

BENEFIT SANCTIONS

HELP BUT HASSLE WELFARE
REDUCES CHILD POVERTY

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ABSTRACT

Unbeknownst to WINZ, about one-third of unemployment and single parent benefit beneficiaries admit to failing on their obligations to look for work; 10 percent of single parent beneficiaries report to living as man and wife; 10 percent of unemployment beneficiaries work full-time. Benefits conditional on seeking work are highly effective in moving people into jobs that bring their children out of poverty with the help of Working for Families. Any reforms must guard against abuse in an ageing society where fiscal envelopes will just get tighter and tighter. No social safety net can hope to increase benefits and loosen eligibility if it fails to run a tight ship against abuse.

Read my lips - I'm sick and tired of watching the ne'er-do-well nephews sitting on the couch doing nothing, and I, as a Maori politician and a Maori leader, I'm not going to tolerate it any longer.

Shane Jones MP, TVNZ Q+A, 2018

It is a rort, and I have said time and time again in this Parliament that fathers must front up to their obligations, and we will make sure they do, as much as we can... It is not unreasonable to expect that single parents bringing up children on their own identify who in law is the other parent, or to expect that they seek financial support for the child from the other parent. It is not unreasonable to penalise financially those who do not.

Steve Maharey, Minister of Social Development, Hansard 2004

Obligations are a reality in the workplace, in schools and in our relationships. Why wouldn't they be part of the benefit system? Far from being unfair to beneficiaries they ensure integrity and a level playing field for all who have dealings with Work and Income. Beneficiary advocates should support - rather than oppose - obligations because they build public confidence in the benefit system, lift empathy and regard for those who rely on it, and willingness to pay for it. Most New Zealanders believe in a social safety net but also want to trust that it is not being abused.

Lindsay Mitchell

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EXECUTIVE SUMMARY

Winding down sanctions despite extensive benefit fraud

The Labour-led government wants to remove excessive sanctions on welfare beneficiaries despite compelling evidence from data matching of extensive fraud within the existing benefits system. A 2012 data matching study by the Ministry of Business, Innovation and Employment reveals that

- about one in three people on unemployment benefit self-report no current job search activity in the Household Labour Force Survey in the past four weeks;
- about one in five people on the unemployment benefit self-report no job search activity and no intention to seek work in the next year;
- about 10 percent of unemployment beneficiaries self-report working full-time;
- one-third of work tested domestic purposes beneficiaries with children over the age of 6
- were not meeting their job search obligations; and
- one in 10 single parents' beneficiaries self-report that they were married or partnered.

Benefit fraud is not a myth or a tiny problem. There is good evidence that it is widespread.

MBIE was too busy to chase up suspicions of fraud

The Ministry of Business, Innovation and Employment sat on the 2012 study of benefit fraud for three years because it said it had other priorities. The study was begrudgingly released after a complaint to the Ombudsman under the Official Information Act.

Ministers and working groups were kept in the dark

The Ministry of Social Development has never heard of the 2012 study. It labours under the misapprehension that benefit fraud is a tiny problem. The ministers and the expert working group briefed by the Ministry of Social Development are equally in the dark.

Shine a light on fraud

The Ministry of Business, Innovation and Employment was plain wrong to conclude that chasing up suspicions of widespread benefit fraud is a sundry priority that can wait to another day, if ever. The first duty of every agency is to follow-up suspicions of fraud and inform the proper authorities.

Most benefit sanctions are because of in-your-face non-compliance

Rather than WINZ having a toxic culture, badgering beneficiaries day in and day out over their eligibility, two thirds of the sanctions on unemployment beneficiaries is for non-compliance right under WINZ's nose such as beneficiaries not showing up for appointments. Most of the rest of the WINZ sanctions are for not preparing for work. Tipoffs lead to several thousand overpayments being identified each year and several hundred almost always successful prosecutions for fraud.

Mothers on the benefit should name the father so that he pays child support

One-fifth of sole parent beneficiaries decline to name the father, which results in initially a deduction of \$22 per week per child. Currently, \$186 million in child support is deducted dollar for dollar from the benefit for single parents. The average deduction is \$1000. The new government's plans to remove this obligation will encourage all single mothers to not name the father and make private arrangements for cash. The temptation is obvious. The existing law exempts mothers from naming the father where

there is a risk of domestic violence or there was sexual violation.

WINZ is a bureaucracy no better or no worse than any other

There is no doubt that WINZ is a large bureaucracy that will mishandle the claims of some benefit applicants and can come across as insensitive and a little bit intrusive. A leading reason for the compliance driven bureaucracy at WINZ is benefit fraud, fraud that too many beneficiary activists seem to condone. The reason why there are delays in processing urgent applications for social housing, emergency grants and for benefits is some of the applicants will make fraudulent claims. Activists should but don't have a dark place in their hearts for these fraudsters that make it more difficult for genuine applicants to have their claims processed quickly.

Road testing the Greens' relationship reforms for the single parents benefit

The Canadian province of Ontario has road-tested the proposal of the Greens to continue paying the single parents benefit unless the married parents are living together or there is a continuing relationship of 2 years, long enough to be subject to the Property (Relations) Act. In common with the Green party, Ontario could not work out where to draw the line on relationships that do or do

not count for the purposes of eligibility for a single parents' benefit, so it gave up.

Welfare caseloads doubled

When Ontario adopted a rule in 1987 almost the same as that proposed by the Greens, the number of single parents on the benefit quickly doubled from 97,000 to over 200,000.

Prior to the adoption of their new relationship rule, provincial ministers bragged about how other provinces will follow their reform because of the savings on administration and litigation. Instead, the provincial budget blew out by \$2 billion. In 1995 the fiscal crisis led to the election of a Tory government that cut most benefits by 20 percent and introduced home visits to verify domestic relationships. The number of single mothers on the benefit dropped by 59 percent in short order.

Relationship formation is surprisingly responsive to incentives

Couples are surprisingly flexible about whether to marry or stay living together if that changes their eligibility for social insurance. When Sweden replaced its widow's pension with a means tested single parents' benefit but grandfathered pension eligibility for mothers married before New Year's Day 1990, the number of marriages in December 1989 increased from the usual 2,500 to 3000 to 64,000. When the Québec and Canadian pension plans removed remarriage as

a cause to terminate survivor benefits in the mid-1980s, widow and widower remarriage rates increased by 50-100 percent. When the US Social Security scheme allowed widows aged up above 60 to remarry without loss of a benefit, remarriage rates increased by 75 percent after 60th birthdays.

Twice as many sole parent beneficiaries, costing \$1.1 billion

The experience with marriage booms in Sweden, Canada and the US suggest there is a major fiscal risk from defining relationships in the way the Greens propose. The number of single mothers on the benefit most likely will double under the Greens' proposals if the experiences in Sweden, Canada and the USA in far more socially conservative times about living together are a guide. A doubling in the number of single parent beneficiaries is another \$1.1 billion in taxpayer's money. The Greens appear to have costed their sole parent benefit relationships reforms in the last election as revenue neutral and even as saving \$36 million on the administration and litigation around the current rules.

The Greens will make marrying a bad investment for parents to be

Under the Greens proposal that single parents' benefit is paid as long as parents do not marry and live together or have not lived together for more than 2 years, every first child would be born out of wedlock. It would be bad financial planning for any parent to marry until they have

exhausted their possible claims against the benefit system as a single parent; \$16,000 per year is the prize.

Targeting makes the welfare budget stretch further

Removing more and more sanctions from the benefit system could be a backdoor to introducing a universal basic income by paying benefits with fewer and fewer questions asked.

The new government must face up to the reality that the welfare budget stretches further through targeting. Strict monitoring of eligibility and of job search allows those benefits to be more generous without encouraging long-term welfare dependency. Child poverty will be entrenched if there are more and more households where no one works, or no one works full-time.

There is no practical alternative to a targeted welfare state

Even the Labour Party realised in opposition as part of its Future of Work project that a universal basic income was an enormously expensive way of making all those for whom the welfare state was invented to protect from poverty and misfortune worse off. For example, the Labour Party noted that the Morgan foundation proposal for an \$11,000 per adult basic income would make single parents \$150 per week worse off. A 20 percent increase in tax revenues was required to pay for that universal basic income which was still wholly inadequate as income support for single parents.

European welfare states are generous because they are targeted

One of the reasons why continental European welfare states have rather generous replacement rates for unemployment insurance, up to 70 percent of old pay, is they also have rigorous monitoring of job search and expectations of retraining if unemployed for any length of time. When European unemployment rates rose to 10 percent and average length of unemployment ballooned out to at least one year, the continental European welfare states intensified monitoring of job search and there were many field trials of different ways to encourage movement back to work.

The budget is just getting tighter and tighter with little headroom for spending growth

The growth in government largely stopped all around the world in the 1980s. Raising taxes was no longer a serious option to pay for social spending at 1980s rates of generosity, much less to pay for the costs of an ageing society in terms of old age pensions and health spending. Governments all around the world had to find more efficient ways to raise and spend taxes. This brought pressure on welfare benefits for working age people to be lean and trim.

More efficient taxes and targeted social spending postponed the day in which real cuts would have been made on health or education or old age

pensions. More efficient taxes allow the same or more revenue to be raised for less political pushback from the middle-class paying high marginal tax rates.

An intergenerational tug of war between seniors and working age over social spending

Nonetheless, the day of reckoning is coming in New Zealand and overseas about how to pay for age pensions and ballooning expenditure on health, pharmaceuticals and old age homes. With the older voting bloc encapsulated by Grey Power protecting their patch, it is not a way to win that generational tug of war by weakening sanctions in a benefit system plagued with fraud.

Tolerance of benefit fraud, and proposed reforms that will make it easier to receive cash under the table, gives a free kick to Grey Power when competing for a fixed social spending budget. It is easy to discredit those lobbying for more generous benefits if many existing beneficiaries make false claims and have cash coming in off the books. Money is tight in the 21st century fiscal planning because of an ageing society. A hard line against benefit fraud is essential to political credibility.

A full-time job is the best answer to family poverty

The best solution to child poverty is to move the parents into a job. Full-time employment even at low wages is enough to move many children above most poverty lines with the assistance of existing family tax credits and

other income support.

Benefit sanctions nudge more beneficiaries into jobs

There is compelling overseas evidence that the threat of stronger sanctions and closer monitoring of job search nudges many more unemployed into work; increases job finding rates by 25 percent or more. Instead, the Labour-led government wants to ease up on sanctions when sanctions is the most effective fiscal tool at their disposal to reduce child poverty by moving their parents into work.

The most surprising overseas findings is that much of the improvement in job finding rates comes from the receipt of a letter from the local employment office asking for an interview or evidence of job search. A good percentage of the unemployed find a job soon after this additional scrutiny. Sanctions are rarely applying. Many find their job before their scheduled interview. This additional scrutiny, this additional hassle is surprisingly effective in moving the unemployed into jobs.

The new government can't reduce child poverty by increasing welfare dependency

The new government wants to ease up on the very sanctions that nudge beneficiaries into employment. Children in poverty are not served by more and more children living in poor families when no one works, or no one works full-time. People are well able to improve themselves if given a

bit of a nudge by the possibility of sanctions for not looking for work when required to do so.

The Labour-led government instead wants to weaken incentives for self-help. That will increase child poverty. An effective benefit sanctions regime can nudge more beneficiaries into work and their children out of poverty with the help of Working for Families and other income support.

Work tested beneficiaries should sign on every month, not every year

An administratively simple way to reduce child poverty is to require work-tested beneficiaries to sign on monthly at WINZ. Overwhelming overseas evidence as well as a recent field trial by WINZ show that increased monitoring of job search and more frequent contact with case workers can nudge up to 10 percent of work-tested beneficiaries into a job and their children out of poverty.

Marriage and relationships revolutionised over the 20th century

The Greens' proposal for looser definitions of relationships are an earnest attempt to resolve the meaning of relationships in the 21st century. Far fewer women are marrying before they have children. Many more women may even be living with the father but regard themselves as independent of him. Modern relationships do not fit into neat little boxes anymore. The Greens are right to ask whether the way we administer sole parent

support kept up with social change.

The range of technological advances accumulated in the 1960s to liberate mothers from much of their 30 hours of housework per week and made work less exhausting because of the rise of jobs in the service sector that relied on brain rather than brawn. The diffusion of labour-saving household appliances was a major engine of liberation. Women could both have a family and a career.

The emergence of reliable contraception over the 1960s made it possible for women to plan the number and spacing of the children. Contraception broke the link between couples pairing off and an implied or express promise of marriage in case of the baby coming along unexpectedly.

An underrated factor in the decline of marriage is medical progress. The single parents' benefit was introduced about 50 years ago. Fifty years prior to that, about one in 20 women died in childbirth and one in 5 was severely disabled by complications of delivery and pregnancy. Becoming pregnant was simply the most dangerous thing a woman could do.

The promise to love and cherish in sickness and health was a very important promise prior to the 1950s because of the great medical risks of pregnancy. By the mid-20th century the average period of disability from pregnancy for women dropped from two years to about two weeks. Marriage was an

essential precondition to having children because the risks of illness and disability were just so great.

Only as recent as the 1960s, not that long before single-parent benefits became common, women could risk pregnancy and choose to raise the child on their own and be confident they would be healthy enough to do so. Medical progress was an important and understated factor in allowing women to choose to raise children on their own without marrying or after a divorce.

The power of the pill

Safe reliable contraception from the 1960s allow women to invest in long duration professional education, graduate school and still hold their place in the dating and marriage markets. Power couples emerged when they met up in the workplace rather than university or school. Power couples delayed having children until both had well-founded careers.

For women not on a trajectory to university, their ability to raise children on their own was strengthened by the same technological progress that helped middle-class women but too few good men were left in the dating pool. Many less educated women preferred to stage single and raise children on their own.

Marriage then baby carriage or baby then maybe marriage if he smartens up?

Low educated women saw no reason to wait and indeed

looked down upon women who waited. They saw these women who waited as missing out. They did not see a teenage pregnancy through the lens of middle-class parents terrified that their teenage daughter will miss out on university.

Young mothers and young fathers regard their often-unplanned baby is a blessing; they clean up their act, stop drinking and taking drugs, leave gangs or a life of petty crime and for the first time in their lives they have a purpose which is to raise a child. The sole parents' benefit is premised on more middle-class values that regard a teenage or early pregnancy as an accident. For young, low income mothers, babies were not blunders that disrupt their education and career.

The single mother's benefit was based on 1960s assumption about people going steady with a wry eye towards marriage. Now there are a wide range of relationships with the father of the children of single mothers. Many never planned to marry the father and when they do move in together they take considerable precautions to ensure that they can have a quick exit. Co-signing the lease with a father of the child is seen as a major barrier to a fast escape from a failing relationship. Low income, less educated mothers are surprisingly pragmatic about the risks of relationships.

No neat little relationship boxes for single parent benefit administration

There is no obvious solution to how the welfare state is to cope with the proliferation of single parents who have relationships with the father but regard themselves as completely independent of him. There are no more neat little boxes where people are either single or married or otherwise in a long-term relationship. With a high-level fraud already in the welfare system, the messy status quo may that be the best of the bad options available for delivering a single parent benefit.

1 WHAT REFORMS DOES THE LABOUR-LED GOVERNMENT WANT?

1.1 Winding back welfare benefit sanctions

The Labour-led government was elected on a policy of removing excessive sanctions and penalties from the benefit system as well as increasing its generosity. The flagship proposal of the new Minister for Social Development is removing the penalty under Section 70A of the Social Security Act on beneficiaries who refuse to name the father. As of March 2017, releases under the Official Information Act reveal that 13,616 sole parent families receiving a benefit (17.7 percent) were affected by the Section 70A policy, losing \$22 per week for each child they refused to name the other parent; after 13 weeks, a further \$6 per week is deducted. There are statutory exemptions from the requirement to name the father in cases of abuse or threats of violence. All but about 300 of the parents on the sole parent benefit who are not naming the other parent are mothers.

Allowing beneficiaries to not name the father will make it more difficult to chase dead beat dads for child support and increase the possibility that cash deals will be made. The current system deducts child support dollar for dollar from the benefit. This is to ensure benefits are targeted at poor mothers (and

fathers) but not the well-to-do receiving ample child support from the other parent. It would be naive to deny that at least some mothers refused to name the father because they are better off having their benefit reduced by \$28 and the father making that up and more in cash.

About 9.6 percent of the working age population, 273,387 people, are on a benefit (see graphic).

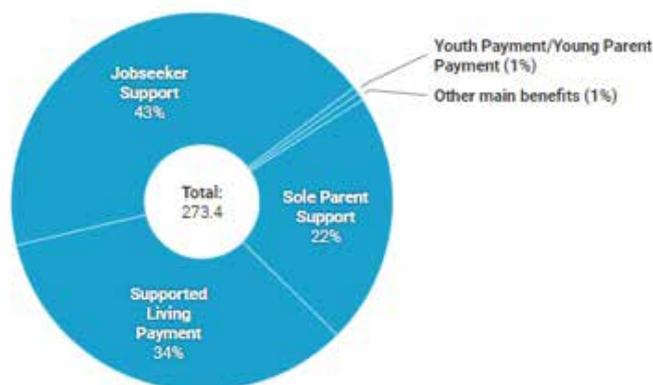
Prior to the last election, there were a range of sanctions for non-compliance with obligations and conditions attached to receiving a welfare benefit. There are three types of sanctions: graduated (a percentage reduction in benefit amount), suspension and cancellation.

Sole parents and couples with dependent children face a maximum 50 percent reduction of their main benefit when sanctioned within a 12-month period. For beneficiaries with no dependent children, the first sanction is a maximum 50 percent reduction of their main benefit; for a second failure, they face a 100 percent suspension of their main benefit; and a third sanction will result in the main benefit being cancelled. The simplest way to avoid these sanctions is for beneficiaries to meet their obligations to look for work, if that is required, fill out claim forms honestly and completely and keep WINZ fully informed of changes in their circumstances.

Prior to the last election, between 15,000 to 18,000 beneficiaries were sanctioned

273,387 working-age people receiving a main benefit

31-Mar-18



Source: Ministry of Social Development • Get the data • Created with Datawrapper

At <https://datawrapper.dwcdn.net/KraxP/1/>

for failing to meet work obligations. Between September 2015 and September 2017, the main reason for sanctions (62 percent of cases) was due to a failure to attend arranged appointments. The remainder were sanctioned for either a failure to prepare for work or to participate in work. The impartial spectator might consider a key skill in finding and keeping jobs is to be friendly and reliable. Not showing up for appointments without a good excuse is not helping yourself find work. Releases under the Official Information Act from the Ministry of Social Development also show that about two dozen WINZ clients are sanctioned every quarter for turning down job offers.

1.2 What do the parties want to change? What is their cost?

A short summary of the policy of the Labour Party is

- Remove the sanctioning of sole parents who don't identify the other parent of their child under Section 70 of the Social Security Act to prevent ongoing discrimination against sole parents and undue hardship on children;
- Undertake a review of work obligations for beneficiaries with young children; and
- Lift the abatement threshold for beneficiaries to \$150 to enable more part-time and casual work to help beneficiaries transition to full employment.

The proposals of the Labour Party lack particulars to attempt a costing. The Labour Party appears to be waiting for the report of the Welfare Experts Advisory Group before showing its hand. What can be said is \$186 million in child support appears to be retained by the Crown to offset against benefits paid to single parents and the average sum in child support retained is about \$1000 per year.

