable income available to full-time earners. To qualify, a sole parent had to be employed for at least 20 hours per week and a couple had to have a combined total of at least 30 hours’ employment per week. Subsequently, in 1996, a new tax credit, the independent family tax credit (IFTC), targeted at lower-income families who were not receiving a benefit, was added.

Thus the old universal family benefit had been replaced by programmes which targeted assistance not only to low-income families but also, to a higher degree, to low-income families in work, and especially full-time work.

**Emergence and expansion of supplementary assistance programmes**

Another post-war development, which grew from minor and undramatic beginnings, proved to be highly significant for targeting policy in the longer term. This was the establishment of a system of supplementary assistance, over and above the basic benefit, from 1951. It was a minor change in its time, mandated by an amendment to the Social Security Act. The programme provided for weekly payments to people in need, but lump sums could also be paid for the purchase of particular items, such as clothing, bedding, spectacles, dentures, home help, or wheelchairs. As Oram (1969) noted, it was particularly targeted at people “whose necessary commitments cannot be met from their current income or other resources.”

The strength of the programme was that it enabled assessments to be based on the individual circumstances of applicants, by taking into account the difference between their income and their “necessary” commitments. The significance of the development was that it provided a second tier of provision, with a tighter basis for targeting on the basis of need, above the first tier which was more broadly targeted on the basis of means. The capacity to take into account individual circumstances allowed additional provision to be made for people who may otherwise have been at risk of falling into poverty because the broad categorical system did not cover their case.

Over the years, this programme underwent a slow, quiet transformation from a minor backwater in the social security system to a major stream of highly targeted payments. Indeed (to change the metaphor) it has been a branch which has produced many off-shoots. Today, there is a whole range of separate second-tier programmes which are available on top of the basic benefit to meet individual needs, including accommodation supplement, special benefit, special needs grants, disability allowance, handicapped child allowance and advance of benefit (each of which will be described in more detail below). The amount of assistance payable through these programmes has expanded significantly over the past decade.

The supplementary assistance programme remained a relatively minor part of the social security system up to 1975, when it was replaced by a new additional benefit programme. At this time, around 20,000 continuing supplementary assistance grants were in force (amounting to a 5% take-up among beneficiaries, with a small number also being paid to non-beneficiaries) and expenditure on supplementary assistance amounted to $5.4 million (equating to 0.9% of total expenditure on social security). The maximum grant payable amounted to about 15% of the basic benefit.
The additional benefit was itself restructured in 1979 and then in 1981 was split into two new programmes: accommodation benefit (subsequently replaced by accommodation supplement) and special benefit. A special needs grant programme was later added. Two forms of provision to cover costs of disability (disability allowance and handicapped child’s allowance) had become available from the mid-1970s. Beneficiaries were able after 1979 to obtain additional assistance through an advance payment of their benefit. Child care subsidies were also made available to allow parents who needed child care but were unable to meet the full costs of it to place pre-school children in day care. Each of these programmes is described briefly below, together with an indication of their growth between 1985 and 1996.

**Accommodation assistance**

The accommodation benefit, instituted in 1981 and based on a similar provision under the former additional benefit, provided for grants equal to 65% of the amount by which a claimant’s accommodation costs exceeded certain specified thresholds. This subsidy rate was subsequently reduced to 50% in 1987. The threshold varied according to the nature of the accommodation costs (rent, boarding or outgoings on own home), marital status, and whether or not there were dependent children in the family. In March 1985, there were approximately 44,000 benefits in force, a take-up rate of 5.7% among beneficiaries (excluding those receiving the universal family benefit), and expenditure on accommodation benefit amounted to $41.6 million (1.0% of total social security expenditure).

In 1993, the accommodation benefit was replaced by the accommodation supplement, in a move aimed at rationalising the Government’s accommodation assistance regime. Prior to the change, Government had been involved in both supply-side provision, through the delivery of low-cost rental housing and subsidised rents and mortgages by the Housing Corporation of New Zealand, and demand-side provision, through the delivery of a cash accommodation grant by the Department of Social Welfare (Kuila, 1993). The lack of co-ordination in these policies had created a range of problems, including inequities in the treatment of people receiving different forms of assistance. The change was aimed at focusing assistance on the demand side. Under the new policy, state sector rents and interest rates were allowed to move to market levels (in a series of phased changes), while Government accommodation assistance was now all channelled through the accommodation supplement programme.

The new programme retained the existing entry threshold, with assistance being available where accommodation costs exceeded 25% of income for those renting and 30% for home-owners, and restored the subsidy rate to 65% of costs above these thresholds. This rate was subsequently raised to 75%. It also set differential maxima for different regions, to take account of regional variations in accommodation costs. The programme provided assistance to both beneficiaries and non-beneficiaries.

As Kuila, 1993, has noted, the policy change meant that reduced subsidies were available for Housing Corporation tenants. For this reason, an additional provision, the tenure protection allowance, was instituted, for selected Housing Corporation tenants who would face difficulty if they were expected to move to other accommodation. The allowance was set at the difference between the actual market
rent payable and the average rent for a household of the same size in the same region.

At the time of the policy change, 1 July 1993, there had been approximately 150,000 accommodation benefits in force. There was an immediate expansion of the programme: by 30 June 1994, there were approximately 250,000 accommodation supplements in force, an increase by two thirds over the year. By 30 June 1996, the number of accommodation supplements in force had grown to approximately 280,000. Expenditure on the programme now amounted to $561.8 million, representing 6.1% of total social security expenditure. Between 1985 and 1996, the numbers receiving accommodation assistance had increased more than six-fold and expenditure had increased from 1% to 6% of the total social security spend.

Special benefits

Special benefit, which was also instituted in 1981 as an offshoot of the former additional benefit programme, is payable to beneficiaries (and other people on low incomes) who have ongoing expenses related to special circumstances or special financial commitments which they are unable to meet out of their income. An assessment is made of claimants’ income and outgoings, and grants are paid to bridge the difference between income and essential outgoings (subject to a maximum), except that the first $5 per week of this difference is not covered. The number of special benefits in force has grown from 617 in 1984 to 32,882 in 1996 and expenditure has grown from $0.8 million in 1983/84 to $86.8 million in 1995/96.

Special needs grants

Special needs grants may be paid in certain circumstances to help people (both beneficiaries and others on low incomes) who have a special need which can not be met from other social security programmes. The amount paid depends on the particular need, with different maxima for different categories of need. In the year 1985/86, 267,688 grants were made to the value of $2.8 million. By 1995/95, the volume of grants had grown to 516,674, to the value of $57.4 million.

Prior to 1995, special needs grants were categorised into recoverable and non-recoverable grants. In the mid-1980s most grants (over 80%) were recoverable, but over the following decade recoverable grants declined and non-recoverable grants grew significantly so that, by the mid 1990s, the amounts spent on recoverable and non-recoverable grants were roughly equal. In 1995, the recoverable special needs grants provisions for beneficiaries were incorporated into the benefit advances programme and recoverable grants are now reserved for non-beneficiaries.

Disability assistance

Two forms of disability assistance are available under the New Zealand social security system: disability allowance and handicapped child allowance, instituted in 1975 and 1978 respectively. Disability allowance reimburses people for actual, ongoing regular costs that they incur because they have a disability or a personal health need, subject to a means test. Handicapped child allowance is a flat-rate payment which is payable to the parent or guardian of a seriously disabled child who lives at home and requires constant care and attention. It is not subject to a means test.
The two programmes showed quite different growth paths over the period from 1984 to 1996. At 31 March 1984, there were 12,136 disability allowances and 5,935 handicapped child’s allowances in force. By 30 June 1996, these numbers had increased to 137,170 and 14,059 respectively. The ten-fold increase in numbers of disability allowances in force appears to be unlikely to be attributable to increases in the incidence of disabling conditions among the general population. It seems more likely that this increase has resulted from both a higher uptake of the allowance among those with disabling conditions (also stimulated perhaps by the introduction of health user charges) and an expansion of the range of conditions which are covered by the allowance. It is evident that the more tightly specified eligibility conditions for handicapped child allowance has provided firmer control over expenditure growth than has been achieved in the disability allowance programme.

