Progressive Thinking:
Ten Possible Futures for Public & Community Services

The welfare state beyond COVID-19: the case for a step-change

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It is over 80 years since the Social Security Act in 1938 solidified and extended the foundations of New Zealand's welfare state. But this landmark legislation never fulfilled the ambitious goals of its instigators for a fair and inclusive society. Moreover, over recent decades the fabric of the welfare state has become increasingly frayed and tattered.

The COVID-19 pandemic has not only laid bare various long-standing problems; it has also generated substantial new policy challenges. Equally, however, the pandemic has demonstrated the capacity for prompt and effective governmental measures to protect the public interest when societal need and political will coincide.

With the worst of the health impacts of the pandemic hopefully behind us, at least in New Zealand, there is an opportunity to rethink and refresh the design of our welfare state. Arguably, given the scope and scale of our social problems, a step-change is required, not mere tinkering (for a fuller account, see Boston, 2019).

Three problems which preceded COVID-19 warrant particular attention. First, the level of income support for many of the country's most vulnerable citizens is utterly inadequate. This includes many single people as well as families with children. To quote the 2019 report of the Welfare Expert Advisory Group, 'many New Zealanders are living in desperate situations' with existing income support arrangements failing 'to cover even basic costs for many people'. As a result, there are significant rates of material hardship and financial stress.

COVID-19 has almost certainly exacerbated the extent of deprivation. To be sure, the government's various economic support packages since March 2020 have helped mitigate the worse impacts of the pandemic. The measures have included: comprehensive wage subsidies; a modest increase in core benefit rates and the winter energy payment; changes to the in-work tax credit; and a new, temporary COVID-19 income relief payment. Realistically, however, New Zealand can expect much higher unemployment over the medium-term, with greater income insecurity and material hardship.

Second, and closely related to this, there are multiple and serious housing issues. Among other things, there is an inadequately supply of good quality yet affordable rental accommodation, there are significant levels of homelessness and overcrowding with long waiting lists and waiting times for social housing, and home ownership rates are at their lowest in three generations.

Third, the welfare state is beset with injustices, inconsistencies and perverse incentives. To mention just a few:

- the country lacks a principled and comprehensive approach to the indexation of all forms of social assistance and income tax rates;

- income support arrangements differ for those who suffer equally disabling accidents and illnesses;
- dental services are poorly funded relative to most other health services;
- many low-to-middle earners, especially those with children, face very high effective marginal tax rates, thus disincentivizing higher earnings;
- the way income is defined for policy purposes is highly inconsistent; and
- there are multiple discrepancies between the tax system and the benefit system – for instance, in the tax system the unit of assessment is the individual, whereas in the benefit system the unit of assessment varies depending on a person's relationship status.

COVID-19 has exposed many other problems with current welfare state arrangements. One of these relates to inadequate and unfair sick-pay provisions. Another is the fragile state of many charitable organizations which provide vital community services. Yet another is the country's limited investment in active labour market policies. Public expenditure on such programmes is barely half the OECD average. The impact of COVID-19 on employment has required an urgent government response in the form of additional training subsidies and employment-related services.

COVID-19 has also vividly illuminated the often brutal impact of our highly means-tested system of income support. In short, welfare benefits are largely unobtainable for people who lose their job if their partner is in paid employment. Consequently, many families directly affected by the economic impact of the pandemic have faced a dramatic reduction in their household income – no doubt causing a rude shock for many couples, not least middle-income earners with large mortgages or rental payments. Again, the government has felt obliged to respond with a temporary income relief payment for those most affected by the tight means-testing of welfare benefits.

Aside from COVID-19, New Zealand's welfare state must be capable of addressing many other challenges, not least the growing impacts of the fourth industrial revolution, significant demographic changes including population ageing, evolving family structures, and the negative impacts of climate change and ecological degradation.

How, then, should the welfare state be redesigned? Given both the multiplicity and magnitude of the policy challenges, modest tinkering will be insufficient; a more systematic and transformative step-change is required. Such an approach must be founded on well-established principles of social justice; it must uphold the provisions of, and principles underpinning, the Treaty of Waitangi; it must be informed by sound evidence and rigorous analysis; and it must be alert to likely future risks and challenges. The overall goal must be to forge a new social contract between the state and citizens – one that is widely supported and thus politically durable.