The Greens have a much more radical and much more specific program that on closer inspection has so few conditions that it is in effect a universal basic income. The Greens promised to

- Increase all core benefits by 20 percent;
- Increase the amount people can earn before their benefit is cut;
- Increase the value of Working for Families for all families;
- Create a Working for Families Children's Credit of \$72 a week; and
- Remove financial penalties and excessive sanctions for people receiving benefits.

A long-time supporter of a universal basic income, the Greens say that a "simple and stable incomes system will provide parents with the support they need to raise their kids and improve their lives." The Labour and Greens confidence and supply agreement includes a commitment to

Overhaul the welfare system, ensure access to entitlements, remove excessive sanctions and review Working for Families so that everyone has a standard of living and income that enables them to live in dignity and participate in their communities, and lifts children and their families out of poverty

This commitment to generosity raises the obvious tension over whether the level of support from the benefits system should make it a safety net or generous enough to be a viable lifestyle choice for healthy adults able to seek and find full-time work. As the table on page 15 shows, the 20 percent increase in the three main benefits proposed by the Greens during the 2017 election will cost \$870 million. If 10 percent more stay on the main benefits, the taxpayers are up for an additional \$522 million on top of the \$870 million. Subsequent chapters will show that a 10 percent increase in welfare dependency is a modest behavioural uplift.

There is also the possibility of a demand for a flow on of the 20% increase to New Zealand Superannuation and veterans' pensions. That is another \$3 billion that taxpayers would have to find. The Greens also want to increase student allowances by 20% which will cost another \$100 million. To put a scale on the billion-dollars the Greens want to spend on benefit and student allowance increase, the most recent family package by

the Labour-led government cost about \$1 billion.

1.3 The 2018 Welfare Experts Advisory Group

Soon after the 2018 budget, the Minister of Social Development announced the formation of an 11 strong working group to review the welfare benefit system. Among its terms of reference was:

changes to obligations and associated sanctions applied to beneficiaries to ensure alignment with the Government's vision

The vision of the Labour led government in the expert advisory group's terms of reference is:

2. *The Government's vision is for a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities.*
3. *The welfare system is part of an integrated Government approach that enables people to be earning, learning, caring or volunteering and ensures a dignified life for those for whom these options are not possible.*
4. *This Government*

acknowledges that an improved social welfare system is also an important lever to achieve one of its main priorities of improving the wellbeing of children, especially those who are economically disadvantaged, and to reduce the rates of children experiencing poverty. The emphasis of our social welfare system is on delivering compassionate, timely and appropriate support for those in need.

The Welfare Experts Advisory Group has started its public consultation process.

1.4 If the Greens lose Max Rashbrooke, they've lost the country

The Greens doubled down on their 2017 election promises with their recent campaign to put a heart back in the social welfare system. Their proposals to remove all sanctions on benefits rather than just excessive sanctions was a bridge well too far even for inequality writer Max Rashbrooke (see adjacent tweet).

This failure to distinguish between excessive sanctions and all sanctions for non-compliance with benefit conditions was not bad drafting or compressing a message into a tweet. The Greens, in their 2017 election policy Mending the Safety Net (p.6), denounced

work-testing of jobseeker support, sole parent support, and disability support payments as an 'excessive burden on people'. The Greens want to free unemployment beneficiaries of any obligation to look for work. The Greens promised to remove 'work testing for sole parent support, jobseeker support and disability support'. They want to free sickness and disability beneficiaries of showing 'repeated proof' that they are still unable to work. These proposals will turn benefits into a basic income for the workshy. If the Greens can even lose Max Rashbrooke, they risk dealing themselves out of the top table for policy-making.

The rest of this paper makes the case for a targeted welfare state with sanctions to back-up the conditions of benefit eligibility to ensure beneficiaries honour their obligations of self-help. Doing your best to find work is a reasonable condition on benefits for healthy adults (including those with school-age children). Working for your living is a central expectation of adult life.

Green Party welfare reforms costings

	Budget 18/19	Pay 20% more	10% behavioural uplift ((col 1 +2) * 10%)
Jobseeker Support	1712	342	205
Sole Parent Support	1084	217	130
Supported Living Payment	1555	311	187
TOTAL	4350	870	522



Max Rashbrooke
@MaxRashbrooke

Following

Surely there's a difference btw removing "excess sanctions" and a "sanction-free" welfare system (both used below). Assume Greens actually aiming at the former, as the latter would imply no withdrawal of benefit even if you flout all rules.



Greens campaign for sanction free welfare system

The Greens are renewing calls for welfare reform that were over-shadowed by former co-leader Metiria Turei's admission of benefit fraud last year

radioric.co.nz

4:31 PM - 29 Sep 2018

2 BENEFIT FRAUD IS FAR FROM A MYTH

2.1 How much fraud is detected?

The Child Poverty Action Group is among the activists who stoutly dismiss benefit fraud as a myth:

Supporting people in adverse circumstances, including through welfare benefits, is what our social insurance system is designed to do; accepting that support is not 'ripping off the system'. Benefits are provided only after strict criteria are met. Benefit fraud amounts to 0.1% of all benefits paid. Benefit fraud by beneficiaries can result in charges under both the Crimes Act and the Social Security Act. The courts take benefit fraud by beneficiaries very seriously and regularly impose harsher custodial sentences on so called 'welfare cheats' than on tax evaders (Dale 2014).

An Official Information Act release by the Ministry of Social Development revealed that in the year to March 2017, there were over 11,000 tips to a hotline allowing anonymous accusations of fraud. There were almost 6,000 fraud investigations; over 3,000 of these for allegations of the beneficiary being in a 'relationship in the nature of marriage'. Overpayments were established in 1,800 investigations, with 431

successful prosecutions. Over the years, the Ministry has had a 95 percent success rate in prosecutions. The Ministry said in the same Official Information Act release that it regards benefit fraud as a very small percentage of its over number of clients and transactions.

2.2 The Chapple and Crichton (2012) study of benefit fraud

The Ministry of Business, Innovation and Employment commissioned a study in 2012 of the extent to which unemployment and single-parent beneficiaries meet job search obligations using linked databases. This paper, released under the Official Information Act only after an appeal to the Ombudsman, was written by New Zealand's best social economist, Simon Chapple, and a top-notch labour statistician, Sarah Crichton. Their findings were telling about the extent of benefit fraud.

Chapple and Crichton (2012) linked responses to the June supplement to the Household Labour Force Survey called the Income Survey to administrative data held by the Ministry of Social Development on the payment of unemployment benefits from 1997 to 2012 and the single parents' benefit from 2007 to 2011. Beneficiaries were linked using names, addresses

and dates of birth to match 87 percent of the data.

Chapple and Crichton were then able to ascertain who was receiving benefits when they were not meeting the criteria such as working full-time when in receipt of a benefit or not searching for work when that was a statutory condition of receipt of their benefit. Their major findings were

- About 40 percent of people in work tested benefits were not meeting the labour market obligations because they are either working too much or searching too little.
- About one in three people being paid on unemployment benefit report no current job search activity in the HLFS the past four weeks.
- About one in five people being paid on unemployment report no job search activity and no intention to seek work in the next year... (Chapple and Crichton 2012, p. 1).

They also found that 10 percent of the people on a benefit were working full-time and therefore not eligible for an unemployment benefit (Chapple and Crichton 2012, p. 3). Among those parents on the then Domestic Purposes Benefit, Chapple and Crichton

(2012, p. 5) found that more than one-third of work tested Domestic Purposes Beneficiaries with children aged over the age of six were not meeting their job search obligations after the 2010 Future Focus benefit reforms.

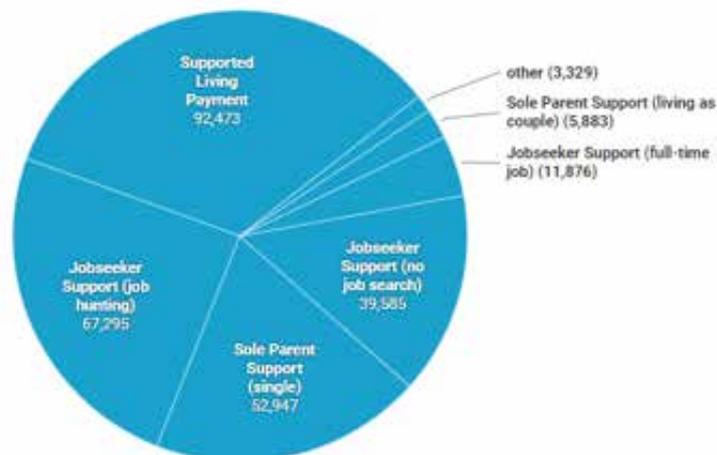
2.3 Too many honour their obligations to WINZ in the breach

Despite breathless rhetoric about a toxic culture at WINZ, hounding beneficiaries to prove their eligibility over and over, many beneficiaries think the odds of detection are so low that they can get away with brazen fraud. One-third of unemployment beneficiaries are not looking for work and one in 10 are working full-time but are still collecting unemployment benefits from WINZ. Chapple and Boston (2014, p. 163) reported that the same linked database developed by Chapple and Crichton (2012) showed that one in 10 single parents' beneficiaries self-reported in the Income Survey that they were married or partnered. They are not eligible for the benefit they are claiming.

Chapple and Crichton (2012) also found systematic differences over the business cycle in the proportion of unemployment beneficiaries who met the obligations imposed on them by law as a condition of receipt of the benefit. They found that the number of unemployment beneficiaries that appeared not to be meeting their obligations, they were full-time employed or not looking for work, drop from 60 percent in 2007 on the eve of the Global Financial

273,387 working age people receiving main benefit

31 March 2018



Source: WINZ, Chapple and Crichton (2012), Chapple and Boston (2014) • Get the data • Created with Datawrapper

Crisis to about one-third in 2012. This suggested that during recessions, most unemployed benefit recipients are genuine jobseekers. In good times, there is reason to suspect that many of those in receipt of the unemployment benefit are not looking for work and a small number have found work but not reported that to WINZ.

To look at the fraud in raw numbers extrapolating roughly from the Chapple and Crichton data, about 40,000 of the 118,000 jobseeker support recipients may not be looking for work, one in 10 sole parents support recipients, up to 6000 in all may be living as man and wife, and nearly 12,000 of the job seekers support recipients are working full-time (see graphic below). That is fraud.

2.4 A lower bound on benefit fraud estimates

Chapple and Crichton (2012) commented that the estimates

are “likely to be an over estimate of the extent to which obligations to the benefit system are being met”. This is two bureaucrats politely saying that some might lie to the Household Labour Force Survey because owning up to benefit fraud might rebound on them and so these estimates should be treated as a lower bound for fraud.

With extensive benefit fraud shown for unemployment and single parents benefit through the linked employer-employee databases, it is not unreasonable to hypothesise that a leading motive for mothers not naming the father is that they can receive more in a cash deal from him. Their benefit is reduced by \$28 per week, but the father makes up for that and more under the table.

If at least 40 percent of welfare beneficiaries own up to working full-time or not looking for work when they should, the system

has a serious problem with fraud. The problem is not of excessive sanctions, the problem is too many beneficiaries defrauding the taxpayer with such impunity. This is not a time to ease up on sanctions and monitoring of compliance with obligations that many shirk. When annual reassessments of benefit eligibility were introduced at WINZ in 2011, depending on which benefit was under review, between one in 10 and one in five beneficiaries did not reapply. They chose to give up the benefit rather than submit to in-person scrutiny of their eligibility.

2.5 The Chapple and Crichton study did not emerge in isolation

For decades now, statisticians have been puzzled by their repeated finding that families living at or below the poverty line often spent well beyond their means. Their recorded incomes were about three-fifths of their spending (Mayer and Jencks 1989). Perry (2017) found implausibly low incomes by the bottom decile of New Zealand households; many of these households were spending much more than the income they reported. Edin and Lein (1997) tried to get to the bottom of US poor families living beyond their means in Making Ends Meet. Their book was a multi-year ethnographic study of how single mothers survived on welfare and low-wage work in four American cities.

Edin and Lein (1997) found that all but one of the 379 single mothers they studied had

extra income from cleaning houses, maintaining apartment buildings, mowing lawns, babysitting, collecting bottles and cans or other poorly paid work. This income in addition to their wages or welfare benefit was nearly always kept off the books from the taxman and from welfare and social housing authorities (Edin and Lein 1997). Child support in cash from fathers and help from boyfriends was kept off the books too. Edin and Lein (1997) invested a great deal of effort in building rapport with single mothers who suspected they were checking up on them on the sly for the authorities.

In one or two of our very early interviews, we felt that respondents who had talked about their income first had adjusted their expenditures downward to fit those descriptions, and almost never talked about outside income. Then, once mothers made the claim that they spent nothing for clothing, school supplies, transportation, Christmas presents, entertainment, and so on, it was very hard to get them to change their stories, even when we ran into them at a bus stop or saw the newly purchased items in their homes. Though we finally generated budgets from these respondents that made sense, it took repeated interactions (twelve in one case) and a lot of persistence (Edin and Lein 1997).

The Chapple and Crichton (2012) study must be putting a lower bound on welfare fraud in New Zealand. Edin and Lein's Making Ends Meet showed that a long effort must be invested in repeated interactions with introductions via networks of friends and local community leaders before trust is fully established and increasingly accurate information is gleaned on what goes on off-the-books.

By and large, someone who is defrauding the system has much to gain from concealing their shenanigans even if they are promised anonymity by Statistics New Zealand. Prior to the study by Chapple and Crichton (2012), impartial spectators might have thought that those in the underground economy might have been rather more discreet about their sojourns into the cash economy.

2.6 Chiselling on sickness and disability benefits

No New Zealand data could be found on the extent to which those claiming sickness or disability benefits do not meet the eligibility criteria for the benefit they receive. There is overseas research on the extent to which sickness, disability and workers' compensation beneficiaries are abused. The best evidence comes by chance from reforms that leave clear breaks between the past and present.

For example, before 15 July 1980, an employee injured in a workplace accident in Kentucky received the compensations proportional to his or her wage

with an upper limit of \$131 per week. On 15 July 1980, this limit was raised to \$217 per week. The better paid wage-earners were substantially better compensated for accidents that occurred after that date. The periods of convalescence of these better-paid workers grew to be 20 per cent longer. For accidents that occurred before 15 July, these employees had been off work for an average of 4.3 weeks; for accidents after 15 July caused the same employees to stay home for an average of 5.2 weeks (Meyer, Viscusi and Durbin 1995).

The average convalescence period for injured workers who were less well paid was unaffected by the rise in the upper limit stayed the same before and after 15 July. It is not credible to suggest that it was a coincidence that workplace accidents had suddenly become more serious for these better-paid workers and only for them after 15 July 1980. They had discretion over how quickly they return to work and when it was cheaper for them not to return to work, they postponed that return.

Gruber (2000) reviewed the effects of an expansion in disability insurance benefits in all Canadian provinces except Québec. This one-third increase in benefits to match the levels in Québec significantly reduced labour force participation by men aged 45 to 59. Increased eligibility for disability compensation for US Vietnam veterans in 2001 resulted in 18 percent of those newly eligible

for the benefits dropping out of the work (Coile, Duggan and Guo 2015). The Canadian and Vietnam veterans' disability compensation extensions show that older workers who were working for many years will drop out of the workforce for more generous disability benefits.

In the past few decades, the number of people who are on disability benefits has skyrocketed around the world but the incidence of disabling health conditions among the working age population is not rising. Autor (2006) found that disability rolls in the USA expanded because:

1. congressional reforms to disability screening in 1984 enabled workers with low mortality disorders such as back pain, arthritis and mental illness to more readily qualify for benefits;
2. a rise in the after-tax income replacement rate strengthened the incentives for lower-skilled workers to seek benefits; and
3. a rapid increase in female labour force participation expanded the pool of insured workers.

Autor found that the aging of the baby boom generation has contributed little to the growth of disability benefit numbers to date. Autor and Duggan (2003) found that low-skills and a poor education is predictor of disability; in the USA in 2004, nearly one in five male high school dropouts between ages 55 and 64 were in the disability

program; that was more than double that of high school graduates of the same age and more than five times higher than the 3.7 percent of college graduates of that age who collect disability. Unemployment is another driver of disability.

It is naive to deny that some sickness and disability beneficiaries take advantage of the system. Those in well-paid jobs are far less likely to spend extended periods on sickness or disability benefits because they are losing more in wages than lower paid workers on these benefits. Disability rates of high school dropouts are several times those of university graduates. At least some of that large difference must arise from the incentive to return to work being greater for the higher paid rather than from some unrelated differences in the incidence of disability by educational attainment.

2.7 Activists should be outraged the most by benefit fraud

Activists should have a special dark place in their hearts for beneficiary cheats. Their cheating on the system undermines public confidence in the safety net and sours attempts to make it more generous. Taxpayers cannot hand out billions of dollars in welfare benefits under an honour system. Right now, there is evidence of systematic fraud. Welfare beneficiary advocates should be appalled. WINZ staff will become jaded and cynical because they know too many of their clients lie to them.

Honest claimants are treated with greater suspicion by WINZ and must go the extra yard to prove valid claims that may need urgent attention such as emergency housing and cash grants.

3 WHAT DID MSD KNOW AND WHEN DID IT KNOW IT?

3.1 Never heard of it

The Ministry of Social Development (MSD) responded to an Official Information Act request this winter on whether they had cited the Chapple and Crichton paper in ministerial briefings or briefings to the Welfare Experts Group by saying they could not find any citation of the paper in their system. Importantly, no staff at MSD could recall of the Chapple and Crichton paper. The new Minister of Social Development and her expert working group are also in the dark about the extent of fraud.

3.2 Up from the memory hole

The Chapple and Crichton 2012 study was released in 2015 under the Official Information Act after an appeal by Lindsay Mitchell to the Ombudsman. The Ministry of Business, Innovation and Employment (MBIE) refused her initial request because the 2012 paper was not completed.

The paper was later released after discussions where Simon Chapple advised the Ombudsman that he had finalised the paper before leaving the then Department of Labour in 2012, and he was advised by management that his paper was to be published after the minister was briefed. The copy of the Chapple and Crichton paper that is now linked

at the Taxpayers' Union website (see references) is formatted for presentation as a finalised paper for a Labour and Work conference in 2012.

The original of the Chapple and Crichton study is instead gathering dust in the computer system of MBIE, fading from its corporate memory. But for the Official Information Act request by Lindsay Mitchell, the paper by Chapple and Crichton would have disappeared down a memory hole.

3.3 The curious case of the incurious bureaucrats

The responses to the Official Information Act requests reveal that MSD knows nothing of the extensive benefit fraud documented by data matching. MBIE's failure to publish the Chapple and Crichton paper and draw it to the attention of MSD let the taxpayer down.

Chapple and Boston refer to the findings of the Chapple and Crichton paper in their 2014 book *Child Poverty*. MSD policy staff must have read this widely-publicised, well-received book. MSD has no excuse for not being curious enough to ask MBIE for a copy of the Chapple and Crichton study. Once the 2012 data matching study by Chapple and Crichton revealing widespread benefit fraud was summarised in the Chapple

and Boston book in 2014, MSD should have known. An efficient and effective Ministry of Social Development has a duty to be better informed than it currently is.