Child care subsidies

Fee subsidies have been available since the early 1970s to parents who needed to have pre-school children in day care but were unable to meet the full cost of the care. Until 1983, this assistance was provided indirectly through care providers. Thereafter, the child care subsidy became payable as a direct grant to parents who met the eligibility criteria. From 1993, these criteria were tightened to direct payment only to low-income parents in education, training or employment. In 1983/84, $2.8 million was spent on child care subsidy. By 1995/96, this had increased to $34.3 million.

Benefit advances

Advance payments of benefits have been available since 1979 to assist people having difficulty in meeting their immediate and essential needs. Advances are recovered from subsequent instalments of the benefit. In 1983/84, 8,804 applications for benefit advances were granted. By 1995/96, the volume of grants had increased to 323,859.

Taken together, these various augmentations of the second-tier supplementary assistance programmes (and the cuts to basic benefit rates discussed in a later section) have resulted in a significant shift in the balance of assistance provided in the form of basic benefit payments on the one hand and second-tier supplementary assistance payments on the other. This shift in the balance is discussed in more detail in the subsequent section on outcomes of the targeting changes.

Changes to the abatement regimes for earned income

Some recent changes to the abatement regime for earned income (that is the rate at which income support payments are withdrawn as earned income increases) have been targeted at particular sub-groups of beneficiaries. Prior to 1 July 1996, the level of benefit payable was reduced by 30 cents for each dollar of income earned between $50 and $80 per week (or between $60 and $80 for beneficiaries with children) and by 70 cents for each dollar of income earned above $80 per week. For earnings below the lower threshold, there was no reduction in the level of benefit payable.
From 1 July 1996, a new dual abatement regime was introduced, which improved the returns from employment for all beneficiaries and which provided additional assistance for invalids, widows and domestic purposes beneficiaries. For all groups, the free zone was lifted to $80 per week before any reduction was made in the rate of benefit payable. For invalids, widows and domestic purposes beneficiaries, the benefit was now abated at the rate of 30 cents in the dollar for earnings between $80 and $180 per week and at the rate of 70 cents in the dollar for earnings above $180 per week. For other beneficiaries, including unemployment and sickness beneficiaries, an abatement rate of 70 cents in the dollar now applied above the free zone.

The changes were designed to provide better returns for part-time work and the dual regime recognised the fact that people with responsibilities for children are often more easily able to take up part-time work than full-time jobs. It is anticipated that the changes will result in a significant movement of domestic purposes, widows and invalids beneficiaries into part-time work.

These changes, together with the assistance available to people in low-paid full-time employment through the Guaranteed Minimum Family Income and the Independent Family Tax Credit, have helped to establish a gradient in the returns that accrue to families depending on whether or not the parents are in employment, with those working full-time generally better off than those in part-time work, who in turn are generally better off than those not in employment.

The 1991 benefit cuts

The most contentious change to the social security system was the cuts to basic benefit rates which were implemented in April 1991. The background to this was a deterioration in the Government’s fiscal position in the latter half of 1990 and rising projected deficits in future years, possibly as high as 6.3 per cent by 1993/94 according to the Treasury’s 1990 post-election briefing papers (Dalziel and Lattimore, 1996). In a special statement on 19 December 1990, the Minister of Finance

“explained how the government intended to address the problem, principally by cutting back income support entitlements to most categories of social welfare beneficiaries by between 2.9 and 24.7 per cent from 1 April 1991”.

Dalziel and Lattimore, 1996

Those on unemployment benefit, widows benefit and sole parents receiving domestic purposes benefit were hardest hit, while rates of sickness benefits were reduced by lesser amounts. The rates of invalids benefits, and domestic purposes benefits for people caring for sick and infirm relatives, were increased by small amounts.

In the short run, the cuts made little impact on the deteriorating fiscal position, as Dalziel and Lattimore (1996) note, although the outlook improved in the longer run:

“The cuts were anticipated to generate savings in social welfare transfer payments of $1.275 billion, or about 1.7 per cent of GDP, in
their first fiscal year ... but ... expenditure on social welfare benefits continued to increase as a percentage of GDP, since the deepening recession caused GDP to fall and the number of people relying on unemployment benefits to rise. Once the economy returned to strong growth in 1993/94 and 1994/95, however, social welfare payments fell and tax revenues increased, so that a small but genuine financial surplus was achieved in 1993/94, increasing to an operating surplus of 3.1 per cent of GDP in 1994/95.

While the benefit cuts can not be considered in themselves to be an example of targeting policy, their effect was to re-orient the system towards more highly targeted provision, by altering the balance between the basic benefit and the supplementary assistance tier. Because less assistance was now available through the basic benefit, more beneficiaries needed to avail themselves of the additional support available through the various supplementary assistance programmes. There was also a second-round effect, as the evidence of increasing financial pressure on beneficiaries led government to allocate additional funds to the supplementary assistance programmes, which led in turn to further up-take of these sources of assistance.

Welfare-to-work approaches

In addition to targeting assistance to those in greatest need, recent changes to social security policy have placed increasing emphasis on encouraging beneficiaries to become more self-reliant. This has involved tightening of conditionality for receipt of income support, increased emphasis on case management techniques in work with beneficiaries aimed at facilitating them to take steps to become self-supporting, and expansion of the application of work-testing beyond the unemployed.

These various approaches can be viewed as partly carrot and partly stick, both involving some degree of targeting. Under the category of “carrot-like” programmes can be classified two major active assistance programmes operated by the Department of Social Welfare. Under the customised service programme, officers are assigned to work with individual beneficiaries to help them develop plans for achieving greater self-reliance and independence. This programme is an integral element of benefit delivery to all recipients and thus does not involve any degree of targeting.

The second major programme, however, known as Compass, is specifically targeted at sole parent beneficiaries and, within this broad group, is aimed more specifically at those with children aged over 5 years of age who have been on benefit for more than a year. This is in recognition of the fact that sole parents, in particular, are at risk of remaining dependent on a benefit for long periods and that those with children of school age may be able to begin to take up part-time work opportunities.

The programme is similar to customised support, but provides more intensive support. Beneficiaries are assisted to make plans for achieving greater self-reliance, which may involve identification of barriers to employment and planning strategies to surmount these, identification of appropriate training programmes to build skills, assistance in locating child care placements, and enrolment in confidence-building courses, in addition to search for appropriate employment opportunities. These programmes are supported by the GMFI and IFTC tax credit programmes and the
abatement regime changes aimed at providing better returns for beneficiaries in part-time work.

Under the category of “stick-like” programmes can be characterised the increasing requirements for beneficiaries to be subject to work or training tests. This was signalled as a priority by the government in its 1997 Budget:

“The Government wants to establish exactly how much paid work it is reasonable to expect people receiving income support to undertake given their particular circumstances. For many people with injuries or ill health a gradual reintroduction to work can be an important part of the recovery process. This is one reason why we are currently improving work capacity testing for those receiving ACC support. A similar approach will be examined for sickness and invalid beneficiaries.”

