THE INVESTMENT APPROACH TO RECENT WELFARE REFORMS IN NEW ZEALAND: LESSONS FOR AUSTRALIA

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BACKGROUND

• Centre-right coalition, government-appointed Welfare Working Group, 2011

• Problem: Long-term benefit dependence

• A solution: An investment approach, drawing on lessons from the private insurance sector and ACC

• Many but not all recommendations accepted
AN INVESTMENT APPROACH

• In making quality decisions about spending today, consider people’s social and economic outcomes now and into the future

• In itself, uncontroversial

• Specific approach: Manage welfare system performance and resource allocation of Active Labour Market Programmes in terms of “Future liability”

• Considerably more questionable
WHAT IS FUTURE LIABILITY? HOW IS IT USED?

- Current and future direct fiscal spending on welfare, discounted over time and summed.
- Residual changes in liability, not due to changes in the economy, attributed to the welfare agency, judge performance. No standard errors.
- Allocation of current resources to maximise reduction in future liability.
- Explicit strong assumption: future liability is strongly and inversely correlated with social wellbeing.
- Tacit even stronger assumption: Agency-induced reductions in future liability causally increase or even optimise social wellbeing.
### Summary of differences and similarities between the New Zealand investment approach and a traditional cost benefit approach to public investment in labour market programmes

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<th>NZ investment approach</th>
<th>Traditional cost benefit approach to investment</th>
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<td><strong>Outcome to optimise</strong></td>
<td>Income distribution to net taxpayers and away from net beneficiaries within the context of current benefit and tax rules</td>
<td>Efficiency in the use of societies’ resources</td>
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<td><strong>Treatment of income transfers</strong></td>
<td>Valued as a dollar for dollar cost - redistributional</td>
<td>Valued at tax deadweight</td>
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<td><strong>Treatment of other costs, including tax deadweight</strong></td>
<td>At accounting cost (no tax deadweight)</td>
<td>At opportunity cost</td>
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<td><strong>Valuation of positive employment outcomes</strong></td>
<td>At zero (only benefit savings are valued)</td>
<td>At dollar earnings</td>
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<td><strong>Treatment of money flows over time</strong></td>
<td>Inter-temporal discounting to a present value</td>
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The NZ investment approach is about valuing an income redistribution, not efficient resource allocation.

Welfare systems have multiple, sometimes conflicting objectives and cannot be managed by a dominant maximand.

Do a social cost-benefit analysis when people and their children leave the welfare system as a consequence of policy decisions, and explicitly state distributional consequences.

Too costly?

For data reasons, easier in NZ than in AUS, since people exiting the benefit system can be observed in the NZ PAYE income tax data & other admin data.

Benefit exit survey and HILDA not enough?
THE END, THANK YOU!