3.4 Too busy to chase up evidence of massive benefit fraud

MBIE sat on its hands after Simon Chapple left the then Department of Labour. The excuses given by MBIE was the Chapple and Crichton paper had not been finalised nor peer-reviewed, the lead researchers had left, and the paper was not taken further because MBIE had other priorities. MBIE could have used its multimillion-dollar research budget to contract back the necessary staff.

3.5 Why was MBIE keeping evidence of fraud under its hat?

Don't taxpayers have a right to know that there might be extensive fraud in the benefit system? The amount of benefit fraud that was identified in the data matching by Chapple and Crichton is truly startling! Despite that, MBIE did not think that an initial finding that well over one-third of work-tested beneficiaries were cheating the system was worthy of any further research or publicity. Suspicion of fraud should always be chased up by whatever agency comes

across it; no excuses, not ever.
MBIE had a duty to the taxpayer
to publish the Chapple and
Crichton paper but it did not.

4 WINZ STUFFS UP LIKE ANY BUREAUCRACY

4.1 WINZ is a nosy parker

The Facebook page We are Beneficiaries documents the dealings of hundreds of people with WINZ. Some find that their documents are lost. Others are depressed and have trouble complying with requirements and showing up to appointments. Still other beneficiaries reveal that they are difficult people to deal with and can be the author of their own misfortunes. One mother decided after eight years on the benefit that she would no longer name the father. He was a dead beat who bolted to Australia and against whom she had good grievances for letting her down on child support. That said, the requirement to nominate the father stands. Another mother got into a dispute with WINZ about whether she could buy a 2nd hand or a new washing machine with a cash grant.

WINZ also cuts off payments in error or because of lost paperwork. WINZ conveniently loses files that would have documented actions exceeding their statutory powers when threatening to cancel benefits. Clients mail in claim forms and then are told they must bring the form again in person. Appointments are sometimes difficult to keep because of a lack of public transport. There are Interviews in open plan

offices that should be in a private room. Caseworkers ask for intimate private information which may or may not be necessary to assess the benefit claim.

The Auditor-General (2014) audited WINZ case management and noted that

Work and Income surveys about 18,000 people each year, including working-age beneficiaries and Senior Services clients. The survey shows that the overall client satisfaction rate has remained stable at about 85% since 2009.

The Acting Deputy Chief Executive of Work and Income provided figures that show that Work and Income carries out 1.77 million face-to-face appointments a year and receives 125,000 telephone calls each week. In 2013, the Ministry received 8000 complaints. Our audit on how the Ministry deals with complaints suggested some potential under-recording of complaints. However, as a percentage of the transactions carried out by the Ministry, the level of complaints is not likely

to be much more than the 0.5% reported by the Ministry.

Beneficiary activists decry a toxic culture at WINZ despite little evidence of that resentment in feedback surveys. The new Minister of Social Development buys into that rhetoric. She does use the word 'toxic culture' but she does want a cultural change. After the election, more WINZ offices with private interview rooms are planned and there will be fewer checks by guards on the identity of visitors to WINZ offices. A change in the handling of benefit suspensions was introduced by the new Minister of Social Development. A second WINZ official must now sign off on a suspension of a benefit, which has resulted in a 20 percent reduction in suspensions.

4.2 In the worst of times

WINZ's first contact with many clients is when they may be going through the worst days of their lives; unemployment, sickness, disability, desertion and bereavement. These emotionally wrought times are never the best times to fill out forms and make sure their information is correct. Not everyone has friends or family to call upon to help them find their way through when so distraught.

If you want to bring a tear to

your eye, read Kathryn's Story by Catriona MacLennan. Chronically ill from birth, abused during childhood, domestic violence as an adult, imprisoned for benefit fraud on the testimony of a former partner she earlier testified against for sex offences. That former partner was found not guilty. An earlier partner of Kathryn sexually abused her children and was convicted of the manslaughter of her son. A life of misfortune. But there was enough money to buy a house with the partner who later testified against her, putting the house in his name to protect Kathryn's address from another former partner who was a continuing threat. One raw deal after the next from birth, made worse by claiming \$117,598 over five years on a single parents' benefit after moving in with the partner who later testified against her. She did not regard the relationship as man and wife, but it was sound enough for him to buy a house in his name with her money. A story of sadness.

Beneficiaries deal with a bureaucracy whose staff can become jaded and at times feel under siege. When I started a contract at Child, Youth and Families' head office, I was told that when an alarm went off, we all go to the front desk because a disgruntled father was threatening the receptionist. A swarm of witnesses might put him off violence. During my three-month contract, a WINZ front desk worker was stabbed by a mentally disturbed client. Shortly after, the Chief Executive emailed the entire Ministry of Social Development

to advise that security guards had been put into that and every other WINZ office immediately. There was a considerable improvement in client behaviour.

I visited a WINZ office while working at the Department of Labour. The sign on the front desk said threats of violence are unacceptable. There is an assault on a WINZ worker every week and verbal abuse every day according to health and safety data released under the Official Information Act.

My first job after high school was as a bank clerk. This was not only back before ATMs, so everyone in the community came in, but also back when banks kept guns on the premises. Everyone was required to practice with the Beretta .32 calibre once a year. Pistols are deafeningly louder than at the movies and make a big bulge in your slacks pocket when on a cash escort. A large part of my job was counting money, recounting it and making sure it was not stolen or defrauded by staff or customers. A wise old supervisor said most are honest but watch out for the few that were not.

A few years later, I was on the student housing committee as Treasurer of the Tasmanian University Union. The committee worked well because when students were not paying their rent, it was common for a member of the committee to know of them. They could comment on whether the student was short of cash or spending their money, often with the committee member,

at the student union bar on Wednesday or Friday nights. Several of us on the committee lived at university colleges so we knew lots of people. I told the committee to come down hard on one defaulting tenant because I knew he was wealthy and just did not want to pay his rent. He used to call his stockbroker each morning from the payphones opposite the student common room. We had the same problem with him and a few other wealthy students not paying their student club fees.

Later that same year, I had a sleepless weekend because on Monday morning it was to be the job of the student housing committee to go around together and evict a student who refused to pay his rent and refused to communicate with the housing officer; she was a professional housing officer. On Monday morning, I was greatly relieved to hear that he got in contact with the housing officer, so he was not going to be evicted.

My brother-in-law was a youth housing officer at the office of emergency housing in South Australia. To do his job properly, he had to face the world as it is. He said that the clients he dealt with were teenagers who would often never be accepted by a private landlord because they do not pay their rent, damaged the place and invited their mates over for wild parties. He believed everyone should have a house, but he did not pretend his clients were all model tenants, hard-done-by. Every social safety net must be

based on realism about human motivation and failings. Some will try it on.

4.3 No room at the altar

WINZ is the only bureaucracy that the Left does not love. DeLong wrote in *Slouching towards Utopia*:

One slogan of the turn of the century American Labor movements was “one big union.” The slogan of twentieth century socialism might as well have been “one big bureaucracy.”... the response of those who had positioned themselves left of social democracy ... was the continued denigration of systems that assigned a prominent role to either private production or market exchange, and a worship of hierarchical administration and bureaucracy-under the name of “conscious social control and administration of production for use”- as the answer to all problems. Whatever utopia is, it does not consist of one big corrupt bureaucracy. And so the left has had little constructive to offer social democrats and others trying to manage and reform the “mixed economies” of the twentieth century.

Bureaucracies are clumsy; clients may not be the best at filling out forms. WINZ will make errors. Like any bureaucracy,

WINZ is rule-bound; compliance with rules is the only way to operate a bureaucracy paying out \$13 billion per year to hundreds of thousands of clients. Promotion in a bureaucracy is through success in rule compliance as Stigler observed

A decent respect for due process lies behind some of the procedural delays, and poses a basic issue of the conflicting demands of justice and efficiency... But deliberation is intrinsic to large organizations: not only does absolute power corrupt absolutely; it delays fantastically. I would also note that initiative is the least prized of a civil servant's virtues, because the political process allots much greater penalties for failure than rewards for success (Stigler 1963)

There is no profit and loss test to drive out of business underperforming bureaucracies nor is there fast feedback through prices and costs on success in delivering to customers as Stigler noted

One great invention of a private enterprise system is bankruptcy, an institution for putting an eventual stop to costly failure. No such institution has yet been conceived of in the political process, and an unsuccessful policy has no inherent termination. Indeed, political rewards are more

closely proportioned to failure than to success, for failure demonstrates the need for larger appropriations and more power (Stigler 1963).

Nonetheless, activists would die in a ditch fighting proposals to contract out WINZ services. They prefer a monopoly in service provision for an agency they say has a toxic culture. As Tullock explains

Currently, not only do most government departments have a monopoly over whatever function they perform, but almost every proposal to increase the efficiency of government takes the form of eliminating what little competition has popped up. Competition between government departments should be encouraged rather than discouraged (Tullock 2008).

The notion of an ability to easily fire underperforming contractors is anathema to activists. These ideological blinkers of activists and of the Labour-led government reminds of the only time Voltaire uttered a prayer: “I pray God to deliver me from my friends: I will defend myself from my enemies”.

4.4 IRD can be a handful too

If only IRD was held to the same permissive standards of service that activists demand of WINZ. No one suggests that all sanctions be removed because some taxpayers are aggrieved

with IRD.

A man in a coma was pursued by the IRD to pay child support¹. He was placed in a coma after attempting to stop young people from smashing his letterbox. He was lost an eye and suffered brain damage as a result. IRD charged him with child support payments and late fees that he had to pay.

A New Zealander in the UK received a message from IRD regarding child support.² She left 18 years ago; the father has custody of her two boys then 10 and six. She said she was not aware she owed child support and never received any letters from IRD. She now owes \$40,000 including interest.

Stuff³ published a story about how a \$127,000 student loan started at age 17. This student was smart enough to study aviation and work for an Air New Zealand subsidiary but feigned ignorance of student loans having interest rates or a minimum overseas annual repayment.

A more reasonable gripe is a father who pays IRD for child

support⁴. He recently left the mother of his two daughters. The only problem is his new job pays more but there is a significant decrease in hours. When IRD calculates what he owes in child support, it uses his salary from the previous year. On calling the IRD and sending them a copy of his new pay-slip (as suggested by the bureaucrat), it was sent back declined. This father says he cannot afford food and transportation to his new job because of the amount IRD is taking from him due to its strict calculation scheme.

Turning to the theme that students always need a break, a tax refugee living in Australia is dodging a \$250,000 debt accumulated from not paying student loans⁵. He was 17 at the time of his first loan of \$7,000 for a stereo. Years later a tax collector was sent to collect his debt plus \$143,000 in interest. His attempts to negotiate with the IRD have been unfruitful.

In another case, a man was owed over a million dollars in ACC payments⁶. If he is paid in large lump-sums, he will be taxed \$120,000 more. The IRD has done this before. IRD treats

late payments by ACC the same as other income⁷. This pushes the recipient into the top tax bracket.

Mr. Ngatokotoru Puna, the son of the Cook Islands Prime Minister was the first to be arrested for avoiding repaying student loans⁸. His original payment of \$40,000 had grown to \$130,000. He claims that this is because IRD was sending their letters to a wrong address. Taxpayers must keep IRD up to date on their address. If you borrow \$40,000, you might on your own initiative take steps to repay it.

Many overseas student loan defaulters are in for a shock as IRD efforts to collect large debts gather pace in Australia and other jurisdictions. Many student loan defaulters gambled on IRD forgetting about them. Some fathers and mothers hoped to slip under the radar and escape paying child support by living overseas. They now face huge debts that are legally enforceable because of increased mutual assistance in tax law enforcement across the Tasman and elsewhere in the world. In common with some of those aggrieved with WINZ, they want more than they are entitled or do not want to pay. Of course, there are others with valid grievances against WINZ or

1 Taunton, E. (2010). IRD demanded money from man in a coma. [online] Stuff at <http://www.stuff.co.nz/national/3678608/IRD-demanded-money-from-man-in-a-coma> [Accessed 8 May 2018].

2 Whitney, L. (2014). Child Support – Has anyone taken the IRD to court over assesment? – MENZ Issues. [online] Menz.org.nz at <https://menz.org.nz/2014/child-support-has-anyone-taken-the-ird-to-court-over-assesment/> [Accessed 8 May 2018]

3 Name withheld (2015). Loan misery: I owe \$127,000. [online] Stuff at: <http://www.stuff.co.nz/stuff-nation/assignments/how-did-your-student-loan-affect-you/13316356/My-student-loan-misery-i-owe-127-000> [Accessed 8 May 2018]

4 Geekzone.co.nz. Commenter "Mike" (2011). Child Support... and the way you, too, can become destitute. [online] at <https://www.geekzone.co.nz/blakamin/7912> [Accessed 8 May 2018].

5 Masters, C. (2010). Student loan becomes \$250,000 nightmare. [online] NZ Herald at https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10670936 [Accessed 8 May 2018].

6 Chiang, J. (2017). ACC claimants losing millions under tax system - lawyer. [online] Radio NZ at <https://www.radionz.co.nz/news/national/346620/acc-claimants-losing-millions-under-tax-system-lawyer> [Accessed 8 May 2018].

7 (2017). Injured New Zealanders stung by huge tax bills after receiving ACC back-payments. [online] NZ Herald at: https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11963405 [Accessed 8 May 2018].

8 Jones, N. (2016). Woman arrested at airport over student loan debt. [online] NZ Herald at https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11649649 [Accessed 8 May 2018].

against IRD.

4.5 Don't insult the honest and diligent by pretending everyone plays a straight bat

Imagine no excessive penalties for late taxes? WINZ critics come from the side of politics that welcomes strict tax enforcement and excuse overreaches as inevitable in any administrative process.

No process is perfect nor are the people working in it. Most of all, when someone has a grievance against IRD, it is accepted that each individual grievance should be investigated on its own merits. These grievances in of themselves are no grounds to remove sanctions from the toolkit of IRD. Perhaps system-wide lessons can be learned. Perhaps an individual employee went over the top. Imperfection is tolerated to a degree because it is inevitable in any human system for as Stigler said

...we must base public policy not upon signal triumphs or scandalous failures but upon the regular average performance of the policy (Stigler 1971).

Every system must guard against fraud, benefits are paid in return for expectations about self-help, bureaucrats can become jaded, bureaucracies require lots of information on the clients, and some of these clients have a high sense of entitlement. Others are hard done by. The earliest public policy lesson anyone learns is no matter

where you draw a line, there is someone just over the other side with a sad story. Equally sadly, there are others taking liberties with the truth to line their pockets.

5 ONTARIO'S 'SPOUSE IN THE HOUSE RULE'

5.1 Plagiarism is the first law of public policy-making

Any sensible public policy process looks overseas, copies successes, learns from mistakes and does not repeat failures. The piecemeal diffusion of new policies across jurisdictions allows for learning by trial and error. As Justice Brandis wrote in 1932:

It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.

Fortunately for New Zealand, a Canadian province experimented with a liberal definition of the spouse of a beneficiary in a similar way to Green Party policy. The Green solution to intrusion into the relationships of beneficiaries is to postpone that intrusion until they marry or are in a relationship for long enough for the Property (Relationships) Act to apply.

5.2 The life and fast times of Ontario's 'man in the house rule'

Ontario grappled with what was a spouse through the 1970s

and 1980s. Like the Greens, the provincial government threw its hands in the air and defined a spouse as anyone who is married to the mother or living with her for three years (Sabatini with Nightingale 1996). Ontario women's advocacy and beneficiary activists lobbied for a definition of spousal relationships that allowed women to cohabit with men but retain their welfare benefits (Sabatini with Nightingale 1996).

Prior to reforms in 1987, the Ontario provincial authorities defined a single person as someone who was not living with another person as husband and wife. Naturally, this general statement led to considerable litigation on defining a husband (Sabatini with Nightingale 1996).

There were court rulings in the tradition of Solomon on whether a man and woman were interdependent. Judges could not decide whether a boyfriend who visited daily, frequently stayed overnight, vacationed together, and used her mailing address and provided some financial help was a spouse or a just close friend (Sabatini with Nightingale 1996). The Canadian litigation generated a rich case law in far more socially conservative times regarding "living in sin". One judge wrote of concepts of "loyalty, mutuality, cherishing, affection,

involvement, interaction, and even shame and patient endurance" as important to becoming a spousal relationship. Relationships could be living as a single person in some respects and as a spouse in others (Sabatini with Nightingale 1996).

After losing in court under their Charter of Rights and Freedoms, the Ontario provincial parliament legislated a new definition of a spouse as a man or woman who

- i. are legally married to each other; or
- ii. not being married to each other have lived together as a man and wife continuously for a period of not less than three years; or in a relationship of some permanence if they are the natural or adoptive parents of a child (Sabatini with Nightingale 1996).

Ontario expected an additional \$58 million in spending due to a 10 percent increase in sole parents receiving assistance who cohabit under the new ruling. The responsible minister predicted that other provinces would follow Ontario because of the fiscal savings (Sabatini with Nightingale 1996)! The Greens, in their Maintaining a Safety Net policy issued last year, also predict fiscal savings on the administration of existing sole

parent benefit rules, making their proposals fiscally neutral or better:

Sanctions that take money from beneficiaries will also be removed from the Social Security Act, including the punitive, sexist section 70A which punishes women for not naming the father of the child. Reducing sanctions is estimated to cost \$8.8 million per year. This will be more than offset by drastically reducing Government spending on investigations into whether people are meeting obligations, which cost \$36.4 million last year.

The number of single parents on welfare in Ontario more than doubled from 90,000 in 1987 to 200,000 in 1995. The additional spending exceeded \$2 billion per year (Gable, Clemens and LeRoy 2004). The newly elected Tory government in 1995 in Ontario cut all welfare benefits by 21 percent except for seniors and those on disability. By 2002, the number of single parents on welfare fell to 82,000; a 59 percent reduction on the 1994 high (Gable, Clemens and LeRoy 2004). Changes in eligibility for benefits had a surprisingly large impact on the willingness of couples to live together.

5.3 The Swedish marriage boom of 1989

In 1989, Sweden grandfathered the rights to a widow's pension to mothers married before 1990. Those married after then would

receive a means tested benefit contingent on the number of children in the house (Hoem 1991). Previously, the Swedish widow's pension was not means tested.

In December 1989, there were 64,000 marriages in Sweden, instead of the usual 2,500-3,000; the number of marriages in November were twice the usual number (Hoem 1991). New Year's Eve is a popular time to marry in Swedish culture. On New Year's Eve 1989, getting to the church on time retained eligibility for a widow's pension with an average annual payout of \$5000 and average duration of eight years (Persson 2017). Couples were 17 times more likely to marry because of the reform; couples in their 20s exhibited major responses to the widow's pension reform implying a financial planning horizon of up to 50 years ahead (Persson 2017). The rush to the altar was strongest for grooms who died within five years, suggesting previous poor health (Persson 2017).

5.4 Nanna is living in sin

The Quebec Pension Plan eliminated remarriage as a cause for termination of survivor benefits in 1984. The Canadian Public Pension Plan implemented similar changes for the rest of Canada in 1987. The cost to a widow aged under 65 of marrying over "living in sin" prior to marriage penalty reforms was estimated to be between \$75,000 and \$130,000 (Baker, Hanna and Kantarevic 2004). Widows under the age of 65 increased their remarriage rate

by between 24-100 percent; widowers may have remarried by up to 50 percent more (Baker, Hanna and Kantarevic 2004).