It is clear from this that a targeted approach is envisaged. The groups identified here, however, are not those who were to be subject to initial action, which instead focused on sole parent beneficiaries and the partners of unemployment beneficiaries. For these groups, a range of initiatives were introduced in 1997 which increase the expectations that they will seek work or training.

These include:

• a part-time work or training requirement for widows beneficiaries and domestic purposes beneficiaries with no children or a youngest child aged 14 or over;

• a full-time work or training requirement for partners of unemployment beneficiaries with no children or a youngest child aged 14 or over;

• mandatory interviews for widows beneficiaries, domestic purposes beneficiaries and partners of unemployment beneficiaries with a youngest child aged 7 or over to discuss the work or training requirement that will apply when the youngest child turns 14 and to encourage the beneficiary to begin to take steps in the interim to prepare for that longer-term requirement; and

• a new regime of graduated reductions in benefits for failure to comply with work testing or with a request for a mandatory interview.

Targeting in other areas of social policy

Targeting approaches have also begun to be applied to other areas of social policy, in particular health and education. I shall briefly discuss each of these areas in turn.

Health targeting

In 1991, the Government announced a new regime for targeting of health expenditure, involving the imposition of a range of user charges for health services for middle and high income earners and increased subsidies to low-income earners. In particular, public hospital services (which had previously been provided free of charge) were now to be subject to a part-charge for middle and high income earners; nominal charges for pharmaceuticals were increased for middle and high income earners; and subsidies for general practitioner charges were reduced for middle and
high income earners and increased for low income earners. The part-charge for inpatient hospital services was subsequently abolished, but that for out-patient services was retained.

The targeting regime was described by Stocks (1993) and relies on the use of a Community Services Card (CSC) to distinguish three broad income groups, which would receive different levels of subsidies for health services.

“Eligibility for the CSC was essentially based upon receipt of a means tested government benefit. Thus families who received a benefit such as the unemployment, sickness or invalid’s benefit were entitled to a Group 1 card, as were families who were in receipt of unabated Family Support ... Low income working families (without children) who did not receive a state income benefit could also apply for Group 1 cards. Eligibility for Group 2 was based upon receipt of partly abated Family Support and thus was not available for families without children. Anyone who did not apply for a Group 1 or Group 2 card was deemed to be in Group 3, and they did not receive a CSC.“

Stocks (1993)

Targeting of assistance for tertiary education

Tertiary education is also now subject to an income-testing regime based on the earnings of parents. This sector has also been subject to a thorough-going reform, as noted in the Treasury’s Briefing to the Incoming Government, 1996:

“Successive governments have responded to the challenge of growth [in demand for tertiary education] by introducing a series of reforms in the tertiary education sector. These reforms have been aimed at increasing self-management among TEIs [tertiary education institutions], moving to an output-focused funding system, introducing greater competition in the sector, and increasing the share of costs financed by students and their families. Reforms have included introducing the Equivalent Full-time Student funding system, granting TEIs the right to set fees, introducing the student loans scheme, the tighter targeting of student living allowances, and successively reducing the level of per-student tuition subsidies.”

Tertiary students between the ages of 18 and 25 have access to student living allowances subject to a parental income test. Different rates are paid for those living with their parents and those living away from home.

“For instance, if in the 1996 year the taxable income of both parents was greater than $45,759 and [a single] student lived at home, he or she was not entitled to any allowance. If the student lived away from her or his parents’ home, the parents’ taxable income could be up to $50,752 before entitlement to an allowance was completely abated. If the taxable income of both parents was less than $28,080, the student was entitled to the maximum away-from-home or at-home allowance ($118.74 and $94.98 net per week, respectively).”

Robins, 1996
As Robins notes, young people facing choices at the end of their compulsory school years are subject to a range of “perverse financial incentives”, arising from differences in the support regimes for young unemployed people and young people involved in further education.

“Social Welfare benefits for young people are subject to neither at-home rates nor parental income-testing\(^1\), so that young people reliant on income support who are living at home and/or whose parents have medium to high incomes receive a higher level of income than they would if they were participating in tertiary education.”

The Government has declared its intention of fixing this anomaly. In the Coalition Agreement between the National and New Zealand First parties, which forms the basis for the current coalition government, it was stated that

“The Government will work, within its first term of office, towards a universal system of living allowances for tertiary students as part of a comprehensive system of youth income support that gives comparability between unemployed job seekers and students.”

METHODS USED TO TARGET ASSISTANCE

In considering the methods used to target assistance, it is useful to begin by giving brief consideration to what might be meant by the term “targeting” and to the different possible approaches that might be taken to targeting of social security provision.

**Targeting: a rudimentary typology**

Targeting can be defined as the process of allocating social security resources to a designated sub-group of the population (generally those who are perceived to be the most needy). A range of different techniques are used to target assistance, based on different means of identifying more needy programme recipients. For the purposes of the present paper, three different general approaches to targeting are identified: targeting by category; targeting by means; and targeting by needs.

**Targeting by category**

As Bolderson and Mabbett (1996) note, most social security provision is based on establishment of membership of a category.

“At first sight, category membership rules might seem superfluous to targeting social security. A straightforward way of designing a well-targeted social security system would be to assess income and assets, assess needs, and fill the gap between the two assessments. This procedure would not require the claimant to establish membership of any particular category.”

\(^1\)The single rate of Unemployment Benefit for 18-24 years olds was $118.74 net per week at the time her paper was written (equal to the away-from-home rate for tertiary student living allowance).
In practice, however, the assessment of income, assets and needs is complex. Instead, membership of a category (for example the aged, the disabled, the unemployed, or lone parents) is used as a proxy, being taken to indicate a higher level of need for assistance.

Categories may be defined in terms of a range of criteria - age, employment status, health or disability status, family type (and even, in some cases, ethnicity). Used on its own, targeting by category would lead to the payment of flat-rate benefits to all members of designated categories (so-called “universal benefits”). In New Zealand, targeting by category has usually been used in conjunction with other targeting procedures, especially targeting by means.

Targeting by category has taken a range of forms in New Zealand. Some examples of the ways in which this has been done are given below.

- **Targeting by age**
  Old-age pensions have been available to people over a specified age (which has varied over the years) since 1898. Transitional retirement benefits are available to people over a specified age (currently 61.5 and rising to 65 in 2004) to help those adversely affected by the increase in qualifying age for New Zealand Superannuation. The 55 plus benefit is available to people aged over 55 on the same basis as unemployment benefit. Although it is still regarded as a “working age” benefit, the work test is reduced and registration with the New Zealand Employment Service is no longer mandatory.

  At the other end of the age spectrum, different benefits have different minimum ages of eligibility. Unemployment benefits are payable to those aged 18 and over, while sickness benefits are payable to those aged 16 and over. Other benefits are available to narrower age bands of young people. Independent youth benefit is payable to 16 and 17 year olds who, for some serious reason, can not live with or be supported by their parents. Job search allowance is payable to 16 and 17 years olds under certain qualifying conditions (in particular excluding school leavers). Payment rates also vary by age, the lowest rate being for 16-17 year olds and the highest rate being for those aged 25 and over.

- **Targeting by gender**
  Widows benefit is payable only to women. There is no equivalent widowers benefit (although men who are widowed and have dependent children are eligible for domestic purposes benefit, as are women). Older women who live alone without dependent children are also eligible, under certain conditions, for domestic purposes benefit. No equivalent provision exists for men.

- **Targeting by ethnicity**
  Early social security provisions excluded “Asiatics” from coverage, while Maori were treated as special cases. This is no longer the case. There are no longer different provisions for different ethnic groups.