Designing and implementing a reformed welfare state, however, faces formidable hurdles. One of these is fiscal. Most of the policy responses needed to address our current problems are fiscally expensive. COVID-19 has been very costly, substantially increasing the level of public debt. Realistically, a fairer and more effective welfare state will require additional public expenditure. This, in turn, will require extra revenue. Yet raising taxes is rarely popular.

Another challenge is time. In many cases there are no quick fixes. Reforming our health care system will take years. Tackling the chronic shortage of good quality housing will take at least a generation, if not more. Long-term policy transformations, however, sit uncomfortably with three-year parliamentary terms.

This highlights the political challenges. Transformative change in a democracy not only requires adept and courageous leadership, there must also be sufficient and durable public support. Yet here a serious problem arises. Survey evidence in New Zealand since the 1980s indicates a steep fall in support for egalitarian and communitarian values, along with the solidaristic policies – such as progressive income taxes and transfer payments – that underpin a modern welfare state. In 2009, for instance, barely 40 per cent of voters favoured measures to reduce income differences between the rich and poor and only half supported progressive income taxes. Similarly, only 45 per cent thought that governments should provide a decent standard of living for the unemployed. Among advanced democracies, only the citizens of Flanders, Belgium, recorded a lower percentage.

COVID-19 may have changed public attitudes in a more solidaristic direction. But this is not yet clear. Be that as it may, part of the explanation for the loss of support for the institutions and values of the welfare state since the 1980s lies in the ascendancy of neo-liberal ideas, along with the increasingly targeted nature of social assistance. In effect, many middle-class citizens are rendered illegible for public support in their times of need, whether in the form of housing assistance, child assistance, unemployment benefits or sickness benefits. Unsurprisingly, taxpayers value reciprocity and mutuality. Exclusion breeds discontent and overrides compassion.

Accordingly, if public support for the welfare state is be rekindled, significant policy changes appear necessary. First, the extent to which social provision is means-tested must be eased, with a greater reliance on universally-funded programmes or more lightly targeted funding arrangements. Examples might include a fully-funded primary health care system, an extension of the universal component of the Best-Start Tax Credit by several years, reduced abatement rates for the Family Tax Credit, and sick pay provisions that are both more comprehensive and more generous.

Related to this, there is a case for cushioning the impact of job losses for those with employed partners. One option would be to disregard the partner's income below a certain income threshold for a period of time (e.g. three-to-six months), thus enabling those affected the opportunity to seek alternative employment without undue financial stress. A more radical alternative would be to extend the contributory principle, which currently applies only to accident compensation, to other forms of income support. The funding of unemployment is an obvious candidate. But any such social insurance scheme for unemployment would need to be mandatory and ensure universal coverage for all those of working age, whether full-time or part-time, employed or self-employed. Otherwise, gender and ethnic inequalities are likely to be exacerbated.

Plainly, too, the current benefit system must be substantially altered. First-tier benefits need to be considerably more generous, thus reducing reliance on third-tier benefits, such as Temporary Additional Support. Equally, if poverty rates are to be reduced significantly and sustainably, the housing crisis must be vigorously tackled. This will require a large and enduring public investment in social housing and concerted efforts to ensure higher rates of home ownership.

Finally, there is a need to revisit important questions surrounding the provision of publicly-funded services, such as health services, social services and elder services. There are multiple policy issues here. Some are largely administrative, such as the design of funding mechanisms and contracting arrangements. Others are more philosophical. These include the appropriate balance of gift and exchange relationships and the proper roles and responsibilities of publicly-owned and managed entities, not-for-profit organizations and commercial organizations. For instance, where should the boundaries of the welfare state be drawn in terms of service delivery and when is reliance on the profit-motive acceptable? Yet other issues relate to training provisions, remuneration systems, pay equity and conditions of employment, as well as the implications of automation, robotics and artificial intelligence. Whatever the answers to such questions, in the short-term it is evident that many community services providers are desperate for greater financial support from the state. If this support is not forthcoming, some charitable providers risk collapse and many vulnerable citizens will suffer.

The fiscal implications of a reformed and revitalized welfare state are huge. Realistically, there is no option but to increase tax rates and secure additional sources of revenue – for instance, via a capital gains tax, inheritance tax or land tax and/or new social insurance levies. Politically, this will be hard. But COVID-19 has created the opportunity for transformative policy reform. What is needed now is a government that is willing and able to seize this opportunity.

References

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