5.5 More seniors living in sin

Further corroboration is from the more socially conservative 1960s where couples would lose their US Social Security widow's benefit by remarrying. Initially, the benefit was lost if a widow remarried; after 1965, the remarriage penalty was for widows remarrying before the age of 60. Remarriages were one-quarter less before the age of 60 with a 75 percent increase in marriages after 60th birthdays (Brien et al 2009). Union Army widow's pensioners were 25 percent less likely to remarry and remarried three and one-half years later than other widows after the Civil War (Salisbury 2017).

5.6 Having every first child out of wedlock would be sound financial planning!

The Green's proposal to pay the single parents' benefit to any mother who is not married or in a relationship for at least two years would make it seriously bad financial planning to have your first child in wedlock. It would be better just to live together and claim a single mother's benefit of \$16,000 a year. The father could work full-time. The mother could earn \$200 per week working part-time for no deduction from their benefit. The Greens will turn "living in sin" into a nice little earner.

5.7 Twice as many sole parent beneficiaries?

To summarise, there is compelling evidence from many countries over 150 years that relationship formation is surprisingly responsive to changing incentives arising from social insurance. A practical policymaker must account for this when reforming eligibility for the sole parents' benefit.

Rather than be a net fiscal saving, as confidently asserted and costed by the Greens in the 2017 election, and by the Ontario ministers that came before them, looser relationship criteria for the sole parents' benefit is a major fiscal risk. The experience overseas suggests that the number of sole parents claiming the benefit could well double under the Greens' proposals. The number of single mothers on the benefit did double after similar reforms in Ontario; and then halved after those reforms were undone in the ensuing fiscal crisis. The number of widows who remarry or who delay remarriage can change by up to 50 percent if marrying affects their eligibility for a pension.

5.8 Extrapolating welfare caseloads from far more socially conservative times

This forecast of a possible doubling of sole parent beneficiary caseloads extrapolates from an era when living together unmarried really was considered living in sin. Moving in with your girlfriend or boyfriend was kept on the sly from parents in the 1980s and

certainly in the 1970s. Palimony first entered the English language only as recently as 1979 after a failed court case in California against Lee Marvin. A New York court dismissed a similar palimony suit because it would have condoned adultery. Few such suits succeeded because of public policy bars against contracts involving expectations of sexual relations.

A major theme of this paper is times change rapidly and certainly far too rapidly for designers of sole parent benefit policies to even keep a loose tail way back in the distance. Social changes mean that the forecasting of a doubling of single parents on the benefit based on the retro 1980s experiences of Ontario is a fair lower bound on the likely impact of similar proposals in 21st century New Zealand.

6 THE CASE FOR A TARGETED WELFARE STATE

6.1 A targeted welfare state goes further

No matter by how high you raise taxes, targeting ensures more is available to help the truly needy. There are many calls on the public purse. Welfare benefits to those not in need are dollars not spent on health, schools, law and order, and transport infrastructure. Taxpayers could double the budget of Pharmac to \$2 billion and it would still face plenty of tough choices over which drugs are funded.

6.2 Categorising and tagging eligibility for welfare benefits

Every social welfare system other than a negative income tax has work tests and work requirements to tag and divide the claimant population into those who can work and those who cannot.

- The employables are sanctioned if they do not work. Income testing and abatement rates for the unemployed and sick are high to discourage part-time benefit receipt and enlarge the rewards of moving to full-time work.
- Non-employables such as invalids and single mothers with pre-schoolers are given a guaranteed income that is abated at a lower rate on the presumption these

claimants might be able to work a few hours a week but not more (Moffitt 2002).

A key parameter in a tagging model is the fraction of the truly needy which can be identified with an accurate screening mechanism. Some combination of measurable, observable characteristics such as poor health, low levels of education, and spotty employment histories might be indicators that are not open to strategic behaviour. Family structure such as single parent is a characteristic that many welfare systems have used as an observable indicator of true need.

6.3 What about a universal basic income?

Some favour a universal basic income so that the poor face no hassles or sanctions or any other indignities. Friedman's (1962) proposal for a negative income tax aimed to improve work incentives, abolish the welfare bureaucracy, eliminate a multiplicity of overlapping programs and targeting of benefits at the poor. Friedman was able to keep the cost of his proposal for a negative income tax low because the abatement rate was 50 cents on the dollar on any income earned.

The notion behind negative income taxes is that governments lack both

the ability to collate the necessary knowledge and the organisational deftness to adequately distinguish between those who can and cannot work and, in any case, the ability to work is a continuum with no clean dividing point. Negative income taxes were proposed on the Left and Right to provide adequate income support to the low paid, out of work and unable to work while still providing reasonable work incentives and have the added advantage of being free of bureaucracy.

A universal basic income is fundamentally different from a negative income tax and its progeny such as the Working for Families tax credit. There is no means test to quickly phase out the guaranteed minimum income. Everyone pays the same income tax rates. Under the Morgan Foundation's \$11,000 per adult per year proposal, this was a flat income tax rate of 30 percent. That proposal also included a great big new tax on capital and the family home, raising total tax revenues by 20 percent to balance the budget. This universal basic income of \$11,000 per adult still left single mums on a benefit with one child \$150 a week worse off.

The numbers just do not add up for anything other than a targeted welfare state. The Labour Party realise this when

it toyed with a universal basic income as part of its Future of Work conference. It quickly realised that the sums available under any realistic tax rise were a totally inadequate replacement for a welfare benefit for single mothers. Child and family poverty would increase significantly under a universal basic income. The only people who lose under a universal basic income was every group from whom the modern welfare design was established to protect. The main beneficiaries would have been university students and middle-class stay-at-home mums.

6.4 Welfare benefits can be higher in a tough monitoring regime

Beneficiary activists forget that a welfare system can be more generous if it is backed up by effective sanctions to ensure those able to work seek work expeditiously. Workers' compensation and motor accident insurance illustrate the possibility of greater generosity when fraud is less likely.

Workers' compensation and car accident insurance pay a generous percentage of the prior pay of the injured. The requirement to have a physical injury at work or in a car makes it more difficult to fake eligibility. Workers' compensation and car accident insurance do have problems with fraud but that is more to do with recovery periods from the less serious injuries rather than initial eligibility.

Continental European

unemployment insurance offers up to 70 percent of prior pay but this is backed up by rigorous monitoring of job search and acceptance of decent job offers. This generosity tied with monitoring of job search meant the distress of unemployment was minimised as was the incentive to stay unemployed because they receive a large percentage of their old pay.

Since the 1970s, the average length of unemployment across continental Europe grew from a few months to a year. Instead of unemployment rates as low as the USA in the 1960s, European unemployment rates rose to 10 percent by 1990 and many more were off on disability benefits. Ljungqvist and Sargent (1995a, 1995b, 1996, 1998, 2008) found that the reason for this radical change was that unlike in the 1960s and 1970s, job layoffs started to result in big skills losses. This loss of skills meant that many more workers than in the past had to search for much less well-paid jobs in another industry. They had little incentive to search outside of their own industry and current occupation because their generous unemployment insurance lasted for so long.

European governments responded to the fiscal strain of several times more workers claiming long-term unemployment insurance with stricter eligibility criteria and intensified monitoring of job search backed up by stiffer sanctions. European governments became hungry for new ideas, large and small, on

how to marry generous welfare with sanctions to ensure people do not abuse it and stay on their rolls longer than needed. So should we.

6.5 If only we could be more like Sweden

Too many activists dream of New Zealand becoming a high tax, large European welfare state such as Sweden. Tax the rich to pay for a generous welfare state that will abolish child poverty. Sweden is a common example of a generous welfare state in a prosperous society. One interpretation of the UN Development Index is you improve your national ranking by becoming more like Sweden.

We have more in common with Sweden than activists realise. Sweden is hot on our heels, chasing New Zealand to the bottom of the OECD per capita income ladder. Both countries were near top of that income per capita ladder in the 1960s. Sweden dropped to 18th by 1998 – a drop from 120 percent to 90 percent of the OECD average in three decades. As Heckman explains

Nordic performance is not impressive, especially if one looks at long run trends. Policies in place often conceal rather than solve problems and create problems for the future. Problems of flawed measurement create serious problems in making meaningful comparisons across alternative systems. Long-run trends in

skill accumulation, in attitudes toward work, in research and development, in adoption of new technology, benefit dependency, and dependence on government employment are not encouraging and portend serious problems in the future for many quarters of Europe, even for Scandinavian Europe (Heckman 2010)

New Zealand and Sweden are examples of once a country becomes rich because of capitalism, politicians look for ways to redistribute more of this new-found wealth. Assar Lindbeck (2007) showed that Sweden became a rich country before its highly generous welfare-state was created:

Sweden moved toward a welfare state in the 1960s, when government spending was about equal to that in the United States – less than 30 percent of GDP.

By the late 1980s, Swedish government spending had grown from 30 percent of GDP to more than 60 percent of GDP. Swedish marginal tax rates hit 65-75 percent for most full-time employees as compared to about 40 percent in 1960. Economic growth slowed to a crawl in the 1970s and 1980s; Swedish economists named the stagnation Swedoscclerosis. About 65 percent of the electorate receive (nearly) all their income from the public sector as government employees (excluding

government corporations and public utilities) or by living off transfer payments. There was no net private sector job creation since the 1950s, by some estimates. Some of this lost ground was recovered post 1990 after tax and other reforms by a right-wing government. The Swedish story is decline and a modest recovery (Heckman 2010). Welfare states come at a big price.

6.6 Maybe we should be more like Sweden

Ironically, the pioneering articles in the modern labour macroeconomics of unemployment insurance and job search by Lars Ljungqvist and Thomas Sargent (1995a, 1995b, 1996, 1998, 2008) were about the explosion in unemployment in Sweden after 1990. On closer examination, Sweden has many lessons to teach New Zealand in welfare reform as Heckman explains:

Sweden's economic performance in the past decade has been impressive. So has that of Finland. Denmark's "flexicurity" system promotes job mobility. It gives generous unemployment benefits and, at the same time, provides sanctions to promote rapid return to work among the unemployed. It has attracted a lot of attention among the policy pundits. The recent fascination with Scandinavia is typical of a mentality of many policy analysts who look

to a working model as a system for adoption, rather than looking at basic principles that transcend any economy to explain the successes and failures of a particular model (Heckman 2010).

Until the late 1980s, Sweden could support generous unemployment insurance because of strict monitoring of job search at the local employment office, a requirement to accept decent job offers and mandating retraining if unemployed for a year (Ljungqvist and Sargent 1995a, 1995b, 1996). That monitoring system broke-down after a financial crisis in the late 1980s. The Swedish bureaucracy was unable to police the job search of three times as many unemployed (Ljungqvist and Sargent 1995a, 1995b, 1996, 1998). Generous European welfare states such as Sweden spend a considerable amount of time monitoring job search and sanctioning non-compliance. So should we.

7 MONEY'S TOO TIGHT TO MENTION

7.1 The great restraint in the growth of government spending

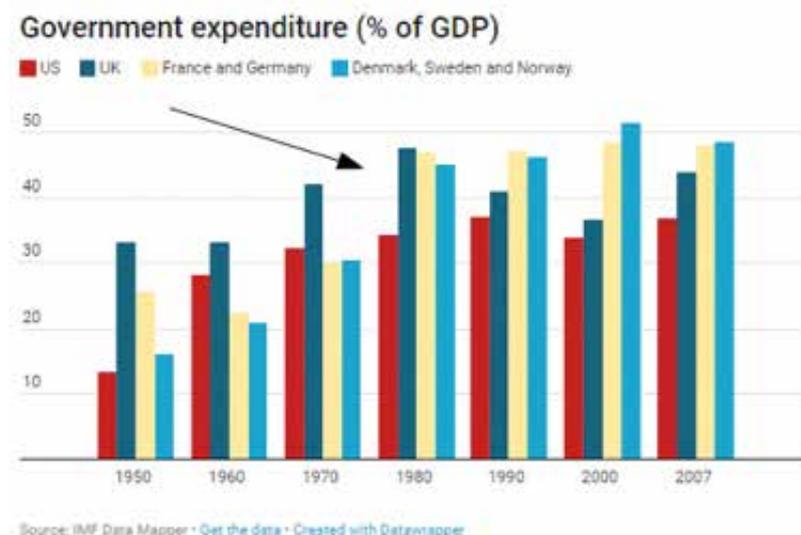
The global growth of government spending after World War II to the 1980s was mostly in health, education and income security (Peltzman 2012). From 1950 to the 1980s, government spending near doubled everywhere and then stopped growing (Peltzman 2012 and see graphic). This hiatus was not just Thatcher's Britain or in Reagan's America. This restraint in spending growth was everywhere, France and Germany, even Scandinavia (see graphic).

By 1980, French and German government spending was twice that of 1960; Nordic government spending increased by 50 percent per decade between 1950 to 1980 and then stopped growing. The size of government was pretty flat as a share of GDP in the USA, UK, France, Germany and Nordic states for 27 years (Peltzman 2012 and see graphic).

7.2 Thatcheronomics, Reaganomics and Rogernomics saved the welfare state

The growth in government spending came to a crashing halt over the 1980s because governments hit a brick wall in their ability to raise taxes

(Peltzman 1998, 2012; Becker and Mulligan 2003). Parties of the left and right recognised this new political reality. There had to be a better way to fund social spending. The reforms ushered in by embedded neoliberalism in the 1980s and 1990s to save the welfare state included more efficient taxes and more efficient government spending (Becker and Mulligan 2003). Better targeting of social spending reduced growth in the overall tax burden and therefore the political resistance it provoked (Becker and Mulligan 2003). Efficient taxes inevitably lead to higher revenues (Brennan and Buchanan 1980). Gary Becker warned of the political repercussions of recent tax reforms for the size of government:



Source: replication from Mauro et al (2015) of Peltzman (2012) from OECD National Account Statistics and OECD.Stat. Data for US, UK and averages of France and Germany and Denmark, Norway and Sweden; Sweden is weighted twice the others.

...the greater efficiency of a VAT and its ease of collection is a two-edged sword. On the one hand, it would raise a given amount of tax revenue efficiently and cheaply. Since economists usually evaluate different types of taxes by their efficiency and ease of collecting a given amount of tax revenue, economists typically like value added taxes. The error in this method of evaluating taxes is that it does not consider the political

economy determinants of the level of taxes. From this political economy perspective, the value added tax does not look so attractive, at least to those of us who worry that governments would spend and tax at higher levels than is economically and socially desirable (Becker and Mulligan 2003).

After the 1970s US tax revolts, Buchanan and Brennan wrote *The Power to Tax*. Their message was that if you don't trust governments, beware of more efficient taxes. Inefficient taxes raise little in the way of revenue and therefore keep governments small by starving the beast of spending money.

The 1980s neoliberal insurgency, often cursed as a vast right-wing conspiracy, put the welfare state on sounder footing with more efficient taxes and better targeted spending. These neoliberal reforms prevented even larger cuts to social spending at the behest of the increasingly restive middle-class rebelling against paying the top income tax rate of 50-60 percent. As Becker and Mulligan said:

An improvement in the efficiency of either taxes or spending would reduce political pressure for suppressing the growth of government and thereby increase total tax revenue and spending (Becker and Mulligan 2003).

Neoliberal reforms saved the

welfare state by raising the same or more revenue with less resistance.

7.3 Efficient taxes plucked more feathers for less hissing

Populist and anti-immigration parties won footholds in European parliaments from the 1980s (and in New Zealand in 1993) with demagoguery which exploited the growing tensions between financing health spending and retirement pensions in an ageing society, with Eurosclerosis stifling labour productivity and an ever-increasing tax burden on the middle class. Something had to give.

More efficient taxes (introduced under the sway of neoliberalism) in part resulted from one of the two good functions a neoclassical economist can perform in public policy. That function is to say

Well, Mr. President, here is a gang, the dairy interest, that's got a lot of clout and you've got to give them something. Let us figure out the cheapest way of giving it to them (Stigler 1984).

Taxes can be made more efficient by broadening tax bases and removing loopholes while lowering marginal income tax rates. A GST that replaces a web of sales taxes is an example. The GST always goes up over time such as New Zealand from 10 percent to 15 percent, rarely going down anywhere. Most tax reforms are revenue neutral; the average

tax rate is the same but there are lower marginal tax rates because tax bases were broadened. Edmund Phelps let this cat out of the bag early saying

I would add, however, that there are certain tax "reforms" under discussion that threaten to contract rather than to augment net tax revenues and therefore tend in the wrong direction (Phelps 1973).

After 1980, the taxed, regulated and subsidised groups (by all reports, operating under the spell of embedded neoliberalism) had a growing incentive to converge on lower cost modes of redistribution to protect what they had. More efficient taxes, more efficient spending, more efficient regulation and a more efficient state sector reduced the burden on restless taxed and regulated groups (Becker and Mulligan 2003). Reforms were led by parties, left and right, with some members of existing political groupings joining new coalitions. Political parties split or rebranded. These neoliberal improvements in the efficiency of taxes, regulation and spending reduce political pressure from the taxed and regulated groups to curb the growth of government (Becker and Mulligan 2003).

7.4 The Nordic welfare states survived fiscal crises by adopting optimal tax theory

Sweden, Norway and Denmark are examples of Becker's (1983)

idea that political systems converge on the more efficient modes of regulation and income redistribution as their deadweight losses grew in the 1970s and 1980s and after. All experienced major financial crises and economic stagnation.

Unlike many of their brethren abroad, more of the Nordic Left and, more importantly, the Nordic swinging voter was conscious of the power of incentives and to not killing the capitalist goose that laid the golden egg. Nordic taxes are highly efficient; high but flat tax rates on labour income and on consumption but much lower tax rates on capital income; and light regulation too of labour and product markets. Less mobile tax bases such as workers are taxed heavily but more footloose tax bases such as capital and investment are now taxed at much lower rates.

7.5 Welfare reform in a time of fiscally conservative ageing voters

Health and income security account for 55 percent of total government spending in the OECD (Peltzman 2012). It is in these two programs where the future of the growth of government spending mostly rests in the industrialised world. Peltzman makes the interesting point that:

There is no new program in the political horizon that seems capable of attaining anything like the size of any of these four. For the time being the future government rest

on the extent of existing mega programs (Peltzman 2012).

The pressure for that growth in government will be from senior citizens (Becker and Mulligan 2003, Peltzman 2012, Mulligan and Sala-i-Martin 2010). Government spending grew over the 20th century because of demographic shifts, more efficient taxes, more efficient spending, a shift in the political power from the taxed to the subsidised, shifts in political power among taxed groups, and shifts in political power among subsidised groups towards senior citizens (Becker and Mulligan 2003). Senior citizens are on the winning political coalition at elections no matter which party wins since the dawn of the welfare state. They are single-minded about protecting old-age pensions and the health sector from cuts (Becker and Mulligan 2003, Peltzman 2012, Mulligan and Sala-i-Martin 2010).

Governments will have to choose between high taxes on the young to fund the current generosity of healthcare and old-age pensions or find other more austere options. Peltzman explains this political tension for programs benefiting senior citizens in his 2012 essay *The Socialist Revival*:

Deficit financing of future growth in these programs becomes increasingly problematic. So we now have the seeds of political conflict rather than consensus. These very large programs confer substantial benefits on

some. These beneficiaries resist any change in the status quo. But the benefits have to be financed at substantial cost to today's workers. Many of them will not benefit on balance from these programs over their lifetimes. It is by no means clear whether the number of winners exceeds the number of losers today. Policies that were once unthinkable now can be discussed and even implemented here and there. These include increased retirement ages, less generous public health care programs, more reliance on private saving for retirement and so forth.