- **Targeting by marital status**
  Widows benefits are payable to widows with dependent children (and in some cases also to widows without dependent children).
• **Targeting by living circumstances**
Domestic purposes benefits are available to single parents (that is, parents of dependent children who are not living in a relationship in the nature of marriage, irrespective of their marital status). This benefit is also payable to single people with full-time caring responsibilities for other disabled dependants. Domestic purposes beneficiaries are also now subject to a different abatement regime from that applying to some other categories of beneficiaries.

Independent youth benefit is payable to young people who, for some serious reason, can not live with their parents or be supported by them.

Different rates of benefit are paid for “single” and “married” persons (depending not on legal marital status, but on whether the person is living in a relationship in the nature of marriage. Homosexual relationships, however, are excluded.)

• **Targeting by number of children**
The rate of payment of family support varies according to the number of children in the family.

• **Targeting by age of children**
Family support is payable to parents in respect of dependent children (that is, children aged 15 or less or, or if the children are still at school, aged 16 to 18). The rate of payment also varies by the age of the children. Domestic purposes benefit is payable to sole parents with dependent children. Child care subsidy is payable to families with children under the age of 5 years, under certain conditions, to enable them to obtain access to child care services.

• **Targeting by geographic location**
The rate of payment of accommodation supplement varies by geographic location. Higher rates are paid to people living in Auckland or Wellington in recognition of regional differentials in rental markets.

• **Targeting by length of residence in New Zealand**
Almost all benefits have a residential criterion - that is, they are payable to people who have been resident in New Zealand for a specified minimum period. In some circumstances, people who do not meet residential or other criteria are eligible for emergency assistance.

**Targeting by health status**
Sickness benefits are payable to those who are temporarily incapacitated for work by reason of sickness. High user health cards are available to people with medical conditions which result in higher use of health services to enable them to obtain additional subsidies for user charges.

• **Targeting by the presence or absence of a disability**
Invalid’s benefits are payable to persons who are totally blind or who are permanently and severely restricted in their capacity to work due to a
disability. Disability allowance is payable to people with a disability or a personal health need to reimburse them for costs incurred by the disability or health need. Handicapped child allowance is payable to the parent or guardian of a seriously disabled child who lives at home and requires constant care and attention. Accident compensation is payable to persons who suffer injuries as a result of an accident.

• **Targeting by educational status**
  Student living allowance is payable only to those who are engaged in full-time studies. Family support is payable in respect of children aged 16 to 18 if they are still at school.

• **Targeting by participation in employment or work skills training**
  Training benefit is payable to people who are undertaking approved employment-related training. Training incentive allowance is payable to invalids, widows and domestic purposes beneficiaries to meet the costs of attending courses that enhance their work skills.

• **Targeting by housing tenure**
  Tenure protection allowance is paid to selected Housing New Zealand tenants who would face difficulty if they were expected to move to other accommodation. This measure was introduced as an ameliorative measure when the accommodation supplement programme was introduced and state housing rental rates were permitted to move to market levels. Accommodation supplement is paid at different rates depending on the tenure of the recipient.

• **Targeting by job search status**
  Unemployment benefit is payable only to people actively searching for work.

• **Targeting by caring status**
  Domestic purposes benefits are available to people who have full-time caring responsibilities for disabled dependants. Orphans and unsupported child benefits are payable to the principal caregivers of children whose parents are deceased, or who suffer from serious long-term illness or incapacity which prevents them from caring for the child, or who can not be found.

• **Targeting by military service history**
  Veterans pension is payable to ex-service personnel who served during a war or emergency, under certain conditions relating to the presence of a disability.

• **Targeting by occupational history**
  Miners benefit was previously payable to former miners who had been incapacitated as a result of illness or injuries caused by their work. It no longer exists as a separate benefit and the accident compensation scheme now covers people with occupational diseases.

Many of the categories are used in conjunction. For example, domestic purposes benefit includes provisions for targeting on the basis of age, gender, living circumstances, age of children, length of residence in New Zealand and caring status. The rate of payment of family support depends on the number and age of children and on their educational status. This over-lapping of targeting categories
leads to a complex system of entitlements. It is further complicated by the imposition of means-testing on almost all benefits.

**Targeting by means**

A second approach to targeting involves means-testing, generally in the form of an assessment of the income (and in some cases the assets) of claimants to determine their eligibility for assistance. Means-testing is a common form of targeting which is used in most countries, especially in the social assistance tier. It is almost always used as a second-order procedure, in conjunction with targeting by category, with claimants being required first to establish their membership of a designated category. Different means-testing rules may also be used for different categories of claimants.

In New Zealand, means-testing is mainly restricted to income testing, although asset tests have been used in the past and are still used for some forms of supplementary assistance. All basic benefits are subject to an income test. Generally, there is an free zone up to which no reduction in payment is made. Above the free zone, the rate of payment of the benefit is abated at a specified rate for each dollar of earned income, until the entitlement is exhausted. New Zealand Superannuation is subject to a variation of the normal means-testing regime: a tax surcharge is applied to each dollar of other income above a free zone, until the entitlement is exhausted.

**Targeting by needs**

A third approach to targeting, which is perhaps not totally distinct from targeting by means but rather represents a further refinement of that approach, is targeting by needs. This involves a more detailed enquiry into the particular circumstances of claimants, over and above their income (and assets). Typically, this might involve an enquiry into fixed outgoings, such as accommodation costs, or additional outgoings deriving from personal circumstances such as health status or the presence of a disability. Often, this sort of targeting is used not only to establish need, but to configure the level of payment to meet the particular need.

Most of the second-tier supplementary assistance programmes involve more detailed inquiries into the particular circumstances of claimants, in an attempt to assess their needs. Recent changes have also provided assessing officers with more discretion in the granting of second-tier assistance payments. While there are guidelines which set down general criteria for awarding of grants and maximum amounts payable, assessing officers are able to override these guidelines to take into account the particular circumstances of claimants. This means that there is more flexibility for meeting need than under the previous regime which required assessment officers to adhere more rigidly to the grant criteria.

**IMPACTS OF TARGETING CHANGES**

It is difficult to be sure about the precise impacts of these various changes, since it is not possible to isolate the specific effects of the changes from the effects of other social and economic transformations that have occurred concurrently. Nevertheless, it is possible to make some remarks about their probable effects.
Increasing rates of employment among older people

As the age of eligibility for New Zealand Superannuation has risen, people over the age of 60 have been more inclined to remain in employment, especially those aged 60 to 62 who have so far been most directly affected by the change (1997 Periodic Group Report on Retirement Incomes). The table below shows that employment has increased by roughly 15% to 20% for men in this group and 10% to 15% for women.

<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage of Population Aged 60-64 Employed: 1991 and 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
</tr>
<tr>
<td>60</td>
<td>46.4</td>
</tr>
<tr>
<td>61</td>
<td>38.1</td>
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<tr>
<td>62</td>
<td>33.0</td>
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<tr>
<td>63</td>
<td>29.5</td>
</tr>
<tr>
<td>64</td>
<td>25.7</td>
</tr>
</tbody>
</table>


As the periodic report group also notes, the sharp drop in employment rates that used to occur at age 60 has been replaced by a more gradual reduction. There is also a shift from full-time work to part-time work over these years as people manage their transition into retirement.

Trends in numbers receiving income support

Although it is not possible to make any firm attribution of causal connections between changes to targeting arrangements and trends in numbers receiving income support (since many other factors will have exerted an independent influence on these trends), the changes discussed in this paper will nevertheless have had some impact on these trends. In the case of particular benefits, it is possible to make some tentative links between the targeting changes and observed trends in numbers on benefit. In other cases, it is interesting to observe what happened in the trends in numbers on benefit over the time of the changes, although these trends may have been largely driven by factors other than the changes in targeting arrangements.

The most interesting cases are domestic purposes benefit, unemployment benefit and New Zealand Superannuation, which show that the degree to which the numbers on benefit are influenced by targeting changes is highly variable.

Domestic purposes benefit

The numbers of people receiving domestic purposes benefits did seem to be influenced by targeting changes - in particular the reduction in benefit rates in 1991. As the graph below shows, there was strong growth in the numbers prior to that year and an apparent acceleration in the growth rate. In 1991, however, there was an abrupt discontinuity in the trend, as numbers stalled and remained stable for the next
two years. Since 1994, the numbers have been growing again, but at a slower rate than prior to 1991. It is probable that this discontinuity in the trend was brought about largely by the reduction in rates of payment for this benefit, although it is clear that this did not finally stem the growth in demand for the benefit.

![Trends in Domestic Purposes Benefit 1980-1996](image)

**Unemployment benefit**

The numbers receiving unemployment benefit were relatively low in the early 1980s, but grew very quickly from 1987 as the restructuring of the economy gave rise to high numbers of business closures in industries which had lost their protection and large-scale redundancies in inefficient government enterprises which were required to place themselves on a commercial footing. The numbers peaked at over 150,000 in 1993 and have since declined. While the tightened eligibility for benefits and reduction of benefit rates in 1991 may have contributed to this turn-around, it is likely to be more strongly related to the improvement in economic performance after 1993. There had been little growth in GDP over the early years of the 1990s, but after 1994, GDP grew by an average of around 4% for the next three years.

![Trends in Unemployment Benefit 1980-1996](image)
**New Zealand Superannuation**

The numbers of people receiving New Zealand Superannuation have been declining since 1991, reflecting the phasing in of increases in the age of eligibility for the pension, which are progressively rising to age 65 in the year 2003. After that date, numbers will begin to rise again, with large increases projected after 2010 as the first cohorts of the baby boom generation reach 65.

The imposition of the tax surcharge on other income of superannuitants, which dates back to 1984, has had a less immediately apparent effect on the trend, although a slight flattening of growth can be observed from that year. Around a third of superannuitants are currently subject to the surcharge, which, in most cases, does not cancel out their full entitlement. The effect of the surcharge was therefore likely to be small because only a small tip of the income pyramid would not have bothered to claim the pension knowing that their entitlement would have been fully surcharged. For example, when the surcharge is abolished in April 1998, it is estimated that an additional $100 million (around 2% of total annual expenditure) will be claimed annually by people who were previously not claiming at all knowing their entitlement would be fully surcharged (1997 Periodic Group Report on Retirement Incomes).

![Trends in National Superannuation 1980-1996](image)

**Change in the balance between basic benefit and supplementary assistance**

The introduction of a whole range of new highly-targeted second-tier supplementary assistance programmes, together with the lowering of the levels of the main first-tier benefits, has meant that there has been a large shift in the balance between the amount of assistance delivered through the basic benefit and the amount delivered through the more highly targeted second-tier programmes. In 1984, the total amount spent on benefits and pensions was $3,735 million, while only $42 million was spent on second-tier assistance (including accommodation benefit, special benefit, disability allowance and handicapped child allowance). This means that second-tier assistance amounted to only 1.1% of total expenditure on benefits and pensions in that year.
By 1996, the total amount spent on benefits and pensions was $9,845 million, of which $927 million was spent on second-tier assistance (including accommodation supplement, tenure protection allowance, disability allowance, handicapped child allowance, special benefit, special needs grants and child care subsidy). The proportion allocated to second-tier assistance had increased to 9.4% of the total. If we add in the $748 million spent on family support (administered by the Inland Revenue Department), the total amount spent on welfare rises to $10,593 million and the proportion spent on targeted supplementary assistance rises to $1,675 million, amounting to 15.8% of the total welfare spend.

**Emergence of food banks**

The cuts to basic benefit rates meant that beneficiaries were placed under additional financial pressure. One result of this was an explosion in demand for assistance from voluntary social service agencies, in particular food banks. Prior to the benefit cuts, food banks had occupied a minor place in New Zealand’s array of welfare services. At the end of the 1980s, there were 16 food banks operating in the Auckland metropolitan area, with its population of close to 900,000 (Whale, 1993). By 1994, there were 130. Statistics from the Salvation Army, a major operator of a national network of food banks, show that between 1990 and 1992, the volume of food parcels provided in the first quarter of the year leapt from 1,226 to 10,261, an increase of 737% in two years. In 1994, it was estimated that around $25 million of assistance annually might be being provided by food banks, mainly to families reliant on income support (Mackay, 1994).

**Growth in income inequality**

Many commentators have remarked on the widening of the income distribution over the 1980s and 1990s. For example, Stephens et al. (1995) have noted that, between 1984 and 1993, a time of falling average living standards, those at the top of the income distribution experienced an improvement in living standards. Over this period, median equivalent disposable household income fell in real terms by 17%. The bottom five deciles experienced broadly similar reductions in living standards; the reductions were somewhat smaller among the next three deciles; the second top decile maintained its position; and the top decile gained in real terms by some 13.5%. These changes resulted in an increase in the Gini coefficient of inequality from 0.255 to 0.303.

As Mowbray and Dayall (1994) noted, these changes disproportionately affected households with children, households containing a social security beneficiary, and Maori and Pacific Islands households. Pool and Johnstone (1996) also noted that these families were additionally vulnerable since they experienced the greatest declines in labour force participation over the same period.

Other commentators have noted increases in poverty over this period, although these findings are dogged by definitional problems. Krishnan presents a range of results based on alternative poverty benchmarks. These figures show that there is room for substantial disagreement about both the incidence of poverty (estimates of which ranged from 2.6% to 10.5% in 1987-88 and from 4.7% to 19.5% in 1992-93) and the size of any increase which might have occurred in poverty levels over this period (estimates of which ranged from 0.4% to 9.7%).
The figure which has been most quoted from her study is based on the Benefit Datum Line (defined as the married couple rate of unemployment benefit in 1972, held constant in real terms by price-indexation). According to this measure, the incidence of poverty in 1987-88 was 9.8% and this had risen to 19.5% by 1992-93. By contrast, using 50% of median equivalent disposable household income as the poverty benchmark (which is commonly used in cross-national studies), the incidence of poverty in 1987-88 was 3.2% and had risen to 4.7% by 1992-93.

We can conclude that there have been increases in income inequality over the course of the past decade and a half, which have been accompanied by an increase in the incidence of poverty, although it is difficult to make definitive statements about the absolute numbers of people experiencing poverty and the size of this rise.

These changes are undoubtedly due to a wider set of causes than the targeting changes. In particular, changes to the tax system, involving the introduction of an expenditure-based tax and the reduction of personal income tax, had a considerable impact on the distribution of disposable incomes. The large rises in unemployment in the late 1980s and early 1990s will also have contributed to this and to increases in poverty. Nevertheless, some aspects of the targeting changes, and in particular the reduction in benefit rates, will also have made some contribution to these results.

**Growth of the private health care sector**

The part-charge regime for middle and high income earners provided an additional boost to the already expanding private health sector and the market for private health insurance. In 1980 total expenditure on private health insurance had amounted to $16 million. By 1990 this had expanded nearly ten-fold to $142 million and by 1995 it had grown further to $390 million. This equates to an average growth rate of 23.4% over the period 1980-95. The private sector accounted for an increasing proportion of total health expenditure over this period. In 1994/95, total private sector expenditure on health (including out-of-pocket expenditure, health insurance and funding by charitable organisations) accounted for around 23% of total health expenditure, up from 12% in 1979/80 (Ministry of Health, 1996).