There will be a political fight between older and younger voters over who is prioritised in social spending. While voters come and go in their allegiances to other voting blocs and pressure groups, we all become old one day (Mulligan and Sala-i-Martin 2010). Grey power can anticipate the continual renewal of their voting strength at the ballot box. They are a formidable opponent of anyone attempting to expand the welfare state at the expense of old-age pensions or health spending. The working age populations divide their political capital between their age, occupational and family concerns; the retired concentrate all their political capital to support the fiscal demands of their age group (Mulligan and Sala-i-Martin 2010). Much is at stake as Peltzman

explains in *The Socialist Revival*:

The steady growth of the old age population share is on the verge of a substantial acceleration... This means that government health care and public pension spending growth will also have to accelerate merely to keep the promises implicit in present programs. The political economy will have to choose between higher taxes on the young to keep these promises, an accelerated shrinkage of the rest of the budget or less generous public health and pension programs. It is not clear yet which way the decision will go. What is clear is that for the first time since the invention of the welfare state the magnitude and generosity of its signature programs is at political risk (Peltzman 2012).

Many European countries have below replacement fertility rates and are into their demographic crises. New Zealand will soon be in the same boat: a universal old-age pension competing with social spending on the working aged. Every parliament that has proportional representation has some sort of pensioners party fighting hard to defend old-age pensions and healthcare.

7.6 Embedded neoliberalism once more into the breach

The cost of New Zealand superannuation is expected to

double over the next decades. Health spending is expected to grow at a pace as well. Against that political background, proposals to make welfare benefits available with less scrutiny of true need is a fast burning political timebomb. There is evidence of extensive welfare fraud. Moves to increase generosity for welfare benefits are unlikely to survive in the long term if further evidence emerges of fraud and shirking of work obligations.

New Zealand taxpayers have enough on their plates to fund a universal old age pension and health spending without encouraging welfare dependency. In a toughening fiscal environment, a tightly targeted welfare state can win the funding to be more generous and deflect political pressures for economies to release funds to the health sector and New Zealand Superannuation. A tighter fiscal ship was how the welfare state survived the economic stagnation of the 1970s and the fiscal crises of the 1980s. The welfare state will have to double down again as the population ages to ensure it is an efficient social safety net and a hand up rather than a handout in the 21st century.

The story so far in this generational tug-of-war is the working age are expected to support old-age pensions and health spending but make do with leaner social insurance for themselves. In that tug-of-war, a winning political battle cry against voters who worked all

their lives and are now retired is not let's remove sanctions on benefits when 40 percent of beneficiaries already cheat the system.

8 HELP BUT HASSLE REDUCES WELFARE DEPENDENCY AND CHILD POVERTY

8.1 Work pays

The best solution to child poverty is to move their parents into a job. A minimum wage job together with family tax credits is enough to lift most families out of poverty as Chapple and Boston explain:

Sustained full-time employment of sole parents and the fulltime and part-time employment of two parents, even at low wages, are sufficient to pull the majority of children above most poverty lines, given the various existing tax credits and family supports (Chapple and Boston 2014).

Their analysis was written four years ago before the recent major increases in Working for Families.

The best available analysis, the most credible analysis, the most independent analysis that having a job, and marrying the father of your child, is the path out of poverty is by the Living Wage movement. According to their latest calculations of the living wage, earning only \$20.80 per hour full-time with a second earner working only 20 hours per week affords their two children, including a teenager, Sky TV, pets, annual international travel, video games

and 10-hours childcare. That is a comfortable lower middle-class lifestyle on a wage not far above the minimum wage.

8.2 Beware of the man of one study

New Zealand empirical literature on welfare reforms is small because there is little data to work with. Banking it all on one study because it is a hometown study or rather agreeable to prior beliefs is a gamble most lose. Ronald Coase wrote in the 1960s “If you torture the data enough, nature will always confess”. By the 1980s, data mining and publication bias were so strong and statistical inferences so fragile that Leamer’s 1983 *Let’s Take the Con out of Econometrics* made young applied economists despair for their professional field and, importantly, their own careers:

The econometric art as it is practiced at the computer terminal involves fitting many, perhaps thousands, of statistical models. One or several that the researcher finds pleasing are selected for reporting purposes. This search for a model is often well intentioned, but there can be no doubt that such a specification search

invalidates the traditional theories of inference.... [A]ll the concepts of traditional theory...utterly lose their meaning by the time an applied researcher pulls from the bramble of computer output the one thorn of a model he likes best, the one he chooses to portray as a rose... This is a sad and decidedly unscientific state of affairs we find ourselves in. Hardly anyone takes data analyses seriously. Or perhaps more accurately, hardly anyone takes anyone else’s data analyses seriously. Like elaborately plumed birds who have long since lost the ability to procreate but not the desire, we preen and strut and display our t-values [which measure statistical significance] (Leamer 1983).

At this point, it is important to remember Milton Friedman’s warning against relying on one study or the latest new study that confounds all the earlier studies.

I have preferred to place major emphasis on the consistency of results from different studies and to cover lightly a

wide range of evidence rather than to examine intensively a few limited studies (Friedman 1957).

Heckman and Singer (2017) also places more value on empirical findings that hold up over different data sources, different periods of time and different countries rather than the mining of one data source. If results can travel far and wide, they are more reliable for public policy making.

8.3 The European data on benefit sanctions speaks with one voice

The European welfare states use a variety of sanctions on benefit claimants and have experimented in the field to see what works better. These experiments with control groups and treatment groups were studied closely by labour econometricians. There are also before and after studies on both sides of the Atlantic of major changes in welfare policy that were studied closely by economists. The search was for major breaks in policy or large differences in policy or administration in different parts of the same country. By going large, they were not divining big lessons from small changes.

Major changes in either benefit generosity or benefit conditions can provide lessons because the changes are large enough to rise above all the other noise in the data from many other changes including the business cycle to provide insight into what works in moving the unemployed into

work. In addition, overseas countries increase the number of situations where studies can be made of detailed data sets that can link individual claimants to a whole range of changes in their own circumstances and to changes in the way benefits are administered and the amount paid.

The generosity of the European welfare states comes with strict work obligations. But the details differ in significant ways between countries, and to provide much useful employment data for labour econometricians, the enforcement of these sanctions can vary between states, regions, provinces and cantons and different local offices of the same bureaucracy administering the welfare benefits. This is a happy hunting ground for the large variation necessary to see what works and what appeared to work but did not. A considerable amount can be said with confidence as to how sanctions work because those results held up across a wide range of countries.

Until the 1980s, unemployment rates were low in Europe. As their unemployment rate quickly rose into the double digits and stayed there, many European welfare states had to introduce stricter eligibility criteria, tougher sanctions and tougher enforcement of old and new job search rules. The for several decades now, the average duration of unemployment in continental European welfare states is about a year. The fiscal crisis in the European welfare

states, which continues to this day, made them desperate for new ideas to trim the rolls of those able to stand on their own two-feet.

8.4 Sanctions giddy-up job finding rates

Leading French labour economists Cahuc and Zylberberg (2006) and top Dutch labour economists Boeri and van Ours (2008) summarised the results on benefit sanctions and job finding as follows:

- A Dutch study of sanctions found that they increased reemployment rates from 35 percent to 100 percent depending on industry and gender with substantially larger effects for women.
- A Danish study found that for both males and females the exit rate from unemployment increases by more than 50 percent following the imposition of a sanction.
- A German study found that a sanction increases the probability of leaving the welfare system within eight months by about 70 percentage points.

Many US studies also show that stronger job search rules quicken the rate at which unemployment insurance claimants find jobs (Cahuc and Zylberberg 2006; Boeri and van Ours 2008).

8.5 This help is so much hassle that I will go find a job instead

The reviews lead by Cahuc and

Zylberberg (2006) and Boeri and van Ours (2008) found that a major effect of more intensive job search assistance with requirements to meet regularly with caseworkers is so unattractive that many unemployed go out and find a job at their own initiative.

- Two Nevada trials with more intensive job search assistance in 1978 and 1988 reduced the duration of unemployment by three weeks (Cahuc and Zylberberg 2006).
- A 1994 Maryland trial found that more intensive search requirements, verification of employer contacts, and assignment to a job search workshop reduced unemployment.
- Benefit duration mostly because workers left unemployment immediately prior to their scheduled workshop (Klepinger et al. (2002). The average duration of unemployment was reduced from 12 weeks to 11 weeks in this Maryland trial.
- A Kentucky experiment found that most of the exits from unemployment were on the arrival of letters notifying benefit claimants of enhanced job search obligations (Black et al. 2003).
- A Dutch study found that more intensive job search monitoring and more job counselling interviews increased the job finding

rate by 15 percent (Gorter and Kalb 1996).

- The British Restart program involving more job counselling interviews cut unemployment by 6 percentage points compared to the control group (Dolton and O'Neill 1996).
- A Northern Irish study found that the suspension of monitoring of job search while 35 local employment offices were undergoing an eighth month long refurbishment on a rolling basis over 10 years reduced job finding by 25 percent (McVicar 2010).
- A Danish trial that involved frequent meetings with caseworkers and participation in training increased the job finding rates by about an average of 30 percent compared to unemployed workers at the same office in the control group (Graversen and Van Ours 2008).

Many studies find that the increase in job finding rates was at the start of the extra attention and well before there could have been any beneficial effect from advice on job search or undertaking training to increase employability. A bit of hassle nudges many more unemployed into work.

8.6 The unemployment benefit exhaustion spike

Corroboration for the anticipation of sanctions having a strong stimulus in job search

is that job finding rates soar just before the exhaustion of unemployment insurance (Cahuc and Zylberberg 2006; Boeri and van Ours 2008). In continental Europe, moving from unemployment insurance to general social assistance means an unemployment benefit that is no longer 70 percent of the old pay of the unemployed but instead a percentage of the minimum wage plus a child benefit.

As the unemployment insurance exhaustion date moves, this spike in job finding rate on the eve of the exhaustion of the unemployment insurance follows it closely. Van Ours and Vodopivec (2006) found that reductions in the maximum duration of Slovenian unemployment benefits (from 12 to six months) moved the spike in the job finding from the 12th to the 6th month. In 1989, Austria reformed its unemployment benefit in ways that affected various unemployed differently. Lalive, van Ours and Zweimüller (2006) found that the more generous and longer lasting benefits significantly increase the length of unemployment. In a clever test of auxiliary hypotheses about job search and unemployment insurance, when Austria extended the unemployment insurance of certain older workers in selected regions, workers not eligible for the extension found it easier to find jobs (Lalive et al 2015). Their local labour market was less congested by applications from the older workers with the extended unemployment insurance. Card

and Levine (2000) found that US states with longer maximum durations of unemployment insurance had a longer duration of unemployment. Jobseekers appear to have fair influence over their chances of finding a job.

8.7 Sanctions' bark is as hard as their bite

This upfront effect of sanctions and job search assistance and training is corroborated by many studies into what happens to job finding rates when beneficiaries receive a letter from their local employment office. These letters advise of a requirement to attend a meeting to offer advice on job search or to ask for their side of the story on their not complied with job search obligations.

There was considerable variation in the credibility of the threat of sanctions across the 26 Swiss cantons and the local employment offices in each canton. As soon as the beneficiaries received these letters, many of them went out and found a job (Cahuc and Zylberberg 2006). A British study found that a request to attend a supplementary interview significantly increased the reemployment rate among the test group after they received the letter but before any further contact with the local employment office (Cahuc and Zylberberg 2006; Boeri and van Ours 2008). Threat of sanctions or a supplementary meeting with your caseworker is often as effective as imposing the sanctions in encouraging more unemployed to find a job

quickly. The mere waving of a big stick was enough to nudge over a good number of the unemployed into jobs (Boeri and van Ours 2008).

8.8 The 1996 US federal welfare reforms

The best-case study in the relative effectiveness of the carrot and stick is the 1996 US welfare reforms. This introduced five-year lifetime time limits on eligibility for federal welfare for single mothers, mandatory work requirements and a much more generous in-work tax credit. The lessons for New Zealand come from the dire predictions that were made about what these welfare reforms would do. They also illustrated the ability of people to improve themselves when suitably motivated.

The critics of these Clinton administration reforms did not hold back. Senator Daniel Patrick Moynihan famously predicted "children sleeping in grates, picked up in the morning frozen"; 1.1 million were predicted to be pushed into deep poverty. Instead, these 1996 US reforms cut Hispanic and black child poverty rates by one-third in a few years by moving single mothers into employment. Rebecca Blank, who later was acting secretary of commerce in Obama's cabinet found that:

...nobody of any political persuasion predicted or would have believed possible the magnitude of change that occurred in the behaviour of low-income single-parent families (Blank 2002).

The declines in welfare participation and gains in employment were largest among the single mothers previously thought to be most disadvantaged: young (ages 18-29), mothers with children aged under seven, high school drop-outs, and black and Hispanic mothers (O'Neill and Hill 2001). These low-skilled single mothers were thought to face the greatest barriers to employment; Employment of never-married mothers increased by 50 percent after the 1996 US reforms; employment of single mothers with less than a high school education increased by two-thirds; and employment of single mothers aged 18 to 24 approximately doubled (O'Neill and Hill 2001).

Over a six-year period after the 1996 welfare reform, 1.2 million black children were lifted out of poverty (O'Neill and Hill 2001). In 2001, despite a recession, the poverty rate for black children was at the lowest point in US history (Blank 2002). Time limits on welfare for single parents reduced welfare caseloads by two-thirds, and by 90 percent in some states. The critics of the 1996 welfare reforms expected these mothers to be sleeping in the street, not find jobs on mass.

8.9 The price in credibility of doomsday predictions about welfare reforms

The overseas lessons for New Zealand arise out of Karl Popper's three golden rules for scientific predictions: test, test, test. Make bold, risky predictions; what does your hypothesis strictly forbid?

Opponents of welfare reforms at home and abroad wrongly believed with complete certainty that the 1996 welfare reforms will increase child and family poverty. The critics of the 1996 US welfare certainly made bold, risky predictions such as about children freezing to death in the streets in the harsh American winters and over one million more in deep poverty. The hypothesis of the critics of the 1996 US welfare reformed strictly forbade improvement in social indicators. They were wrong.

8.10 The Code of the Street speaks loudly to New Zealanders

Most of all, in terms the original Milton Friedman edict about testing theories against data in different countries, the US federal welfare reforms tested benefit sanctions in far harsher inner-cities than South Auckland. The US National Longitudinal Survey of Youth 1997 revealed that

An astounding 26 percent of black males in the United States report seeing someone shot before turning 12 (Aliprantis 2016).

This finding inspired a literature on the Code of the Street. The way of talking and the behaviours of inner-city minority youth were survival skills. They talked and acted in a way that kept them alive to their 18th birthday. They invested in street capital, a distinct type of human capital defined as the skills and knowledge useful to

provide personal security in neighbourhoods where it is not provided by the police (Aliprantis 2016). This tough way of talking and acting kept inner-city youth alive in violent neighbourhoods but was not a dialect and attitude congenial to winning regular jobs.

... growing up in the 'hood means learning to some degree the code of the streets, the prescriptions and proscriptions of public behaviour. He must be able to handle himself in public, and his parents, no matter how decent they are, may strongly encourage him to learn the rules (Anderson 1999, p. 114).

My point is that young mothers whose childhood was through the crack cocaine epidemic in the 1980s and high murder rates and street violence a decade later still had considerable control over their circumstances and their ability to find work.

The US situation is a useful comparison with New Zealand in terms of expectations about how successful welfare reforms might be because the inner-city neighbourhoods of America are far tougher than those in New Zealand. Welfare reforms have succeeded quite spectacularly in far less favourable circumstances than New Zealand's. Predictions of increased poverty and homelessness after welfare reforms certainly turned out to be wrong.

9 BUT WHAT'S A SINGLE MUM ON A BENEFIT IN THE AGE OF TINDER?

9.1 The Greens are on to something!

It is no longer 1972. Women no longer stay in the kitchen, half a dozen kids in tow, and there is safe contraception. The single mother's benefit started for widows and was then extended to mothers deserted by deadbeat dads because there are too many kids to go to work. That no longer applies.

The Greens were justified in decrying the single parents benefit as a possible barrier to seeking new relationships that lead to re-partnering and the founding of new or blended families. Much of the heroic nature of mankind is defined by the self-sacrifice of parents for their children and each other.

But the Greens succumbed to the fatal conceit. They assumed all social problems can be solved and we have an unlimited capacity to reshape the world in accordance with our wishes.

This blindness to the persistence of real problems under any conceivable social system is the hallmark of the utopian (Stigler 1979).

The second-order effect of allowing couples who are going steady, or a planning to have a baby, or have had a new baby to still receive a single mother's

benefit must be traced out carefully. What the Greens got right is asking what a couple is in the 21st century for the purposes of benefit eligibility. They moved too quickly without checking for unintended consequences as reformers always do:

The best scholars are not the best reformers. A scholar must be tolerably open-minded, unemotional, and rational. A reformer must promise paradise if his reform is adopted: a candid and qualified estimate of the effects of a given public policy would never arouse a majority from inertia. A reformer should have a low threshold of emotion... It follows that reformers cares little for the meticulous scholars – and use only those parts of the scholars' work that fit their needs... (Stigler 1964).

The purpose of this chapter is to make a much better problem definition than supplied by the Green Party. The policy of the Greens is criticised, but no real alternatives are developed for as Coase said

I have also suggested that this would yield best results if conducted in an atmosphere in which

the scientific spirit is not contaminated by a desire (or felt obligation) to find quick solutions to difficult policy issues (Coase 1972).

Not all problems have an immediate solution that is better than the status quo, warts and all. Jumping in because of an action bias, the urge just to do something and be seen by the media to be doing something can make things worse or result in little improvement at great cost. A good rule of thumb is: will the proposed additional social spending be better value than a bigger budget for Pharmac? Every dollar spent elsewhere is a dollar less funding for a new life-saving drug.

9.2 But I gave him the best years of my life!

Doug Allen challenges you to describe marriage to a 19-year old male who had never heard of it:

1. Marriage is all about responsibility, monogamy and a painful exit if things go awry; and
2. Yes, there is the hope of children and mutual support, but only if you sign up to child support obligations, community property rules and many other constraints that are enforceable.

Not surprisingly given this candid pitch, the role of the state in marriage is protecting mothers from opportunistic breach of a long-term contract with sequential performance (Cohen 1987; Allen 1990; Brinig and Allen 2000) Mothers have the children first; the fathers support them for several decades. The policy problem is desertion and dead-beat dads. Marriage is a set of legal constraints devised to reduce the number of mothers left holding the baby (Cohen 1987; Allen 1990; Friedman 2000).

9.3 The decline of married with children

David Friedman (2000) provides the most persuasive explanation for the decline of marriage, more divorces and more single parents. The gains from marriage fell because of technological change. Many labour-saving household appliances and the spread of processed food liberated women from full-time homemaking to let them work full-time. These technological advances made it less attractive for men and women to marry and to raise children together. When families were larger, the wife specialising in child rearing and household management and the husband working full-time paid-off (Becker 1981, Friedman 2000). The number of families who are headed by a single mother is far greater than can be explained by an increased availability of a welfare benefit (Edin 2000).