**THEORETICAL AND PHILOSOPHICAL IMPLICATIONS OF TARGETING CHANGES**

**The dependence trap**

Income testing is well-recognised as giving rise to the problem of the dependence trap. That is to say, the progressive withdrawal of assistance as earnings rise means that the efforts of recipients of income support to earn money are little rewarded because they are not much better off (and even in some cases worse off) when the double effects of taxation of earnings and withdrawal of assistance are taken into account. The dependence trap is often known as the “poverty trap”, perhaps erroneously (as Jensen, 1994, has noted) since the phenomenon can occur at levels of assistance which are unrelated to any poverty benchmark.

In New Zealand, the rate of withdrawal (or “abatement”) of the benefit for every dollar of earned income combines with tax rates on earnings to produce income zones where the effective marginal tax rate (“EMTR”) is close to 100%. This means that
people just below or in the middle of this income zone are very little better off for each additional hour of work because the amount of money they receive is virtually unchanged. Typically, for each category of beneficiary in New Zealand there are relatively wide income bands where such high EMTRs apply.

Government efforts to resolve this problem have recently focused on the provision of in-work assistance, in the form of tax credits, aimed at making the situation of those in employment more attractive. Two such measures, the GMFI and the IFTC, have both been described above. These changes, together with changes to the abatement regime which were aimed at the same goal (also described above), have had the effect of both slightly narrowing the width of the income zone over which very high EMTRs apply and in shifting this zone to a higher level, giving a better return for part-time work (especially for domestic purposes, widows and invalids beneficiaries).

Prior to 1 July 1996, for domestic purposes beneficiaries with one child, the EMTR was 88% or above for incomes between $4,160 and $18,720. For unemployment beneficiaries with one child, the rate was 93% or above between $4,160 and $22,360. For domestic purposes beneficiaries, these income levels equated to around 13% and 60% of average ordinary time earnings. For unemployment beneficiaries, they equated to around 13% and 72% of ordinary average time earnings.

The graph below shows the level of the EMTRs for domestic purposes beneficiaries with one child prior to 1 July 1996. The very high values across a very broad range of incomes shows the extent of the problem: for incomes up to $20,000, these beneficiaries stood to gain little from any efforts they made to become self-supporting.

By 1 July 1997, after a two-step change, the high tide mark of the EMTRs for domestic purposes beneficiaries with one child was 91% or higher on incomes between $9,360 and $22,360, while for unemployment beneficiaries it was 94% between $9,360 and $26,000. These figures equate to around 30% and 72%, and 30% and 83% respectively, of average ordinary time earnings. The graph below shows the EMTRs after these changes (again for domestic purposes beneficiaries with one child). It shows, in particular, significantly reduced rates over the lower
parts of the income band, providing improved returns for those beneficiaries who take up part-time work.

Prior to the change, beneficiaries would have been facing very high EMTRs for most hours they worked up to full-time, given that they are likely to command lower than average wages. After the change, they faced lower rates for possibly up to around half time employment. Even so, there remains a broad income band over which very high EMTRs still apply, which may tend to disincline some beneficiaries who are working part-time to raise their hours or move into full-time work.

Ultimately, of course, the problem of steep EMTRs can not be resolved by changing the parameters of the income test, since these are an intrinsic consequence of means-tested systems. It is for this reason that increasing emphasis has recently been placed on other solutions such as active assistance programmes and welfare-to-work approaches.

Overlapping of targeting regimes

In an environment where other areas of social policy are also being brought under income-testing regimes, the problem of the dependence trap is likely to be compounded by these other initiatives. This problem was recognised by an earlier government which established a project to integrate all the various mechanisms into one global targeting regime. The project did not proceed, however, with the result that there remains a lack of co-ordination between the targeting mechanisms operated in different sectors, with consequent negative impacts on effective marginal tax rates.

It should be noted that the above estimates of effective marginal tax rates do not take into account the impact of health targeting nor that of parental income testing for tertiary student allowances. Indeed, the figures also omit any modelling of the impact of accommodation supplement. This means that the figures are likely to underestimate the true levels of effective marginal tax rates. In some cases, it is possible that these would be found to be over 100% over some part of the income range if the impact of these other effects were also taken into account. This would
mean that, in some cases, people would be less well off after working more hours, taking into account their expenditures on health and support for children in tertiary education, in addition to tax paid and the loss of welfare entitlements.

**Efficiency of targeted systems for delivering assistance to the most needy**

Much of the debate about targeted social security systems is concerned with questions about their efficiency in delivering higher levels of assistance to those most in need. It seems almost axiomatic that higher levels of assistance can be made available to the least well-off members of society if those who are better-off are excluded from receiving such assistance. As Atkinson notes:

“For policy makers, there is much appeal in the idea that the existing total of transfers can be reallocated to increase their effectiveness in combating poverty. And simple arithmetic seems to support this view.”

The arithmetic, however, also shows that the process of ensuring that the money goes to those who are most in need is something of a hit and miss process. Atkinson goes on to cite Sawhill’s (1988) figures from the United States:

“in 1993 outlays on means-tested cash assistance totalled $31 billion ... In that same year, the poverty gap, measured before the receipt of any means-tested transfers, was $63 billion. If all the money had been effectively targeted on the poor, it should have reduced the poverty gap to $32 billion, essentially cutting it in half”.

Sawhill notes, however, that “the poverty gap measured after the receipt of transfers was still $47 billion, implying that only $16 billion actually reached the poor”. Atkinson notes that among the reasons for this apparent inefficiency are the fact that some transfers were made to people already above the poverty line while other payments to people below the poverty line were more than sufficient to take them out of poverty.

What is required for a perfectly effective targeting system is the capacity to provide coverage for those in need up to a minimum income benchmark and to exclude from cover all of those who are above this benchmark. This is clearly not an easy process. Nevertheless, despite the difficulties, it is indisputable that, for any given level of expenditure on social security, higher levels of payment can be made available to the recipients by restricting availability to people who are in need. The debate over the efficiency of means-testing, then, revolves around the issue of the degree to which it does in fact deliver assistance to people who are in the greatest need.

The task of assessing the effectiveness of targeting systems is made more difficult by the complexity of design of such systems. This is at least partly a result of the process by which income support policy is developed. For the most part, the New Zealand system has not been designed on the basis of empirical studies of levels of need among the population, but by a process of incremental adjustment, as additional assistance is given to one group at one time, and additional countervailing assistance is added subsequently for the benefit of other groups. The basis on which these decisions are made is eclectic in nature, influenced by lobbying of interested groups, responses to media reports of the evidence of need, findings from
research studies of various degrees of sophistication, the state of the national finances and position in the business cycle, political perceptions about the relative merits of different options and, more latterly, political bargaining in the process of coalition formation.

The result is a system which is complex in its layers of provision, in its eligibility criteria and payment rates, and in its rules and guidelines for assessment officers. The more complex the system, the more difficult it is to be confident that it is producing equitable results in terms of the assistance available to different groups. To make a well-founded assessment of the effectiveness of targeting, it would be necessary to have empirical evidence on comparative standards of living among different sub-groups of New Zealand society, including different sub-groups of beneficiaries and low-income groups who are not receiving any income support. There are a great many difficulties, both conceptual and practical, in obtaining reliable information on living standards. Nevertheless, in the absence of such information, we can not be confident that the system is in fact channelling resources to the most needy groups in society or indeed that it is performing any better in allocating its funds than the US system is on the figures cited by Sawhill above.