About 100 years ago, 50 years before the provision of a single mother's benefit in

New Zealand, housewives had full-time occupations running the home. There was cleaning, cooking, washing, and more than a few kids to keep an eye on. What is underrated is how multiskilled housewives were:

... a few hundred years ago, it was not uncommon for a man to be married to his baker and brewer and a woman to her butcher--all three of those professions were to a considerable extent carried out within the household, especially in rural areas ... One factor reducing the amount of household production has been the increase in specialization over the past few centuries. Bacon, clothing, jams, and many other things are now mass-produced instead of made at home ... Clothes and dishes are still washed at home, but a good deal of the work is really done by the firms that make the washing machines (Friedman 2000).

As recently as the 1960s, mothers spent 30 hours per week on housework (Greenwood, Gunar and Vandembrouck 2017). Their engines of liberation were labour saving white goods and pre-prepared and takeaway food. These freed more mothers to re-join the workforce sooner and often full-time (Greenwood, Gunar and Vandembrouck 2017). Coen-Pirani, Leon and Lagauer (2008) estimated that

20 percent of the increase in married female labour force participation in the US in the 1960s can be attributed to the diffusion of household labour-saving appliances. To add to the brew, the rise of the service economy which replaced brawn with brain allowed many more women to work full-time but not arrive home tired (Becker 1985).

The gains from marriage and the losses from divorce fell rapidly over the 20th century:

... household production in general and child rearing in particular are responsible for a large part of the specialized capital associated with marriage. If husband and wife each spend 80 percent of the day working at a job and 20 percent taking care of the household and if they have no young children, the costs of divorce are not all that great. Even for a somewhat more traditional family, with the husband working full time and the wife dividing her time between work, housekeeping, and rearing one or two children, the costs of divorce are much lower than they were a few generations ago (Friedman 2000)

Those that say women are socialised by their culture to be a wife and mother were not paying attention to the radical changes in the role of women in the 20th century. As Gary Becker explains:

... major economic and technological changes frequently trump culture in the sense that they induce enormous changes not only in behaviour but also in beliefs. A clear illustration of this is the huge effects of technological change and economic development on behaviour and beliefs regarding many aspects of the family. Attitudes and behaviour regarding family size, marriage and divorce, care of elderly parents, premarital sex, men and women living together and having children without being married, and gays and lesbians have all undergone profound changes during the past 50 years. Invariably, when countries with very different cultures experienced significant economic growth, women's education increased greatly, and the number of children in a typical family plummeted from three or more to often much less than two (Becker 2006).

Goldin (2004, 2006) showed that women adapted rapidly over the 20th century to the changing returns to working, education and staying at home. In the 1900s, women had jobs, not careers. Women chose between a career or having a family because families were so large. Between the world wars, women had a job

then married and had a family (Goldin 2004, 2006). Up until the 1950s, women trained to be a teacher, nurse, librarian or secretary because these skills were mobile across jobs and locations and did not deprecate much during breaks to raise a family. Women had a family then a career. The age of marriage rose in the 1960s, so women had a career then a family. Only by the 1980s did women have both a career and a family (Goldin 2004, 2006). Each generation of women in the 20th century had radically different expectations to their mothers of their commitment to the labour market, marriage and families. Marriage as an institution had to adapt.

9.4 ... and the mother and baby are doing well

Medical progress from the 1920s to the 1960s revolutionised the role of marriage as a support and insurance institution for mothers. Having a baby was once the single most dangerous thing a woman could do. In Gender Roles and Medical Progress, Stefania Albanesi and Claudia Olivetti say

Consider a typical woman born around 1900. She married at 21 and gave birth to more than three live children between age 23 and 33. The high foetal mortality rate implied an even greater number of pregnancies, so that she would be pregnant for 36 percent of this time. Health risks in connection to pregnancy and childbirth were

severe. Septicaemia, toxoemia, haemorrhages and obstructed labour could lead to prolonged physical disability and, in the extreme, death. In 1920 one mother died for each 125 living births. At a rate of 3.6 pregnancies per woman, the compounded risk of death from maternal causes was 2.9 percent. For every death, twenty times as many mothers were estimated to suffer different degrees of disablement annually. Many maternal conditions had very long lasting or chronic effects on health, hindering women's ability to work beyond their childbearing years (Albanesi and Olivetti 2016).

However, such high risks of serious complications from childbirth still present in the early 20th century have dropped from modern memory. The implications of medical progress around childbirth for female life expectancy has been equally forgotten as Albanesi and Olivetti explain

The development of bacteriology, the introduction of sulfonamides and antibiotics, and the diffusion of blood banks dramatically decreased the death rate from sepsis and haemorrhage. More specific interventions, such as the standardization

of obstetric practices and the increased availability of pre-natal care, reduced the incidence of hypertensive disorders of pregnancy and obstructed labour, a causal factor for many forms of post-partum disability. These developments lead to a stark decline in maternal mortality and a rise in the female-male differential in life expectancy at age 20 from 1.5 years in 1920 to 6 years in 1960 (Albanesi and Olivetti 2016).

At the beginning of the last century, the burden of childbirth and breastfeeding simply made it impossible for married women to work in any significant number as Albanesi and Olivetti explain:

In addition, due to the lack of reliable alternatives, most infants were exclusively breast fed. Women would then be nursing for approximately a third of the time between age 23 and 33. Since the average time required to feed one child ranges between 14 and 17 hours per week, with a 40-hour workweek, mothers would be nursing for 35 percent-43 percent of their potential working time in childbearing years. Not surprisingly given this burden, few married women worked. Only 5.4 percent of married women aged 25 to 34 were in the labour force in 1900 (Albanesi and Olivetti 2016).

Also so quickly consigned to the memory hole is the extraordinary reduction in the number of years lost in disablement after

childbirth since the early 20th century as Albanesi and Olivetti's explain

... the years lost to disabilities associated with maternal conditions declined from 2.31 per pregnancy in 1920 to just 0.17 in 1960 (Albanesi and Olivetti 2016).

Medical progress around childbirth is an important force driving the rise in the labour force participation of married women during childbearing years and post-childbearing between 1935 and 1965. For 50 years now, and for not much longer than since the availability of the single mother's benefit, the health burden of giving birth is measured in weeks rather than years.

9.5 ... in sickness and in health

With childbearing much safer by the 1950s, most women no longer had a strong incentive to make the prospect of marriage in case of an unplanned pregnancy a strict condition of relationships (Friedman 2000). Childbearing was no longer so risky that promises of marriage and lifetime support were necessary before most women risked an unplanned pregnancy at all. Relationship formation and marriage rates are bound to change if they were no longer a life or death decision. Welfare benefit regimes for single parents may not have kept up with this profound medical progress.

9.6 Fewer shotgun weddings

The availability of reliable contraception allowed women to invest in their careers and plan the size of their families, but it also had nuanced effects on the dynamics of dating and marriage. Akerlof, Yellin and Katz (1996) argued that the increase in single mothers followed the widespread availability of contraception from the 1960s. When sex and childbearing were linked, women could demand a promise of marriage in the case that she falls pregnant. Many women could expect to secure these terms because most other women faced the same risk and made the same demand.

With widely available safe contraception, women who want both sex and children must compete with women who wanted only sex. More women must risk children without a promise of marriage to avoid living the life of a nun. More women who became pregnant are raising the child on their own because they did not regard the fathers to be husband material. The social safety net for single mothers has assumed a much tighter relationship between marriage and motherhood.

9.7 The power of the pill

The legal availability of safe, reliable contraception in the 1960s opened many new doors to women. Although rapidly disseminated to married women once it came on the market in 1960 in the USA, the pill at first was inaccessible to single females due to the prevailing state laws. Female graduate

enrolments trebled within a couple of years when their state legalised contraception for single females; girls stayed in high school longer, more young women went on to college, and more women majored in long duration professional degrees (Goldin and Katz 2002).

9.8 No one wants to be left on the shelf

In the 1960s, it was common to get engaged and even marry while at college in the USA. As Claudia Goldin, and her co-author (and husband) Larry Katz explain:

It was a stark choice, you could be celibate, get your career started, and potentially face a very thin marriage market once you were done. Or, you could have fun, get married earlier, and not necessarily have a career (Hanna 2001).

The availability of the pill allowed college-age women certainty in their career investments; the payoff of investing in long duration professional educations was much greater. Rather than live the life of a nun and miss out on the best dating prospects in their class, women could have it all.

9.9 The rise and rise of power couples

When reliable contraception became available both to single and married women, with a decoupling of sex for marriage, young university track women could afford to defer marriage and shop around for better partners. Postponing marriage for a few years didn't mean all

the "good guys" would be taken. In addition, with higher career incomes for female college graduates, as Goldin explained:

You might think of it as the decline of the trophy wife, as women with careers who might not be as intrinsically good-looking became more highly valued than—or at least as equally valued as—women for whom appearance was a primary asset (Hanna 2001).

Reliable contraception meant marital timing adapted for middle-class women; they laid the foundations for a career and had the space to search across a succession of boyfriends until one had the makings of an equal partner in a power couple. University graduates reconfigured marriage as a long-term commitment device to facilitate intensive joint investments in their children (Lundberg, Pollock and Stearns 2016). But as Goldin's co-author Larry Katz explained:

Potential losers in this equation, in addition to trophy wives, are women with poor career prospects. The clear winners are women with careers and, of course, the men they marry ... Guys have more money, more sex, and less responsibility (Hanna 2001).

The flipside of the emergence of power couples is less educated women may prefer to stay single

and raise children on their own rather than marry what is left in the dating pool.

9.10 Too few good men

Women on a low social trajectory see no reason to wait before having a baby and they look down on those that wait. Top-quality ethnographic studies in the USA of inner-city poor single mothers, many of whom were from minorities by Kathryn Edin showed that among low-skilled women:

People now regard marriage as a luxury good rather than as a necessity. They refuse to tie the knot unless they have first achieved economic success. A house, a well-paying job, and enough money for a nice wedding are now needed before considering a trip to the altar (Wax 2005).

These young, low income women put motherhood first and have no intention of marrying the layabouts that often fathered their children, most of all, because of repeated and open infidelity:

The women do not complain of men's failure to earn enough, but rather of their unwillingness to grasp opportunities, work steadily, and spend wisely. The objection is not to modest earning power, but to financial profligacy, defiant attitudes, and lack of work discipline... The most vociferous complaints are reserved for men's chronic criminal

behaviour, drug use, violence, and, above all, repeated and flagrant sexual infidelity. Most men made no effort to hide their frequent liaisons, which were often carried on simultaneously. More often than not, those relationships produced babies (Wax 2005)

The rise and fall of engagement rings that were expensive illustrate how dating dynamics change rapidly. A great many brides used to arrive at the altar pregnant. While many men honoured their promise to marry in case of a pregnancy, there were those that did not. Under common law, a jilted fiancé could sue for breach of promise. The damages made up for reduced marital prospects. When breach of promise suits was abolished, Brinig (1990) found that expensive engagement rings became popular in the 1930s, peaking the 1950s. Instead of suing, a jilted fiancé kept the ring. Expensive rings as a performance bond fell out of favour as pre-marital sex became more common.

9.11 Sharpen up, you're a father now, make something of yourself

There is now evidence that a baby is a way of seeing if one day the father might grow into husband material (Edin and Kefalas 2005). In the past, an expensive ring were a screening device to test a boyfriend's willingness to make a commit before an unplanned pregnancy was risked (Brinig 1990).

Now a pregnancy is a screening device to see if the father may grow into a potentially worthwhile husband (Edin and Kefalas 2005). The world has turned on its head; pregnancy can be a screening device for husbands rather than a precursor to shotgun marriages. Sole parent benefit regimes have not kept up with radical changes in which of marriage and babies comes first and why and to whom.

Among low income women not on a trajectory to university, having a baby with their boyfriend is a test to see whether he may measure up to something better than he currently is:

... An expectant mother uses pregnancy to test the strength of her bond with her man and take a measure of his moral worth. Can he "get himself together" – find a job, settle down, and become a family man – in time? (Edin and Kefalas 2005).

Unlike the middle class in the suburbs, teenage new fathers in the American inner cities also look upon having an unplanned baby as a godsend into otherwise chaotic lives. Kathryn Edin followed the life of inner-city teenager Joe White, who was initially a gang member for the next 20 years or more. When he discovered his teenage girlfriend was pregnant, White excitedly told his friends

*I just created a miracle!
...I'm going to be a dad,
I'm 18, and I'm still alive!
I'm passing a statistic*

(Mencimer 2014).

But the joy of the teenage mothers and fathers to be does not blind them to their social reality. One young mother knew that raising a child on her own will be tough, but she had her standards:

"I don't wanna have a big trail of divorce, you know. I'd rather say, 'Yes, I had my kids out of wedlock' than say, 'I married this idiot.' It's like a pride thing." (Mencimer 2014).

Edin and Nelson (2013) and Edin and Kefalas (2005) also found that if inner-city low income women waited until everything was perfect, a fiancé who was mature and stable, they believed they might never have children. They wanted economic independence to ensure an equitable partnership and have an immediate fall-back if things go bad. Too many mothers found that having the father move in was just like having another child to look after and wash and cook for (Edin 2000). Some described the relationship with their ex-partners as "like having one more kid to take care of" (Edin 2000).

9.12 No more marrying in haste

Again, the sole parent benefit regimes have not kept up with these social revolutions. Widows pensions and sole parent benefits were designed as safety nets to catch those falling from misfortune in their relationships. Having a baby in a long-term relationship or

indeed in any sort of enduring relationship with the father is no longer the default setting for many women. The sole parents' benefit was set-up as social insurance, protecting mothers against misfortune. Having a baby on your own is now no longer always a misfortune but is part of a normal life story for many,

Marriage was painful for men to get out of in the good old days before reliable contraception, but the prospect of shotgun marriage encouraged men and women to be careful about who they romanced. With sex and romance now decoupled, low income women regard marriage (and long-term live-in relationships) as too painful to get out of, so they don't marry (or live together).

These women do not hold their men to new and higher standards. They want what women have always wanted: men who are steady, faithful, considerate, and industrious. The virtues they seek in a husband — dependability, fidelity, honesty, frugality — are those that women have always sought. What has changed is men's willingness to fulfill these requirements by living up to age-old standards. Although the women foster the men's bad habits by having sex and babies with them despite the men's irresponsibility, they still cling to the old expectations.

Their dashed hopes transform marriage into an impossible and unattainable dream (Wax 2005).

Many young mothers increasingly see cohabitation as a vetting period for the father to ascertain if he will shape up, work regularly, spend wisely, contribute financially and say goodbye to his wild ways (Edin and Kefalas 2005b). Too many boyfriends, too many fathers no longer measure up.

9.13 Class, status and teenage pregnancies

Too many commentators see a teen pregnancy through their own lens as a middle-class parent; in despair over their teenage daughter risking missing out on university and all that brings including a better class of boyfriends and husbands. University educated couples are not called power couples for nothing – their earning power is stunning compared to mothers going it on their own.

For those not on the track to university, having a baby changes these young women from extras on the stage of life to a mother and all the community respect and social standing that commands.

Babies need not await the achievement of an elevated position in life, because childbearing is a fundamental hallmark of female adulthood that is central to poor women's dignity and identity. In the authors' words, "women rely on

their children to bring validation, purpose, companionship, and order to their often-chaotic lives — things they find hard to come by in other ways." In a perverse inversion of old values, these women have come to regard lone motherhood as the ultimate heroic act, the proving ground of their responsible devotion to others (Wax 2006).

These new mothers clean up their act, they stop drinking and taking drugs; for the first time in their lives, they have a purpose, which is to raise a child (Edin and Kefalas 2005). No matter how far they fall, society will help them back to reunite them with their children for the sake of their child.

9.14 A reason to get up in the morning

For the middle class, it is university, marriage then baby carriage. For lower-income mothers, pregnancy can be a test of the character of the father, but all is not lost if he fails to measure up.

"There was nothing to live for other than the next day getting high. [My life had] no point, there was no joy. I had lost all my friends—my friends were totally disgusted with me—I was about to lose my job, [and] I ended up dropping out of another college....Now I feel like 'I have a beautiful little girl!' I'm excited when I get up in the morning!" (Edin and Kefalas 2005).

The profound class distinction

between middle-class families and low-income new mothers is the hardships ahead. Low-income mothers feel sorry for other young women who wait to have a baby.

To most middle-class observers, depending on their philosophical take on things, a poor woman with children but no husband, diploma, or job is either a victim of circumstances or undeniable proof that American society is coming apart at the seams. But in the social world inhabited by poor women, a baby born into such conditions represents an opportunity to prove one's worth. The real tragedy, these women insist, is a woman who has missed her chance to have children (Edin and Kefalas 2005).

To these young, low income mothers, their baby gives identity and meaning in their lives for the first time. The baby is not a blunder that disrupted their education and career (Edin and Kefalas 2005).

9.15 Motherhood is still prized, marriage is revered, divorce is reviled

The single parent's benefit is based on a 1960s model of widows and deserted wives who were expected to live the life of a nun or remarry after a traditional courtship. What is no more is the tight 1960s style link between sex and romance in a

sly hope of marriage:

... we have a lot more choices than in the past. You no longer have to be married to have sex pretty much as often as you like. You can marry or cohabit with a "significant other." You can have children in or out of marriage. In an increasing number of states you can marry someone of the same sex. I am old enough to remember when we called a woman who had sex before marriage "loose"; cohabitation "living in sin"; a child born outside of marriage "illegitimate"; and a relationship with someone of the same sex "unnatural." These phrases are a reminder of how the times have changed—and at lightning speed (Sawhill 2014).

The traditional value that is as strong as ever as is the joy of motherhood, treasuring starting a family. Having babies beats marriage and women not on track to university have no reason to wait:

... "getting married just to get divorced" is worse than having a baby outside of marriage. Meanwhile, the future prospects of many inner-city youth are already so limited they have little to lose, and perhaps much to gain, from a seemingly ill-timed birth. While girls from the suburbs dream of the lucrative careers

and comfortable lifestyles that await them if they defer childbearing into their late twenties and thirties, economists have shown that poor girls who bear children while still in their teens would have been no better off for waiting.... For poor single mothers, marriage has not lost its value. Quite the opposite: They revere it too much to sully it with a foolish union (Edin and Kefalas 2005).

Mothers are not willing to drop their standards and marry the father unless he is up to scratch. Raising the baby on her own is a challenge many low-income mothers are willing to accept. The single mother's benefit was initially premised on the mother is a widow or deserted wife. The modern welfare state was built for people down on their luck and in need of temporary help to get back on their feet. Many low-income mothers do not regard single parenthood as bad luck.

9.16 These boots are made for walking...

Women's liberation certainly has come far when women who left school early, had a baby young and are struggling to make ends meet still have no plans to be second place to anyone in a marriage:

These women said they want to be financially secure before they wed, because a marriage, they believe, should be a partnership of equals. The women talked about

the patriarchal views that many of their partners hold, arguing that money of their own will keep their men from thinking they “own” them (Edin and Kefalas 2005).

Single mothers have no illusions about relationships and the need to bail out of failing liaisons. They shun marrying unreliable fathers; the most common reason “I can do bad by myself” (Edin 2000). There are bioeconomic forces motivating women to be realistic about men disappointing them:

A 30-year-old woman who wants a family is getting close to the point where she has to choose the best of her available suitors. A 30-year-old man can always choose to wait another five or 10 years till someone better comes along. In general, the longer you spend searching for something—be it a car, a house, or a life partner—the happier you’re going to be with the one you end up with. So—again, with myriad exceptions—a woman’s optimal strategy is to settle for an imperfect mate and then try to change him. A man’s optimal strategy is to search until he finds someone close to perfect. It’s therefore no surprise that women, more often than men, should end up regretting their choices... Wives try harder to mold their husbands than

husbands try to mold their wives—because husbands wait until they’ve found wives who need relatively little molding (Landsburg 2000).

Some women may first have children much younger than the current average of age 29, but they still enter relationships with their eyes open about the potential shortcomings of men as partners.

9.17 Independent couples

Co-signing of a lease with the father of the child was too much commitment for many low-income single mothers; it is an obvious barrier to a rapid escape from a failing relationship (Edin 2000). When low-income single mothers were asked about what is best about being a single parent, a common response by them was “I am in charge” or that “I am in control” (Edin 2000).

The single mother’s benefit presumes that people living together are a financially interdependent couple. Many low-income mothers live with the father or a boyfriend, expect him to contribute to the expenses of the house or be turfed-out, but see themselves as independent of him (Edin 2000).

The rise of independent couples means that more couples will respond to incentives in the social safety net. If there are fewer restrictions as sought by the Greens on sole parent benefit eligibility, more couples will move in together than in the

past but still regard themselves as independent. This often can be a genuine belief independent of any implications for welfare benefit eligibility.

9.18 Going steady, engaged, married or divorced no longer work as a taxonomy

The point of this chapter has been to show that single parent benefit eligibility regimes are playing catch up all along the line. Economic progress means that women have fewer reasons to enter long-term relationships to have children and more reasons to end relationships that come up short. An increasing number of single mothers may live with the father, share expenses but not regard themselves as in a relationship in the nature of marriage.

The single mother’s benefit makes the 1960s assumption that men and women date with an eye towards marriage. This chapter has argued that this 1960s relationship taxonomy will never make a comeback. Plenty of people still go out, but they are not dating according to a 1960s dictionary. The passion between the sexes is more often in the driving seat, not a yearning for romance and wedding vows (Whitton 2018). The 1960s taxonomy is that stable relationships often evolve into marriage and financial support. That is no longer true for many couples.

9.19 Family law and the welfare state both struggle with modern relationships

Blended families raise similar

thorny relationship definition issues with which family law is still wrestling. Parents wanted to arrange their affairs in a way which they met their obligations to the children of their first marriages and have separate arrangements for the business and property that emerged from the new coupling. The aim was to put their new and old families into neat little boxes defining their obligations of support and inheritance rights. When the Property (Relationships) Act was passed, there was a newspaper advertisement soon after with a class photo with a boy sitting in the front right pulling a face at the camera. The product pitch was the increased need for family trusts in case your daughter goes out with the class clown for long enough that he ends-up with a property interest in the family farm before she even graduated from university. The transitory nature of modern relationships complicates both inheritances as well as relationship property.

9.20 Are the Greens right? Is it all too hard?

The solution of the Greens is to give up; have a bright line rule paying the single mother's benefit to any mother who is unmarried and not in a relationship longer than two-years. There would be a big financial penalty on parents who married before their relationship hit the two-year mark. Middle-class couples might keep marrying, but low-income couples simply could not afford it.

There are no obvious solutions

to how the welfare state should cope with the proliferation of single parent relationships, but this chapter defined the problem better. The policy problem isn't privacy intrusions; it is defining what a relationship is in the 21st century. Many single mothers have few reasons to marry the father and every right not to live the life of a nun. Conditioning welfare benefits on relationship taxonomies that are straight out of the 1950s helps no one. The Greens want to go back 50 years where there were neat little boxes for relationships and dating. When in doubt, they freely handout taxpayers' money because they really want a universal basic income.

9.21 A quiet revolution for women at home and at work past the Greens by

The Greens raised an important social question about the extent to which the single parent's benefit is a barrier to new relationship formation and the eventual foundation of a new or blended family. The flaw is the Greens took too lightly the revolutionary changes in the role of women from the mid-20th century and earlier and their liberation from having to marry to have children.

As this chapter has attempted to show, each generation of women in the 20th century had many more options than their mothers'. Women prior to 1920 had to choose a career or a family. Few married women worked. Women between the wars had a job and then raised a family. After World War II, women started a family younger

and then found a job. From the mid-1960s to 1980, women had a career then a family. Only after the 1980s did women both have careers and a family.

The single parents' benefit regime latched onto the 1960s conception of women's options; baby boomers worked for a time, then raised a family, and then returned to the workforce. The sole parents' benefit regime never kept even a slow pace with the rapid post-1960s changes in the role of women, marriage, families and relationships. The point of this chapter is the sole parents' benefit must have messy rules because 21st-century relationships have no neat boundaries.

9.22 There are no good options for reform that aren't major fiscal risks

The Greens' proposal to pay the sole parents' benefit until there is a marriage, civil union or the Property (Relationships) Act applies after two years would make it bad financial planning for any couple to have their first child in wedlock. No couple would marry until the Property (Relationships) Act applies for the purposes of their welfare benefit eligibility. The experience in Ontario, Sweden and the US show that couples are surprisingly pragmatic about marrying and moving in together if their eligibility for a welfare benefit or a widow's pension is affected. Relationship formation can easily double or halve if financial incentives change, making the Greens' proposal a major fiscal risk.

The single parents' benefit still makes the mid-20th century assumption that a mother is living independently or is in a couple raising a family and there is nothing much in between. But this messy, imprecise, intrusive status quo for single parents' benefit could be the best of the bad options available for fraud control. In the spirit of Winston Churchill, the current rules are the worst of all possible worlds except for all the others. It will not be politically viable to seek more generous benefits if the Greens' reforms to the relationship criteria results in a budget blowout.

10 THE PUNISHMENT DILEMMA

10.1 The social cost of punishing welfare benefit non-compliance

James Buchanan (1975) wrote about the enforcement of law is complicated by the punishment dilemma. One aspect of this dilemma is hesitancy because there but for the grace of God go I:

Traffic violations offer a good example here. Recognizing that he may himself violate traffic regulations on occasion, the individual may be reluctant to accept institutions that impose severe penalties, despite his preferences that all "others" than himself should be led to obey the general rules by sufficiently severe sanctions. Just as the individual prefers that all others abide voluntarily by law while he remains free to violate it, so, too, he prefers that differentially severe punishment for law violation be meted out to others than himself (Buchanan 1975).

Self-interest was a reason why drink driving had weak penalties until the late 20th century. Too many juries were reluctant to convict drunk drivers

of manslaughter because they soon might be next in the dock. Death by dangerous driving charges are introduced with weaker penalties to placate juries. The penalties for drunk and dangerous driving ramped up as juries were more willing to convict.

The penalties for tax evasion are lighter than for benefit fraud because everybody is a taxpayer, taxes are not popular, and they do not want to be caught in a web of heavy punishments. Fewer taxpayers see themselves as long-term beneficiaries and are therefore more willing to punish fraud and to sanction non-compliance with obligations of benefit receipt. This asymmetry in punishment goes back to why most people tolerate cheating to win but not cheating to lose in sport. An elite American athlete said in the book *Freakonomics* is that if you not cheating, you are just not trying hard enough to win. There is a great social loathing for those who deliberately drop the ball.

Another reason for more the severe punishment of benefit fraud is harm to others. The extra scrutiny of tax returns because of the risks of tax evasion do not delay the paying of benefits to an already vulnerable group. There is considerable social harm from

even a short delay to an urgent application for a benefit, cash grant or emergency housing because of the need to guard against fraud. This gumming up of the system is why benefit fraudsters should be particularly reviled by beneficiary activists, but they are not. It is only prudent to have more severe punishments for those jamming up the workings of important social services.

10.2 This will hurt me more than it hurts you

The other aspect of the punishment dilemma germane to welfare benefit sanctions is imposing a punishment is personally unpleasant to the enforcer which causes them to flinch and shy away:

The imposition of penalties on living beings, whether or not these beings have violated law, causes pain, utility loss, to the normal person who must, directly or indirectly, choose these penalties. "Punishing others" is a "bad" in economic terms, an activity that is, in itself, undesirable, an activity that normal persons will escape if possible or, failing this, will pay to reduce (Buchanan 1975).

For the system to work, provide financial help to the needy, and

encourage those who can help themselves to help themselves, there must be consequences for not holding up your side of the social contract over the social safety net. Some try to duck away when push comes to shove:

... once a punishment rule is established and violation of law then occurs, the individual must suffer a quite different "cost of punishment" as he observed the rules in operation. He observes persons being coerced and harmed by the rules, after violations have occurred. The damage that the violation itself represents has been done; no punishment will restore the status quo ante. At this stage, the individual member of the inclusive community, which includes the person who has violated law as well as those who are damaged by the law violation, may be strongly tempted to modify or to change the rules that he may have indicated to be preferred in his planning or constitutional frame of reference. The presence of uncertainty concerning the actual identification of the violator will serve to accentuate this mood (Buchanan 1975).

But the social order depends upon the enforcement of law. We must steel ourselves:

The necessity for law enforcement must be squarely faced, regardless of our romantic yearnings for an imaginary paradise (Buchanan 1975).

The oldest public policy fallacy of them all is proceeding on the assumption that if only could people be different, all our problems would be solved faster, easier and cheaper. As Mises explained:

Scarcely anyone interests himself in social problems without being led to do so by the desire to see reforms enacted. In almost all cases, before anyone begins to study the science, he has already decided on definite reforms that he wants to put through. Only a few have the strength to accept the knowledge that these reforms are impracticable and to draw all the inferences from it. Most men endure the sacrifice of the intellect more easily than the sacrifice of their daydreams. They cannot bear that their utopias should run aground on the unalterable necessities of human existence (Mises 2003, p. 213).

Benefit fraud is real. Every social safety net must have eligibility rules policed by sanctions.

10.3 Justice must be blind, but it can be far-sighted

One of the purposes of John Rawls' veil of ignorance and Buchanan and Tullock's veil of uncertainty is that the basic social institutions can be designed and agreed when we have abstracted from the grubby particulars of our own self-interest. If all you know is that you are going to turn up as a random member of society, you are more likely to make decisions on everyone's long run interests including the need to enforce the social contract about the social safety net:

Rawls makes reference to the so-called pie game that had been discussed by the classical 17th-century English political Republican, James Harrington, who used it to defend separation of powers. To get two equal pieces of the pie, one player should cut and the other should choose. In essence, this clever rule of division from behind the veil of ignorance harnesses individual self-interest in the service of a social good. It also shows that Rawls's position could be of enormous use even to individuals who thought in terms of incentives and consequences, instead of simply in terms of just outcomes (Epstein 2002).

When we are dividing up social spending, deciding who is not to benefit, if we do not know who we are after that division is made, we are more likely to

make rules that are fair to all. Behind the veil of ignorance, we would agree that resources are limited, including in the health and welfare sector and some drugs can't be funded so choices must be made. Once we find out we are to miss out on this or that drug, naturally our views change. But we agreed to these rules for the distribution of basic social resources were fair for all when none of us knew their place in society, their social status nor their health, intelligence, ability and strength and other keys to success:

Essential to the analysis is the presumption that the individual is uncertain as to what his own precise role will be in any one of the whole chain of later collective choices that will actually have to be made... He cannot predict with any degree of certainty whether he is more likely to be in a winning or a losing coalition on any specific issue. Therefore, he will assume that occasionally he will be in one group and occasionally in the other (Buchanan and Tullock 1962).

We draw lines on a much fairer basis if we don't know which side we will land later. Fairness is adherence to rules agreed and laid down in advance. Moving the line whose positioning we agreed in advance after we find which side of that line we are on does no good. The new line will have people just on the other side with cases as compelling

as ours were to move the line just another bit. The most basic notion of justice is no one can be the judge of their own case.

A just social safety net can be designed and understood best by asking how we would choose from behind Rawls' veil of ignorance rather than where our interests lie on this day. An even better society is built behind that veil of ignorance with a modest degree of realism about human nature and how different political and economic systems work, warts and all (Epstein 2002).

10.4 You can't fool me, I'm part of the union

For example, trade union unemployment insurance of 100 years ago had strict monitoring of eligibility and job search by local union branches and the individual members of those branches. Their unemployment insurance anticipated that some will take liberties and others will be slack.

Most British unions in 1908 provided unemployment insurance for members; these union unemployment benefits were about 30 percent of take-home pay (Boyer 1988). This is not that much different from current unemployment benefit replacement rates in Anglo-Saxon countries.

British unions had tough safeguards against moral hazard. The Amalgamated Engineers made each unemployment insurance applicant make his claim at the next meeting of his branch. If the branch members, some of whom would be fellow

workmen on the factory floor, determined he was not eligible, he forfeited the benefits and was "liable to such other punishment as the branch may consider the case deserves" (Boyer 1988). A worker deemed eligible had to "sign ... the 'vacant-book' of his branch once every day between certain hours" to collect relief. The branch secretary would direct an unemployed member to any local firm in need of labour. A member who refused a job offer or who did not apply for a job when informed of a vacancy by the branch secretary forfeits his unemployment benefit unless he could show good cause at the next branch meeting (Boyer 1988). Trade union unemployment insurance used the local knowledge of members to root out shirking.

French trade unions were equally hard-nosed when they established unemployment insurance for their members in the late 19th century (Cahuc and Zylberberg 2006). Unemployed members had to sign-on at the union office every day where they were then given travel money to visit prospective employers on a list provide by branch secretary when they signed on. When the unemployed member returned the next day to sign on, they had to show the form given to them the previous day by the union secretary. This form had to be signed by the foreman of every workplace they were listed to visit in search of work. French trade unions supervised the job search of members in the greatest detail imaginable on every day of their unemployment

(Cahuc and Zylberberg 2006).

The 19th century mutual aid societies were formed by people with a common denominator such as the same occupation or ethnic, geographic, or religious background and later, on union membership. This appears to be an attempt to both profit from advantageous selection and to deal with moral hazard by personal knowledge of new members or signs of good character such as religious fervour. There were burial societies, factory societies, which make provision for its employees for accident, sickness or burial, and fraternal societies that provided for widows and old-age pensions.

In 1908 Britain, 1 ½ million trade unionists were eligible for unemployment insurance through their union; four million British also belonged to the sickness societies which predated the union movement. Few mutual aid and friendly societies provided unemployment insurance. Trade unions were superior to mutual aid societies as providers of unemployment insurance because of their greater ability to monitor the eligibility and job search of members through local branches.

Social insurance was founded on a need to watch the money to ensure it goes to those truly in need and every effort was made to prod those in need to help themselves back on their feet as fast as possible. As the fiscal pressures of an ageing society grow, those founding lessons about frugality from the voluntary

social insurance by unions and other mutual aid societies are as relevant as ever.

10.5 But the current benefit doesn't pay enough?

If you disagree with the generosity of benefits, those differences should be resolved by normal democratic means; by trying to persuade each other and elections. Your vote does not count for more than mine. I must obey the laws you voted for, so you must obey the laws I voted for. That is what democratic equality means: we each have one vote at the ballot box. None are free to substitute their preferred policies for those enacted by a parliament elected by we the people.

Civil disobedience has its place in a democracy but only as a public, non-violent, political act aimed at bringing about change by appealing to the sense of justice of the majority; protesters must be willing to accept arrest and punishment as proof of the integrity of their conscientious act (Rawls 1970).

Protests are not about defying the will of the people; they are publicity stunts to gain attention and provoke debate within a democratic exchange of views to change hearts and minds (Rawls 1970). By risking arrest, protesters bear witness to their deep conviction that the majority viewpoint is mistaken. Their public protests imploring the majority to reconsider is based on a cornerstone of government by the people for the people, which is robust public debate in and between elections.

An example of using normal democratic means to resolve policy disagreements is after the Mother of all Budgets in 1991. The correct response of the left-wing opponents of those budget cuts was to unite and defeat the National Party government at the next election. Instead, the left of politics remained split over ideological feuds about privatisation and deregulation. Fighting welfare benefit cuts that greatly increased child poverty took second place to these old left internecine feuds. Instead, a National Party government was re-elected in 1993 and again in the 1996 general election.

As for the importance of those old left ideological feuds about the 1980s that took priority over child poverty, none on the left now seem to want to give Telecom its monopoly back, close JetStar, have only two TV channels or pay at the post office for a license to use the Internet, and while they are queuing up, pick up that mobile phone they ordered a few weeks ago. The old left grudges about privatisation and deregulation were more important than reversing large cuts in welfare benefits.

10.6 Democracy gives voters what they voted for, good and hard

The great virtue of a democratic system is it readily enables the people, over time, to be persuaded that what they took for granted is not so and change laws accordingly. Any other way of resolving issues cheats both sides; it robs the winners of an honest victory, and the

losers of the peace that comes from a fair defeat on the floor of Parliament. Another great strength of democracy is a small group of concerned and thoughtful citizens can band together to change things by joining a party and winning elections or influencing who does or by mounting single issue campaigns and by bloc voting and building support by trading votes with other voting blocs on issues they treasure to build a majority. Every political party started in a living room filled with friends looking for a better way.

Parliaments elected by proportional representation reinforce the ability of small groups to band together to win influence. Parties can strive to persuade fellow citizens to agree with their views.

Today's losing side cause can continue pressing their case, secure in the knowledge that an electoral loss today can be followed by a later electoral win. The rotation of power is common in democracies. It is demeaning to democracy to presume voters are not capable of deciding an important issue such as welfare benefit generosity on decent and rational grounds. Grey Power specialises in articulating the case for a generous old-age pensions with repeated electoral success. They change public policy through persistence at the ballot box rather than shouting in the street.

The common feature of political parties even long in power is the continual stealing of the

opposition party's policies to stay in power. They implement a slightly watered-down version of the policies of their opponents that is more appealing to swinging voters as Tullock explains:

If the parties would rather be elected than beaten, and they choose their policies accordingly, they would attempt to take the position of the median voter, because that assures them of success against any other policy taken by the other party. In practice, of course, we observe that in most two-party democracies the parties are very close together and near the dead centre of opinion. Once again, this decision of the parties can be criticised, but the party managers, in seeking re-election and choosing their policies accordingly, are creating what advocates of democracy are supposed to favour, i.e. government in which the will of the people counts – heavily (Tullock 2006).

Caplan (2006) and Peltzman (1998, 2012) remind that it is difficult to point to a major government spending program in the 20th century that lacked majority support.

Schumpeter's (1942) theory of democratic participation is that voters have enough knowledge and sophistication to vote out leaders who are performing poorly or contrary

to their wishes. Voters tend to vote retrospectively: on past performance and out of anger rather than voting for the agendas of the alternative parties. The power of the electorate to turn elected officials out of office at the next election gives elected officials an incentive to adopt policies that do not outrage public opinion and administer the policies with some minimum honesty and competence.

Waste and fraud are certainly unpopular. In 1987, after Ontario increased welfare benefits by 30 percent and gave the single mother's benefit to every unemployed mother who was not married or in a three-year plus relationship, the ensuing fiscal crisis elected in a Tory government in 1995 that cut benefits by 20 percent. The swinging voter is a fiscal conservative (Peltzman 1998); as the swinging voter ages, that grumpiness towards waste and fraud can only rise.