**Take-up**

The effectiveness of the targeting system in providing assistance to those most in need is also affected by the rate of take-up of the programmes. There is only a small amount of empirical evidence available about take-up of social security in New Zealand. Indeed, there are considerable conceptual and measurement difficulties in estimating take-up, as programmes become progressively more highly targeted.

For universal programmes which are not means-tested, the process is reasonably straightforward (at least conceptually, if not always in practice). Take-up is given by the numbers of people receiving support under the programme as a ratio of the estimated numbers of people who are eligible for the programme (for example, people aged over 65 or parents of children below the age of 16). Means-testing introduces an element of complexity, since it means it is also necessary to estimate how many people are excluded from eligibility by their income. For second-tier programmes which are targeted on the basis of need, the term “take-up” itself becomes more ambiguous and difficult to quantify, since it would be practically impossible to estimate the size of the pool of people who would prove to be eligible for such assistance.

Eardley et al. (1996) cite estimates of take-up for three important income support programmes in New Zealand: approximately 96% of those eligible were receiving New Zealand Superannuation in June 1993; approximately 89% of people who were unemployed and seeking work at the 1991 Census were receiving unemployment benefit; and approximately 89% of people who were sole parents at the time of the 1991 Census were receiving domestic purposes benefit. As the authors note, however, these estimates do not take account of the numbers of people excluded from eligibility by the income test. Even this simplest task of estimating take-up of first-tier programmes without taking into account the impact of the income test is fraught with difficulties, however. Rochford (1993) gives an account of the problems of estimating take-up of the domestic purposes benefit and concludes that the proportion of sole parents who were receiving this benefit at the time of the 1991 Census was in fact between 79% and 94%, the true figure being most likely to be
found in the range 80% to 85%. He also noted that this proportion had been steadily increasing over recent decades from 46% in 1976 to 61% in 1981 to 73% in 1986.

Eardley et al. also cite Fourbister’s (1990) estimate of around 70% take-up of family support and GMFI (which provide second-tier support to both beneficiaries and those in work), with close to 100% take-up among beneficiaries and between 50% and 60% among non-beneficiaries. As such second-tier programmes have more complex entitlement criteria, the task of estimating take-up is correspondingly more difficult. For example, a recent evaluation of the accommodation supplement programme found that it was not possible to give a precise estimate of take-up but only to conclude that a substantial proportion of those eligible were not receiving this form of assistance.

As these last findings indicate, take-up is significantly lower than 100% for many of these second-tier programmes. There are a number of reasons why we might expect take-up rates of less than 100%: lack of knowledge of available assistance, uncertainty about how to apply for assistance, fear of stigmatisation, belief in self-reliance and consequent reluctance to apply for public assistance, expectation that the amount of assistance available would be too low to be worth applying for, and unwillingness to be exposed to detailed investigations into financial circumstances.

The lower rate of take-up of second-tier assistance among non-beneficiaries than among beneficiaries is also to be expected, for various reasons. People who are already receiving income support are more likely to be aware of the availability of additional assistance and less likely to be stigmatised by the process of applying for it. In addition, people who are in work may be more likely to wish to remain self-reliant and thus be more reluctant to apply for public assistance.

Overall, the evidence suggests that take-up of first-tier programmes is relatively high and may be close to 100% if account were taken of the numbers excluded by the income test. Take-up of second-tier programmes is lower, however, especially among people who are not receiving first-tier assistance. The fact that such people may be more likely to prefer to remain self-reliant means that it is reasonable to expect a somewhat lower take-up among this group. But the other barriers to take-up suggest that there is a need to do more to promote the availability of assistance to this group to allow people to make this choice. It is also evident that there is a need for more information on take-up rates across the whole range of income support programmes.

**Intrusiveness of targeting regimes**

The process of targeting necessitates an enquiry into the personal circumstances of individual claimants. This is true even where no means testing is involved, since claimants are generally still required to establish their membership of a particular category in order to claim assistance. Where assistance is targeted by need, a more thorough-going enquiry into the details of claimants’ financial circumstances, and the particular circumstances that have given rise to their need for assistance, is required. Implementing these enquiries may involve more or less intensive questioning of claimants about their personal and family situation, which can be viewed as intrusive. Even establishing membership of a category (which is almost universally used in social security) involves some enquiries into the circumstances of individual claimants. For example claimants to unemployment benefits are generally
required to demonstrate that they have been actively seeking work. For lone parent claimants, the enquiries can become more intrusive, as efforts might be made to determine whether the parent is truly “lone”, which might involve enquiry into the nature of existing or developing relationships with past or potential future partners.

These problems may have been reduced in New Zealand by the recent introduction of a case management approach to work with recipients of income support. Under this approach, case management officers are assigned individual case-loads of people receiving income support, which means that beneficiaries now deal with the same officer on each visit to the income support office. This should allow the officer to build up a rapport with the beneficiary and to come to know his or her circumstances in a more personalised way which should obviate the need for repeated intrusive inquiries.

The use of computer facilities to establish eligibility for assistance may also help to alleviate the problem of intrusiveness of enquiries. It may also facilitate the building of a positive relationship with the beneficiary, since on a claimant’s first visit to an income support office, the assessment officer is able to verify the claimant’s eligibility not only for first-tier benefits, but also for second-tier assistance programmes.

Nevertheless, despite these system enhancements, it is likely that checking eligibility for second-tier assistance programmes which are targeted on the basis of need will still involve an element of intrusiveness, because to establish need, it is necessary to undertake a more detailed enquiry into the personal and financial circumstances of claimants. Eardley et al. (1996) note that, for this reason, the special benefit programme in particular, with its more rigorous eligibility test, might be regarded as stigmatising, although they concede that there is no empirical evidence on this.

Stigma

Stigma arises when claimants (or potential claimants) of income support feel that, as a result of the process of claiming public assistance, or simply by virtue of the fact that they are receiving public assistance, they are marked out from their fellow citizens as different in a negative sense. In many European countries, the distinction between social insurance programmes (entitlement to which is based on contributions and which are not means-tested) and social assistance programmes (which are not based on contributions but funded from taxation and which are means-tested) in itself tends to serve as such a marker, by virtue of these different attributes of the two types of programmes. For this reason, much of the debate about means-testing of social security in Europe tends to focus on the issue of stigmatisation. Means-tested programmes in Europe often tend to be regarded as stigmatising per se.

New Zealand does not have such a distinction in its social security arrangements. Indeed, it has a long tradition of means-testing in these provisions (as I have noted earlier in this paper). This means that means-testing does not of itself carry such pejorative associations in the New Zealand context. Indeed, means-testing is widely supported as a means of ensuring that assistance is available to people when they are without any other source of income but is withdrawn once they are again in receipt of income from another source. Regarded from this perspective, rather than
carrying negative associations of stigma, means-testing carries positive associations
of fairness in the way it allows resources to be allocated to those who need them.

Stigma is therefore likely to arise in New Zealand from other causes than from the
existence of means-testing. In particular, where public attitudes to receipt of income
support assistance are largely negative, where the process of applying for
assistance involves detailed and intrusive enquiries into personal and financial
circumstances, where particular programmes are marked out as being available for
special cases of need, and where the level of payment is insufficient to support
people at an adequate standard of living, stigma is more likely to be a problem.
There is little empirical information available on public attitudes to receipt of income
support in New Zealand. The general tone of public debate does not reveal any
large-scale antipathy to those on income support, although pockets of such opinion
do exist.