10.7 Democracy in New Zealand

The evolution of social spending over the last 25 years is straightforward. Every three years, Grey Power marches to the ballot box and punishes any party contemplating changes to the eligibility and generosity of New Zealand Superannuation. No need to protest in the street or engage much in activism between elections other than as a hobby. They mobilise at the ballot box every three years; the parties know that. Former Prime Minister Sir John Key got his capitulation in first and promised

double compensation to superannuants for the increase in the GST from 12 ½ percent to 15 percent.

Former Minister of Finance Dr. Michael Cullen explained the power of Grey Power in a speech to retirement income policy conference more than 10 years ago. He argued that the 1996 MMP election settled the eligibility age for New Zealand superannuation for decades to come. A party going into a close MMP election will always look for something to get it over the top and promising to retain the eligibility age for New Zealand Superannuation at age 65 is always high on the list.

Labour toyed with increasing the eligibility age of superannuation to 67 at the 2014 election but dropped the idea like a stone once it became possible that it might win the 2017 election and risk the political flack of campaigning on that policy at a close election and in subsequent elections.

10.8 Go to the back, go to the back, go to the back of the line

Those seeking greater social expenditure on welfare benefits are in competition with the health sector and superannuation; they must make a strong case against a powerful lobby. Grey Power worked all their lives so they are unlikely to readily concede to a welfare system that is indulgent. They will be more fired up by the waste and indulgence rather than concede and fight another day.

Indulgence at the edge of the benefit system for those who often deserve their sanctions sets up the benefit system to become less popular if waste and fraud proliferates even further:

Long-run trends in Western welfare states are not favourable even in the Nordic countries. This is especially clear once we move beyond the distorted statistics. High levels of taxation, protection and generosity of benefits erode the dynamism of a society. They build a culture of dependency that erodes innovation. They create a level of complacency that erodes the work ethic and mutes incentives to invest in skills and in the larger society. They create a system that protects the status quo and is very difficult to change except when a crisis emerges. In many states (e.g., Ireland, Finland, Holland, and Sweden) changes occurred only in moments of crisis. (Heckman 2010).

Prior to the 2017 election, everyone agreed that money was tight in the Labour's Fiscal Plan. Money is still tight despite blowing out on that fiscal plan by many billions of dollars. Naivety about benefit fraud and weaker obligations for job search and self-help among beneficiaries concedes cheap talking points to Grey Power when competing for a larger share of social spending.

10.9 Who loses from conniving a universal basic income through the back door?

The Greens, because of their dream of a universal basic income, want to shimmy a universal basic income through the back door by stripping existing benefits of obligations to look for work and prove disability. Such chicanery will backfire through budget blowouts and more rampant fraud.

Such scandals, which are inevitable, will undermine any case the Greens and Labour subsequently attempt to make for more generous benefits. The Greens do no service to those in genuine need of a social safety net by extending it to those who are workshy or outright fraudsters. Keeping appointments and looking for work is a reasonable expectation for a healthy adult on the benefit.

11 THE SAMARITAN'S DILEMMA

11.1 Sanctions can be all gain for no cash pain

The big lesson from the international literature on benefit sanctions is it is possible to greatly reduce welfare benefit dependency without having to reduce the cash generosity of the social safety net.

The key to a successful welfare state lies in devising proper incentives to encourage actors at all levels of the economic system to respond to the new opportunities. In principle, a welfare state can provide the proper incentives for productivity and at the same time accord a measure of security and dignity for its citizens. But it has to respect the operation of incentives ... It is very dangerous in designing laws and regulations to underestimate the ingenuity of economic agents in pursuing their self-interest. (Heckman 2010).

It is possible to greatly reduce the attractiveness of remaining unemployed without taking money out of the pockets of parents supporting children. Most of the success of work tests and sanctions is beneficiaries anticipating the

increased risk of a sanction and finding jobs sooner rather than from imposing sanctions on the non-compliant and suspending them and their children from the welfare roll. Waving a big stick is enough to ensure many more beneficiaries help themselves back to work.

11.2 Mending the social safety net with a hard head but a soft heart

The publication of this paper coincides with the Greens launching a campaign to put a heart into the welfare system. Most debates about welfare reform are on closer inspection not about whether there should be an effective social safety net. They are about whether a proposed reform has more downsides than its proponents will concede. Milton Friedman was on the money when he wrote

... differences about economic policy among disinterested citizens derive predominant from different predictions about the economic consequences of taking action - differences that in principle can be eliminated by the progress of positive economics – rather than from fundamental differences in basic

values, differences about which men can ultimately only fight (Friedman 1953).

There is no disagreement about a need for an effective social safety net. The point of difference is the need for a hard head as well as a soft heart on welfare reform. On shared values, readers are invited to consider if they disagree with any of this part of Ben Chifley's Light on the Hill speech:

I try to think of the Labor movement, not as putting an extra sixpence into somebody's pocket, or making somebody Prime Minister or Premier, but as a movement bringing something better to the people, better standards of living, greater happiness to the mass of the people. We have a great objective - the light on the hill - which we aim to reach by working the betterment of mankind not only here but anywhere we may give a helping hand. If it were not for that, the Labor movement would not be worth fighting for. If the movement can make someone more comfortable, give to some father or mother a greater feeling of security for their children, a feeling that

if a depression comes there will be work, that the government is striving its hardest to do its best, then the Labor movement will be completely justified.

We are all socialists in Orwell's view of how workers see socialism in *The Road to Wigan Pier*:

For it must be remembered that a working man, so long as he remains a genuine working man, is seldom or never a Socialist in the complete, logically consistent sense. Very likely he votes Labour, or even Communist if he gets the chance, but his conception of Socialism is quite different from that of the, book-trained Socialist higher up. To the ordinary working man, the sort you would meet in any pub on Saturday night, Socialism does not mean much more than better wages and shorter' hours and nobody bossing you about.

Urban legend has it that the worst week of door-knocking for the Labour Party in the 2014 election was in the working-class neighbourhoods of South Auckland after Labour proposed that the \$60 per week in-work tax credit be given to beneficiaries. They received tongue lashings at the doorstep from long-time supporters who believed they earned their family tax credit by working in jobs, often involving considerable

manual labour. They deeply resented the idea of paying the in-work tax credit they earned through their labours to neighbours on the benefit whom they suspected might be malingerers and perhaps with a job on the side. Orwell foresaw this divergence in values between beneficiary activists and those protected by the social safety net in *The Road to Wigan Pier*:

The truth is that, to many people calling themselves Socialists, revolution does not mean a movement of the masses with which they hope to associate themselves; it means a set of reforms which 'we', the clever ones, are going to impose upon 'them', the Lower Orders.

The prior chapters argued that the beneficiary activists trying to help those at the bottom of the economic ladder escape poverty instead make welfare dependency a more attractive option.

11.3 Good Samaritan or Bad Santa?

You are hardly a good Samaritan if your charity encourages the needy to become more dependent on your alms for the poor. Making life on the poverty line a more attractive labour-leisure trade-off shows no compassion for children in poor families where no one works, or no one works full-time.

Activists oppose sanctions on mothers on the benefit for not naming the father out of

compassion for their children. Why should they suffer because of the recalcitrance of their mothers? Yet these activists wholeheartedly cheer for policies that keep more children in poverty because they are unwilling to use the stick as well as the carrot to motivate parents to work full-time. Full-time work along with in-work tax credits are more than enough to lift these poor children out of poverty.

11.4 Spare the rod, impoverish the child

Policies that encourage dependency keep more children in poverty. The compassion that increases child poverty such as the welfare policy changes in the Labour and Greens confidence and supply agreement, is no substitute for a hard head as well as a soft heart. As Cahuc and Zylberberg note:

One can understand why politicians, whether in power or hoping to get there, shy away from facing reality. ... But many public intellectuals bear their share of responsibility as well. By rejecting, often out of hand, the "bourgeois" or "liberal" (in the European sense) analysis of the market economy, they have deprived themselves of intellectual tools that would have enabled them to think objectively about the mechanisms that govern the production and distribution of wealth in the real world. This blindness means that

many well-educated people today are still living in a world of economic thought that has more in common with phantasmagoric belief than with rationality. In such a world, we await the return of growth the way our ancestors awaited the return of the rain (Cahuc and Zylberberg 2006, p. 127).

Welfare reform is not about virtue signalling about how much compassion you have by lobbying taxpayers to write larger and larger cheques to beneficiaries with fewer and fewer conditions for job search and self-help. It is not about maintaining the rage against capitalism that made activists to

... remarkably come to resemble nineteenth-century British Tory Radicalism, an aristocratic sensibility that combined strong support for centralized monarchical power with a paternalistic concern for the poor. Its enemies were the middle classes and the aesthetic ugliness it associated with an industrial economy powered by bourgeois energies (Siegel 2010).

The policy disagreement is about the best way to help those down on their luck. Rather than a hand-out, a hand-up moves people out of family poverty permanently.

11.5 The meddlesome Samaritan

The fulsome compassion of progressive activists for benefit fraud and non-compliance, all for the sake of the children seamlessly shape-shifts into a most unlibertarian paternalism where these same activists pick the pockets of the precariat when they smoke or buy sugary drinks. No flinching here by progressive activists, for the sake of the children, when they take money from their poor parents with high and rising taxes, all for their own good, as penance for their proletarian pleasures. James Buchanan captured this high-hand mind-set with his phrase “meddlesome preferences” whereby:

the elitist, who somehow thinks that his or her own preferences are ‘superior to,’ ‘better than,’ or ‘more correct’ than those of other[s], tries to control the behaviour of everyone else, while holding fast to his or her own liberty to do as he or she pleases (Buchanan 1985).

The progressive left preaches deference to government, a reverence for experts and the need to protect society from itself with the right of democratic majorities, guided by elite experts, to govern as they see fit. But they won’t tolerate the regulating of natural remedies as medicines, truth in advertising laws for organic food labels or police seizing their stash of dope. Orwell was on to this:

Would it not be better if they spent more money on wholesome things like oranges and wholemeal bread or if they even, like the writer of the letter to the New Statesman, saved on fuel and ate their carrots raw? Yes, it would, but the point is that no ordinary human being is ever going to do such a thing. The ordinary human being would sooner starve than live on brown bread and raw carrots. And the peculiar evil is this, that the less money you have, the less inclined you feel to spend it on wholesome food. A millionaire may enjoy breakfasting off orange juice and Ryvita biscuits; an unemployed man doesn’t. ... When you are unemployed, which is to say when you are underfed, harassed, bored, and miserable, you don’t want to eat dull wholesome food. You want something a little bit ‘tasty’. There is always some cheaply pleasant thing to tempt you (Orwell 1937).

There is nothing compassionate or progressive about the educated middle class cheering on policies that lead to rising welfare dependency. In the 1970s, Norman Macrae of The Economist was shocked

to hear that many supposedly left-wing young Americans who still thought they were

expressing an entirely new and progressive philosophy as they mouthed the same prejudices as Trollope's 19th century Tory squires: attacking any further expansion of industry and commerce as impossibly vulgar, because [it was] ecologically unfair to their pheasants and wild ducks (cited in Siegel 2010).

This paper has shown that benefit fraud is extensive but also that beneficiaries have plenty of room to improve their lot. Most can move out of family poverty by taking a job whose low pay plus in-work tax credits is enough income to lift them above poverty lines (Boston and Chapple 2014).

11.6 Separating justice as fairness from compassion and charity

If all we knew was we were to turn up as a random member of New Zealand society, we would likely agree on conditions where the unemployed should be keen to look for full-time jobs, and fathers be chased for child support when the mother of their children is dependent on a benefit. We could not complain about the enforcement of these benefit conditions because we agreed to them behind a veil of ignorance before the grubby particulars of where our self-interest lay today was revealed.

Buchanan (2006) drew a line between the ethics of compassion (the ethics of the modern welfare state) and the ethics of reciprocity (the

ethics of liberalism). The former presupposes a natural hierarchy; those on the higher social rungs are ethically responsible for showing compassion for those on the bottom rungs. The ethics of reciprocity presupposes a natural equality among people and requires each be treated with fairness in accordance with common rules of conduct.

The social safety net is not an act of charity from on high; it is part of a social contract between natural equals about looking out for each other when down on our luck or weighed down by the accidents of birth. We agreed that the social safety net must be policed as Buchanan explains

Any implementation of such rules will, however, run afoul of the ethical norms dictated by the hierarchical classification of those unfortunate felons who deserve understanding and sympathy. It seems almost certain that, in practice, punishment will be somewhat less severe than that which would be dictated by strict adherence to some presumption of natural equality. ...

Europe has never fully escaped from the class-bound social structure from which attitudes necessarily incorporate hierarchical classifications among members of the polity. ... consider the still prevalent set of American attitudes that presume a

natural equality among persons. In this setting, the person who commits a criminal act chooses his own punishment in the sense that, at least implicitly, he has agreed to the rules emergent from the contractual process that selects among alternative rules (Buchanan 2006, p. 47)

Justice is about fairness between natural equals (Rawls 2001). Fairness is not about the behaviour of a superior to an inferior no matter how compassionate or charitable a lord of the manor might be to his tenants and supplicants (Buchanan 2006). The social safety net is not an act of compassion.

The social safety net is a cornerstone of a just society where working for your living is a central expectation of a healthy adult's life. Self-help is part of the social contract. A just society enforces rules about social safety net eligibility that were agreed in advance to be to everyone's benefit.

11.7 Virtue signalling compassion risks increasing dependency and poverty

Welfare reforms such as those in the USA in the mid-1990s show that welfare beneficiaries have considerable control over their own circumstances and their ability to find a job. Many benefit reforms have shown remarkable effectiveness in helping people into work and out of poverty.

People are well able to improve

themselves, if given a bit of a push. This is not asking people to be someone else. To have chosen better parents, retrospectively graduate from high school, and to be luckier in the dating and marriage game. Welfare reforms should be for people as they are, warts and all, rather than fall for the “if people could be different” policy fallacy. As Stigler wrote

“Economists have seldom spent much time exhorting individuals to higher motives, or more exemplary conduct”. When avoidable problems arise, “it is social institutions that one should castigate: men respond to these situations in predictable, and probably unchangeable, ways” (Stigler 1982).

A social safety net built on “the carrot and the stick” and what others call “help, but hassle” can ensure that those down on their luck receive the necessary assistance but those able to help themselves have every incentive to help themselves back into full-time work as soon as they can.

11.8 The success sequence

A range of studies find that employers filling low skilled jobs look for people who are friendly and reliable. They look for team players who show up on time. The leading American sociologist William Julius Wilson in his books about the disappearance of work and the truly disadvantaged wrote about

inner-city men who drifted from job to job because they could not get on with the boss. He was not naive about the extent to which this is a balance between bad luck and bad attitudes.

Some are on the benefit because of alcoholism, drug addiction, single parenthood, dropping out of high school, or a life of crime. Not everyone on the benefit shows these pathologies but they are more prevalent on those on the benefit than in the rest of society. Bryan Caplan (2012a) argues that “Being poor is a reason to save money, work hard, and control your impulses”

Instead, we have bizarre debates such as on the Backbenchers TV show in 2017 before the election where Young Green and Young Labour panellists stoutly argued it was okay to have kids young when you knew you could not afford it. They seem to have forgotten that access to reliable contraception and family planning were the key demands of the first generation of feminists. Only by planning their family could young women finish their education, start a career and live an independent life. Championing living beyond their means is no way to reduce child and family poverty.

11.9 Preach what you practice

In Coming Apart, Charles Murray wrote about how the educated middle-class lived the values that made them successful; studying hard, marrying before children and working long hours. Yet Murray found that they were

remarkably coy about preaching about what practices made them a success:

The new upper class should drop its non-judgmentalism. I want the new upper class to start preaching what it practices. They are getting married and staying married in large numbers. They work like crazy, long hours. They even do better going to church than lots of the rest of America. Why not just say, these are not just choices we have made for ourselves? These are rich, rewarding ways of living (Murray 2012).

It is a fair guess that many beneficiary activists are more demanding of their friends than those on a benefit. Good friends inspire friends to be better friends to themselves. A good friend is willing to say to a friend “I would not do that if I were you”. Bryan Caplan was on point when he said:

When someone asks for your support, it’s natural to wonder, “Why do you need my support in the first place?” Some answers are better than others. If your friend asks you to pay for his lunch, “I was just mugged” is a better reason than “I already spent my whole pay check on beer.” ... The deserving poor are those who can’t take - and couldn’t have taken - reasonable steps to avoid poverty. The undeserving

poor are those who can take - or could have taken - reasonable steps to avoid poverty. Reasonable steps like: Work full-time, even if the best job you can get isn't fun; spend your money on food and shelter before you get cigarettes or cable TV; use contraception if you can't afford a child. A simple test of "reasonableness": If you wouldn't accept an excuse from a friend, you shouldn't accept it from anyone (Caplan 2012b).

Too many beneficiary activists accept excuses from beneficiaries they would not accept from friends and certainly not from their couch surfing teenagers in the way they live their lives. A social safety net that promotes social justice, personal responsibility and self-growth provides benefits on condition of self-help ranging from looking for a job to chasing child support from fathers.

11.10 Life on benefit street should not be a place to call home

What must be avoided is making life on the benefit a fair enough way to scratch a living. Right now, the ability to earn up to \$200 a week on the single parent's benefit before a benefit reduction risks turning that benefit into a lifestyle of part-time work that is more rewarding than full-time work once they take the additional leisure time into account. Future welfare reforms should help people into full-time jobs, not full benefit

receipt and a part-time job paying \$200 per week or more.

The more generous welfare states could not have survived without sanctions to police dependency. Those seeking a more generous benefit system must acknowledge that they are more likely to win if their proposals are married with strict job search obligations. Fraud is lead in the saddlebags of reformers seeking more generous and benignly administrated welfare benefits. Government waste and benefit fraud are deeply unpopular with swinging voters. The Greens excuse benefit fraud despite that fraud acting as a major barrier to more generous welfare benefits.

11.11 Beneficiaries should sign on monthly

A reasonably sure way of moving up to 10 percent of beneficiaries into work and their children out of poverty is to require worked-tested beneficiaries to sign on at a WINZ office monthly. At least 13 OECD member countries require the unemployed to attend their local employment office at least once a month to show proof of job search and briefly discuss their options with their caseworker.

Right now, beneficiaries need only reapply for their benefit with WINZ after 12 months. When this annual reassessment was first introduced in 2011, up to 10 percent of beneficiaries did not reapply.

The earlier chapters summarised the strong overseas evidence

that the hassle of increased contact with caseworkers is effective in nudging more beneficiaries into jobs and their children out of poverty. A 2014 trial by WINZ corroborated this: six percent of the sole parent beneficiaries who received a letter advising that they were earmarked for interviews were off the benefit within 42 days. The number off the benefit increased to eight percent if they received a phone call and to 10 percent if interviewed; another two percent moved to another benefit when phoned or interviewed. In line with overseas evidence that announcing monitoring has large upfront effects on job finding, receiving the WINZ letter was enough for six percent of sole parents to move off the benefit. Help-but-hassle will move far more children out of poverty than the Government's proposals.

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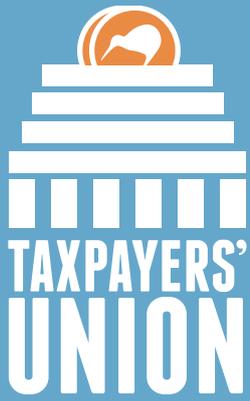
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