It is rather the other factors cited above which may give rise to stigma. The basic
first-tier benefits do not generally involve either intrusive enquiries into personal and
financial circumstances or the setting aside of some categories of assistance for
cases of special need, but these are both prominent features of some second-tier
programmes. This is the reason, for example, why the special benefit programme
was singled out for special mention as potentially stigmatising by Eardley et al.

The issue of the level of assistance, and whether it is sufficient to support people
who are reliant on income support at an adequate standard of living, has been the
subject of much recent debate in New Zealand. It is generally agreed that the level
of benefits were sufficient to this purpose prior to the cuts in benefit rates in 1991.
Since that time, there has been a vociferous public debate on the matter, with
lobbyists, led by church and community leaders, arguing that the cuts were too harsh
and that these have led to significant increases in poverty among beneficiaries.

There is no doubt that these changes did have a significant impact on the living
standards of beneficiaries and the growth of the demand for assistance from food
banks also suggests that many people are finding it difficult to maintain themselves
and their families on the benefit. This suggests that the benefits cuts may have led
to an increase in the degree to which the income support system give rise to stigma,
since the process of seeking assistance from food banks run by voluntary agencies
to top up the state benefit is likely to be highly stigmatising.

**Effects on social solidarity**

Many commentators on the welfare state warn against the use of targeted support
because of its potentially negative effects on social solidarity. These arguments are
again often likely to be influenced by the fact that, in systems largely based on social
insurance principles, the process of contributing to a communal fund which provides
assurance against unanticipated misfortune is considered to afford a sort of social
glue. Means testing, in this view, would be likely to dissolve these bonds by
attenuating the link between contributions and entitlements, which is what principally
underwrites the commitment of contributors to these schemes.

Once again, in the New Zealand case, the argument does not quite fit. Indeed, it
could be argued that almost the reverse may be more likely to be the case - that it is
the presence of a means test which provides a basis for widespread support for
social security in New Zealand, because of the way this allows support to be directed to those who are in need of it until they are able to become self-supporting and excludes those who do not need assistance from claiming an unfair share of resources.

The arguments about social solidarity in New Zealand are grounded differently. A bigger threat to social solidarity is perceived to derive from the emergence of long-term dependence on social security among a significant sub-group of the beneficiary population. This is held to have a number of deleterious effects, including marginalisation of people who become dependent for long periods on income support, progressive atrophy of work skills and consequent reduction in chances of effectively competing in the labour market as time on benefit lengthens, diminished developmental opportunities and reduced life goals for children who grow up in such an environment, and increased chances of spending much of the future in straitened financial circumstances. For this reason, much of the focus of recent debate in New Zealand has been about means of combating long-term dependency on welfare.

The issue of the impact on social solidarity is also related to the issue of stigma discussed above. If the process of applying for social security (or indeed the very fact of receipt of social security) is stigmatising, this is likely to have divisive social effects and to risk the creation of an underclass of people who feel themselves to be excluded from the mainstream. If this were combined with both a level of serious financial deprivation and an increasing tendency for particular groups to become trapped in long-term dependence on social security, there would be likely to be significant risks of adverse long-term consequences for social solidarity. The recent focus on combatting long-term welfare dependence is likely to reduce these risks. However, as the above discussion suggests, other recent developments may tend to work against any gains made in this direction by increasing both the level of financial difficulty and degree of stigmatisation experienced by beneficiaries.

CONCLUSION

An examination of the early origins of the New Zealand social security system shows that it is deeply rooted in a tradition of targeted payments to people in need. The decisions by early legislators, which progressively built up a system of categorical, means-tested, non-contributory benefits and pensions funded from general taxation, were endorsed by successive generations which continued to develop the system around these fundamental design parameters. Indeed, it might even be said that these characteristics of the system have been bequeathed down the years as fundamental design axioms for the social security system.

There have been some very important exceptions to this general model, but these have been special cases. In particular, the universal family benefit, which was instituted immediately after the close of the Second World War, owed its genesis in great part to the government’s desire to signal a return to the normality of family life, to boost the birth rate and to free up jobs for returned servicemen which had been taken up by women in response to a call to work to support the war effort. As time passed and these goals were achieved, the value of the benefit was allowed to atrophy away, until it was abolished in 1991. It was replaced by a targeted system of family assistance payments directed towards low-income families.
The other main exception to the prevailing mode of means-testing has been pensions, which has stood apart from other social security arrangements. Pensions policy has been somewhat confused in recent years, as the matter has increasingly become politicised. Indeed, the different policies of different governments since 1975 have almost run the full gamut of available solutions, including a mandatory contributory scheme, a tax-funded universal scheme, a tax-funded means-tested scheme and a dual tax-funded system, partly means-tested and partly universal. A national referendum in September 1997 voted down, by a resounding margin, the proposition that the existing public scheme be replaced by a mandatory private scheme.

The preference for a public system has thus been endorsed, but there is still debate about whether this should be a universal or a targeted system. The present arrangements centre on a public scheme, means-tested via a surcharge on additional income, although the surcharge is to be abolished in 1998. Many commentators believe that there remains a need for targeting of the pension, however, and that a search must now be mounted for a new targeting method to replace the surcharge. There is clearly still more mileage in the issue.

In the other reaches of the social security system, recent changes have intensified targeting efforts, as the system has been adapted to government’s twin goals of redirecting assistance to those most in need and sending amplified signals to beneficiaries that they are expected to step up their efforts to become self-reliant. This has involved both carrot and stick approaches - the former including increased assistance for beneficiaries in work, refinements to the abatement regime to provide better returns for part-time work, and facilitative case management approaches to work with beneficiaries aimed at assisting them to take steps to become self-supporting; and the latter including tighter restrictions on eligibility for income support, increased work-testing requirements for certain groups and reductions in the basic rates of benefits to provide a stronger incentive for beneficiaries to seek work.

The consequences of these changes have been manifold. While there have been some improvements in areas of concern (for example in reducing the degree to which beneficiaries are facing high effective marginal tax rates across a wide spectrum of the income range and in providing additional assistance to meet the needs of people in special circumstances and with special needs), the effects have been less positive in other areas.

In particular, as the use of targeting techniques is expanded to other areas of social policy, there remains a lack of co-ordination between arrangements in these different spheres, with consequent negative effects for effective marginal tax rates which tend to vitiate the improvements noted above. In addition, the benefit rate cuts in 1991, and the associated move to more extensive use of highly targeted assistance for those in need, may have increased the extent to which the social security system stigmatises its recipients, with consequent negative impacts for social solidarity.

In addition, the benefit cuts of 1991 were largely responsible for the rapid expansion of demand for assistance from food banks (which increased by over 700% between 1990 and 1992 on Salvation Army figures) and also contributed to the widening of income inequality over the past decade and a half (although there were also other, perhaps more significant, influences behind this growth in inequality).
This somewhat negative view of the impact of the recent changes should perhaps be balanced by other considerations. Some commentators have argued that the 1991 benefit cuts were the most significant single contributor to economic growth after 1991 by releasing otherwise locked-in labour. According to this view, future growth is likely to be slower because a cheap source of accessible labour has now been drawn on. The benefit cuts can then be viewed as having both positive and negative effects - by making conditions more difficult for those who remain on benefit but by increasing the opportunities for others to move off benefit and into work.

The recent changes to social security in New Zealand, and in particular, the benefit cuts of 1991 can be seen as a response to what Besharov (1997) characterises as a true dilemma facing policy makers: a hard choice between equally unsatisfactory alternatives involving social and ethical trade-offs of the highest order. It is sobering to note Besharov’s conclusion that such choices will increasingly come to dominate the policy agenda for the foreseeable future as needs, resources, attitudes and political forces shift.
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